CHAPTER – IV

HUMAN RESOURCE MANAGEMENT IN IRAN

Iran is an ancient country with a civilization more than 6,000 years old. Her long history has, on the one side, created a great civilization and, on the other, a nation that has been conquered, invaded and defeated. Much of the Persian Empire’s land has been lost in battles and through invasions, a sore point that still dwells on the memory of the proud and nationalistic Iranian. In other words, history and geography have taught Iranians that nothing is sustainable and constant. This state of affairs, as Haas argues, has resulted in a strong sense of individualism and self-centredness in the Iranian psyche. For the past century, Iran has discussed and debated democracy and pluralism and has seen many changes to her social, political and economic make-up.¹

The 1906 revolution which changed the absolute monarchy to a constitutional one was a landmark in this respect. The 1979 Islamic revolution was another; it changed the centuries-old monarchy to an Islamic republic. Islam is an all-encompassing religion and plays a significant role in politics, economy, business activities, trade and all other aspects of public and private lives of people. It was the culmination of many years of growing dissatisfaction with the autocratic rule of the Shah and his ‘cronies’, which had left the vast majority of people, especially those who lived in the rural areas and the outskirts of larger towns, impoverished and disaffected but had enriched a selected few. After over 2,500 years of absolute monarchy, the country was changed to an Islamic republic, with an elected president and legislature.

¹ Haas, W. S., Iran (New York: Columbia University Press), 1946.
The Islamic revolution also had other profound implications for the economy and society as a whole. Islam, it is worth noting, has been the main religion of Iran for almost 1,400 years and has influenced as well as being influenced by the Iranian culture. Throughout the history, this influence has ebbed and flowed considerably; it was perhaps at its weakest during the Shah’s regime, whose father secularised the society.

The revolution marked another period of ascendance of Islam, which not only changed the political, economic and cultural fabric of the society but also the private lives and relationships of its people. Islam, is an all-encompassing creed and governs every aspect of life, both worldly and spiritual. For instance, almost immediately after the new regime was established, all banks were nationalised and foreign participation in the financial sector was terminated. Later, in 1984, a law was designed to make the banking sector subject to Islamic rules, replacing the payment of interest with profit and risk-sharing schemes. All organisations and institutions, such as the armed forces, universities and other educational establishments, public and private sector companies, the media, the arts and cultural events, are required to conform to Islamic laws and regulations. Women have to follow a strict Islamic dress code at work, and indeed elsewhere. A policy of segregation of sexes is observed in prayers, wedding ceremonies, public transport, schools, sports events, television quiz shows, queues at shops, and so forth.

The origin of HRM in modern organizations is a largely Western phenomenon that can be traced to the personnel management function. The gradual parting of ways of personnel management and HRM culminated in a total separation when HRM, as a distinctive discipline, was introduced to

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their MBA curriculum by the "Harvard group"³ and "Michigan/Columbia group"⁴ in the USA in the early 1980s.

A key feature which distinguishes personnel management and HRM is that the latter has a strategic element in it.⁵ Legge, for instance, argues that HRM is distinctive in at least three ways. First, personnel management focuses on the management and control of subordinates, HRM concentrates on the management team.⁶ Second, line managers play a key role in HRM in co-ordinating resources towards achieving profit, which is not the case under personnel management. Finally, the management of organizational culture is an important aspect of HRM, but plays no role in personnel management. Thus, Legge argues that HRM is a more centrally strategic task than personnel management.⁷ Other researchers⁸; also regard the linking of HR practices to the strategic aims of the business as the core feature that distinguishes HRM from personnel management.

The scope for HRM varies across organizations. Walton and Lawrence⁹, for instance, identified four major areas of HRM policy: reward systems, including compensation and benefits; employee influence

mechanisms such as participation; job design and work organization; and employee selection and development. The wider view of HRM includes aspects of the management styles employed in an organization, which directly or indirectly affect its employees, such as leadership behaviour, management-employee relationships, power and authority structure, and intrinsic motivation policies. Organizational culture, as a broader context in which HRM policies are decided and implemented, can also be considered in a discussion of HRM. The management of organizational culture is a significant aspect of HRM, integrating it with other aspects of an organization’s way of life.

HRM policies are generally decided by the companies’ senior managers, with or without consultation with their employees. But they are often adopted and implemented with some reference from the national context within which the organizations operate. These include: national culture, political ideology of the government, the economic conditions, trade unions, and the legal system. Religions in many countries, with either secular or religious constitutions, have a certain degree of influence on the cultural characteristics of their people and their institutions. In the countries which are expressly modelled after a religious ideal, this influence is of course far more extensive and inclusive, as illustrated in Figure 2.1. In the Islamic republic of Iran, for instance, all social institutions mentioned above and many more, such as the educational establishments and their priorities, the media, the arts, the political structure, the army, and private and public

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12 Tayeb, M. H., the Management of a Multicultural Workforce (Chichester: Wiley), 1996.
sector organizations, are all required to conform to Islamic values and instructions.

**Figure 4.1**

**Influences of Religion on HRM in Societies Based on a Religious Model**

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Religion
    /\   /
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National culture Political culture Legal system
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In most countries the influences of national context on HRM are formally incorporated in the rules and regulations governing employee-management relations, some more explicitly than others. These rules and regulations can either be related to the employees’ individual rights, such as equal opportunity, job security, wage levels, work schedules, work injuries and post-employment economic security. They can also be related to the employees’ collective rights, such as unionization, bargaining, the resolution of contract disputes, and participative decision making.
Islam and workplace

In the past three decades the world has seen a huge growth in what outsiders call Islamic fundamentalism. Muslims themselves dislike the phrase, but it is not inaccurate. Everywhere in the Islamic world, from West Africa to Lebanon, Malaysia and Indonesia, Muslims have witnessed a return to Islamic traditions, to the fundamentals of their faith, as a way of asserting their identity, as a means to fight the social and political oppression and injustice they experienced in their societies, and as an alternative to materialism and tensions of the twentieth century.

Islam revivalists now quote from the Koran and the stories of Mohammed’s life to explain Islamic roots of their socio-economic policies. Many Muslim countries have begun efforts to re-institute within their territories their own indigenous ways of running their social, educational and commercial organizations. Islamic banks, insurance companies, clinics and hospitals, universities, restaurants, and research foundations are some of the more visible and widely known manifestations of such fundamental regeneration of Islamic values.

For Muslims, Islam is not a man-made institution; the Koran contains the words of God, revealed syllable by syllable to Mohammed some 1,400 years ago. The deeds of its adherents are therefore inseparable from divine commandments. Islam is generally viewed by some non-Muslims as being a fatalist religion. But the Koran specifically asserts that humans are able to

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choose and to intervene in their destiny, and that they are held responsible for the consequences of their deeds. However, they are not left alone to run their life.

God has equipped them with the Koran and the traditions of Prophet Mohammed, which in Islamic view is one of the most important sources of guidance that humans can use to steer their actions and beliefs. Islam, unlike many other religions, is an all-encompassing creed; it governs every aspect of life, public and private, political and economic, and as such is relevant to business activities. In other words, there is no separation between worldly and religious aspects of life. Broadly speaking, the principles of Islamic economics are quite similar to economic ideas of the people who are building a post-Marxist left in the West. The basic organization of an economy should be left to the market. The Koran advocates a system based on individual enterprise and individual reward. The role of state, according to Muslim scholars, should be limited to matters the market cannot really cope with, such as the broad direction of the economy, and natural monopolies.

At the micro level, the good Muslim businessman should be guided by his conscience – and by God’s written instructions – to do the right thing by other people. He should pay a reasonable wage, charge a fair price, and be decently restrained in the way he spends his profits. He should also take care of the environment, God’s handiwork around him. The Koran specifically tells the believers that God has put all that is in the earth under their command.

There are obvious practical difficulties in this. Who, for instance, decides what a reasonable wage is? These difficulties, however, are not

peculiar to Islamic economies. They are shared by many people in the West who are trying to construct an alternative to the politics of pure individualism. These people also accept the market as the essential driving-force of any economy, but they too wish to set it within a moral framework that will ensure support for the weak through the compassion and self-discipline of the strong.

Although many foreign commentators still speak of an Iran that is obsessed with revolution and radicalism, nevertheless, Iran has been evolving. Social, political and economic realities have caused the radicalism and revolutionary romanticism to subside. A new era of rationalism has dawned in the country.18

There are a number of political parties and factions in Iran ranging from those that believe in conserving Islamic and traditional values to those that tend to see socio-political reform as a recipe to respond to the present-day challenges under an Islamic republic. Decision-making patterns rely heavily on a continuous consensus-building exercise between these factions and between the appointed religious seats of power and elected institutions in the country. Similar to the Japanese ringi decision-making process at organizational levels, the consensus-building measures tend to reduce the pace of decision-making but at the same time reduce damaging internal conflicts.

Following the destructive and debilitating effects of the eight-year long war (1980–8) between Iran and Iraq, the decade of the 1990s saw the start of reconstruction and since 1997, when the reformist President Khatami took power in a landslide victory, the country has embarked on a process of reform.

18 Rouhani, S., 'When Will We Meet Again?' Time Magazine, 17 August, 1998.
The picture in the present day is still changing. Although some in the Western world may still consider Iran to be a fundamentalist Islamic state, Islam is being reinterpreted to fit with the modern-day demands and realities of this nation. Iran is being restructured to deal with the same modern-day demands both globally and locally, to satisfy a majority of over 70 per cent of the youth who are under the age of thirty, in need of recognition for the talent of her human resources (HR) and wealth in natural resources.

**Economy**

According to a resource-based analysis of economic performance, Iran has the potential of being the world’s twentieth strongest economy. Rich in natural and human resources, the country’s geostrategic position makes it a unique economy. Iran today is member of Organization of the Petroleum Exporting Countries’ (OPEC) and the second-largest oil producer and accounts for roughly 5 per cent of global oil output. In addition Iran holds 9 per cent of the world’s oil reserves, 16 per cent of the world’s gas reserves and is rich in other minerals.

However, it is an economy that has gone through decades of excesses caused by revolution, war and reconstruction.\(^{19}\) Despite recent reforms, Iran’s economy is still based on a protectionist model. Following the Islamic revolution, many large industries were nationalized which still remain in government ownership, despite some privatization efforts. It is estimated that the public sector controls some 80 per cent of the country’s economy directly (through ownership) or indirectly (through state-affiliated institutions such as religious and revolutionary foundations). This leaves a 20 per cent share of the economy to two sectors: the private sector

(estimated share of 17 per cent) and the cooperatives sector (3 per cent). The private sector is mainly present in agriculture, domestic and foreign trade, small industries and small mining activity, while its role in large-scale economic activity is negligible.\(^\text{20}\)

However, the Government has identified the state domination in the economy as one of the key impediments to economic growth in Iran. In the past few years, the Government’s emphasis has been on privatization, breaking of state monopolies and granting more freedom to the private sector. By allowing private banks and insurance companies to operate, the Government has also set the tone for a more liberal approach to financial markets. Furthermore, industries such as downstream oil and gas, telecoms and tobacco have been deregulated, though the Government retains the control of the upstream oil and gas sector. However, even the strategic energy sector is being considered as a target for restructuring in the Fourth Five-Year Plan (2005–10).

**Demography**

Iran has a population of 70 million (2002 estimate), 70 per cent of whom are under the age of thirty. The population is made up of mainly urban dwellers with over 60 per cent living in urban areas and the remainder in rural areas. While many of the urban citizens are internal migrants, it is also significant to note that more than 50 per cent of the Iranian population have been born and brought up in cities. Latest statistics show that the literate population stands at over 84 per cent. Furthermore, approximately 79 per cent of the employed population are educated and hold high-school diplomas and higher degrees. Estimates indicate that in the next decade Iran

will produce an average of 200,000 and 250,000 university graduates every year. 21

Despite some positive reforms, challenges remain and unemployment tops the list of key challenges. The main factor behind unemployment is the country’s young demography. This fact translates to some 800,000 new entrants into the job market per annum. At the same time, with the unemployment rate (11.3 per cent 2004 statistical centre of Iran, unofficial rate 20 per cent), 22 it is also noteworthy that Iran suffers from underemployment. An output of more than 200,000 university graduates per annum is a phenomenon that the Iranian economy cannot absorb, hence leading to disturbing social phenomena such as brain drain and underemployment. 23

Legal issues

Although Iran has quite a comprehensive legal regime which was established almost half a century ago, some of the laws are not representative of the present-day challenges and do not give security to investors. The labour law, for example, was rewritten in 1985 during the Iran–Iraq war and at a time when it was important to give workers more confidence in the stability of their jobs. The law remains very pro-employee and gives reason for companies to be very hesitant to employ people on permanent contracts, preferring temporary employment contracts.

Since the 1979 revolution, discussions on foreign investment in Iran have been coloured by warnings of foreign influence, entry of spies and exploitation of Iranian resources to the benefit of foreign capitalists. However, there have been some legal and administrative reforms aimed at encouraging foreign investment, through provisions for government guarantees against confiscation and nationalization of their assets.

**Historical developments in HRM/PM**

In order to understand how HRM and personnel management (PM) have developed and are developing in the country, a background to Iranian management practices and influencing factors shaping management in Iran is necessary. Bani-Asadi states that Iran’s national culture has three sub-components: traditional or ancient, Islamic and Western. All of these have had an effect on the style of management in Iran. The different styles of management can be seen in various organizations and throughout Iranian management history. The traditional style of management is very strong as it is represented by the trade merchants (bazaaris) who had and still have a great amount of power and control. The bazaaris also follow an Islamic culture and it is fair to say that a combined style of traditional and Islamic culture can be observed in their management style. The traditional style of management is very culture-specific, based on cultural factors, family relationships, hierarchies and nepotism, in which relationships and networks are given a great deal of importance. The Islamic style of management adheres to Islamic values of equality, justice and protection and support for subordinates and workers. It is common to see paternalistic behaviours in this style of management.

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Throughout the nineteenth and twentieth centuries, Iran had close links with the West: the elite in Iran sent their children for higher education in the West, namely Europe and the USA; trade links existed and a large number of Western technicians and engineers were brought to Iran. With these factors came the importation of Western styles of management. Due to the close links with Europe and the USA from pre-revolutionary Iran, the more accepted style of management and accepted enterprise was imported and accepted from the ‘West’. This is seen especially in second-generation Iranian repatriates and indeed in many progressive private-sector enterprises.

In terms of HRM and PM in Iran, academics and researchers have different viewpoints. One group active in the public sector during the late 1970s believe Iran was already experiencing the development of HRM in the public sector. Others believe the majority of companies were at a position of pre-personnel management. The current prevailing view among management researchers is that HRM in Iran is indeed very culture-specific and very complex, intertwined with national culture, politics, legal frameworks and economic development.

Expanding on this point, there were clearly two different phenomena in the development of PM or HRM in Iran. First, there were major public-sector organizations such as the National Iranian Oil Company, the Plan and Budget Organization, the Civil Service Commission, the Khuzestan Development Services company, to name a few, which had direct and indirect influences on the development of PM or HRM in Iran. Second, the knock-on effect of these influences saw the emergence of management schools providing training and education for the public and private sectors and the student body in Iran. Management schools in Iran were linked with Harvard Business School, Henley Management Centre and also Pennsylvania State University, among others.
Iran’s Administrative and Employment Law was first written in 1922 and was based on a basic merit system, trying to provide equal opportunities and fair play. Although the foundations of the law were ambitious, the realities of a nepotistic country did not allow for a fair and transparent merit-based employment law. The modification of the Administrative and Employment Law in 1966 made the law more in line with the country’s present development and growth needs and yet allowed for merit-based performance measures to be introduced. At the time, Iran was experiencing great economic growth due to oil; there were numerous foreign, namely US, UK and European, experts and consultants working in Iran who all brought with them some form of expertise and management know-how, which influenced PM/HRM in Iran at the time.

At the same time this development and influence on HRM was seen in the public sector, the private sector was slower to develop and more traditional in management styles and practices. Therefore, it may be fair to say that even PM had not emerged in the same way in these private and traditional companies. Interestingly, although the 1966 Administration and Employment Law took performance into consideration, its application was a different matter, as favouritism and nepotism existed then. Once the oil boom in 1973–4 hit Iran, many public servants left the public sector for better opportunities in the private sector. The remaining personnel in the public sector benefited through a more transparent and flexible merit and performance system.

It could be said that HR policies and practices seen in the public sector in Iran in the years leading up to the 1979 Islamic revolution were one of the most modern in the Middle East. However, the revolution turned

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everything upside down; all the modern HR and management techniques that were imported into the country and which were beginning to take root in the Iranian culture were eliminated overnight. All the policies, practices and laws changed. Technocracy was replaced with ideology, a skilled workforce was replaced with a loyal workforce. The value of merits was placed, not on actions and competencies, but on loyalties and relationships.

The Islamic revolution brought about many changes not only in management but also in the composition of the workforce. Under the new Islamic code and the new social atmosphere, the role of women in the workforce was suddenly reduced. Both the dress code, working relationships between men and women, authority of women in high-ranking positions and gender segregation were reason for women in the workforce to be dismissed, forced out of office or into early retirement, leaving a gender and professional gap in the Iranian management structure.26

Furthermore, at the time, many of the leaders and pioneers of Iranian industry fled the country leaving a sudden gap in management of both state-owned and private enterprises. The result of losing women and the sudden disappearance of a skilled and professional workforce was a need to find immediately new HR who could manage these enterprises, re-establish the status quo and, at the same time, be consistent with the newly emerging Islamic values. Furthermore, the recruitment of large numbers of war veterans following the Iran–Iraq eight-year war also had its effect. Skills, years of experience and expertise were replaced by selection factors based on political ideologies, loyalty and the level of trustworthiness.

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In Iran today, some of the consequences of decades of mismanagement are being felt in the public and private sector. There are strong forces pushing Iran towards the development of her HR as a major solution to develop and respond to Iran’s economic, social, cultural and business challenges. Management researchers in Iran today believe Iran is moving rapidly towards modernization and de-Islamization. This is such that today companies are acknowledging the mistakes of replacing technocracy with ideology.

This is not to say that Islamic values are being undermined, replaced or ignored, but rather that economic pressures are causing more importance to be paid to management competencies and professional values than to ideological values. One of the main internal arguments is high unemployment, an educated and skilled workforce and utilizing this resource as a significant human capital in which to develop and invest. External arguments include economic development, globalization and internationalization of Iranian companies and industries and the speed of technology advancement.

There are a number of pioneers emerging in the development of HR in Iran today. These pioneers interestingly come once again from both the public and the private sectors. These are the companies and organizations that see the need to develop and progress, to modernize systems and practices. The Ministry of Energy, the Industrial Development and Renovation Organization, Iran Khodro and Saipa Group (two of Iran’s leading automotive manufacturers) are but a few of the public-sector companies that are leading the development of HR in Iran. Private-sector companies are also influencing the development of HR in Iran. Interestingly,

2003–4 saw an increase in assessment and development centres, as Iran mapped out the Managers for the Future plan. The discussion and indeed debate of identifying competent and capable managers for future Iranian companies is indeed a major development in HRM in Iran. For the first time in post-revolutionary Iran, managers are required to be assessed not on ideological values but rather on management competencies, including factors such as achievement drive, performance management, leading and developing others. Table 3.1 summarizes the changes in management in Iran.

Table 4.1

<table>
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<tr>
<th>Event/time period</th>
<th>Macro environment</th>
<th>Effects on Iranian management</th>
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<tbody>
<tr>
<td>Revolution/1979</td>
<td>(a) Nationalization</td>
<td>(a) Gap in skilled manpower</td>
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<td></td>
<td>(b) Reduction of women in labour market</td>
<td>(b) Lack of skilled professionals, able to and manage industries</td>
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<td>(c) Migration of skilled and professional Iranian managers</td>
<td>(c) Replaced by unskilled people due to nepotism factors; loyalty and</td>
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<td>trustworthiness, Islamic values.</td>
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<td>War/1980–8</td>
<td>(d) Reduction on normal business activities</td>
<td>(d) Crisis management, day-to-day management</td>
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<td>(e) No planning or internationalization</td>
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<td>(f) Strictly import orientation</td>
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<th><strong>Role and importance of partnership in HRM in companies</strong></th>
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<td>The public sector is pioneering the HR effort as well as a handful of private-sector companies. This is also the sector that needs to privatize and start developing competent managers who can make these companies global and international. The private sector in some ways is slower at realizing the importance of HRM. In the more modern and progressive private-sector</td>
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companies, HRM is indeed understood and its importance realized, but in the more traditional companies, the value of HRM is not very significant. However, a further element causing Iranian companies to react to HRM is the presence of the multinational companies in Iran. These companies are indeed speeding up the process of HR development in the country, as the Iranian workforce would prefer to work for a multinational company, expecting better pay, better training and development, opportunity and the hope of becoming an international assignee within a more relaxed and flexible working environment.

Therefore, it can be said that the fight for talent has begun. A number of Iranian private-sector companies do indeed realize the need to catch up and to start providing tangible and lucrative alternatives to this workforce. The main skills which are being fought over are expertise and language. It is fair to say the public sector has not entered this fight for talent, as they are targeting a rather different group of Iranian talent who apply mainly to the public sector, which includes top graduates from the finest of Iran’s universities. A great majority of these do not have the same language skills, but they do come for the remuneration benefits and lifetime employment opportunities offered by the public sector.

Many of the Western multinationals apply systematic HRM policies and practices, mostly ethnocentric in strategy. However some also adapt their HR policies and practices to Iranian cultural norms. These multinationals offer the Iranian workforce sustainable development and growth opportunities they have not previously experienced within Iranian companies. This in itself will put pressure on Iranian companies and organizations, both public and private.

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Key factors determining HRM policies and practices in Iran

Budhwar et al.\textsuperscript{30} identify three levels of factors and variables which are known to influence HRM policies and practices:

1. national factors, including national culture, national institutions, business sectors and dynamic business environments;

2. contingent variables including age, size, nature, ownership, lifecycle stage of organization, presence of trade unions and the HR strategies and interests of different stakeholders;

3. organizational strategies of companies.

They further argue that HRM is in its infancy in many developing countries and only the impact of national factors can be further addressed at this point in time.\textsuperscript{31} However, Iran is a country in transition and for this fact, interestingly, it is not only national factors that are seen, but indeed contingent variables as well as organizational strategies of companies are influencing the way HRM is evolving and presenting itself in Iran.

As M. H. Tayeb argues, it is important to note that HRM at both national and company levels are influenced by more than just national culture. She identifies three sets of national factors which play a role in the final shape of national HRM policies: socio-cultural institutions, political


economic institutions and policies, and cultural values and attitudes. These in turn affect HRM policies and practices at the company level. Since these macro-levels factors vary considerably across nations, HRM is therefore expected to vary too.

In an ongoing study of HRM in a sample of international joint ventures (IJVs) in Iran, Namazie found that Iran’s perception and role of HRM is very different from that seen in developed countries. Whereas, Western and many other developed countries view HRM as a strategic function, seeking to achieve competitive advantage by making full use of human resources, in Iran the role of HRM is more basic and has been dependent on internal and external politics.

However, in present-day Iran, there are a number of factors which are facilitating the gradual formation of modern HRM concepts. Both the external and internal environments have a role to play in this process. This is still quite far off from HRM as a strategic function to achieve competitive advantage, but it is nonetheless the beginning of HRM.

National culture is one of the factors to consider in understanding the Iranian socioeconomic framework. This underlines factors that recognize the management style, the meaning of work and values, the attitudes and

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manners of the workforce, the assumptions that shape managers’ perceptions and insights and so forth. The major work-related values that are rooted in a country’s culture include power and authority relationships, tolerance of ambiguity and uncertainty, individualism/collectivism, commitment and interpersonal trust, superior–subordinate relationship and role patterns, achievement orientation and feminine/masculine attitude to success.36

With regards to the role of religion in Iran, one of the fundamental factors that affect the national culture is the dominance of Islam and Islamic values. However, religion should not be viewed as the only source of Iranian national character. As Bani-Asadi points out, the Iranian culture is a mixture of three different cultures which have co-existed for centuries: Ancient Persian culture has been in existence for over 6,000 years, the Islamic culture for 1,400 years and the Western culture has a history of over 200 years in Iran. These have all influenced the make-up of the Iranian national culture.37 Islam’s influence on workplace behaviour may symbolize certain values such as respect for age and seniority, loyalty, obedience of leaders and looking up to seniors for direction, consultative decision-making, trustfulness both between superiors and subordinates. Iranian managers are seen as paternalistic figures.38

Mortazavi and Karimi 39, Mortazavi and Salehi40 Latifi41 found that Iranian employees view their managers as sympathetic brothers and sisters

38 Ibid.
or compassionate fathers and mothers who were frequently involved in their employees' private lives and family matters.

This also reinforces the view found in Hofstede's study of national cultures across forty countries, which showed Iran as a collectivist country where he states 'the employer–employee relationship in collectivist societies is perceived in moral terms, like a family link'. He argues that countries with high power distance (Iran was in the middle of the dimension, slightly above average) support the paternalistic pattern of behaviour. Managers are seen as making decisions autocratically and paternalistically.\textsuperscript{42}

Latifi's research on Iranian managers found that managers were frequently performing the duties of a mentor, coach, teacher or an adviser.\textsuperscript{43} However, due to the past two decades of radical change in Iran. Hofstede’s dimensions on Iran may have changed, especially the dimension on collectivism and femininity. Hofstede found Iran to be a rather collectivist and feminine country. As was mentioned earlier, historical events have encouraged a degree of individualism in Iranian culture. In addition, studies conducted in emerging countries such as Singapore show that economic advancement and industrialization, leading to financial prosperity and independence, tend to shift people's values away from collectivism and towards individualism.


\textsuperscript{43} Latifi, F., "Management Learning in National Context", op. cit.
As a result, in the workplace, Iran has become more individualistic and more masculine; however in the family and social circles, Iran still remains relatively collectivist and feminine by nature.\textsuperscript{44} It is worth mentioning that, in addition to Islamic values and other factors identified earlier, nationalist sentiments such as pride also play a significant role in Iranian culture.

Furthermore, a rather harsh and unpleasant history filled with wars, invasions, foreign domination and loss of territory has had quite a profound impact on the Iranian national psyche. Consequently, although in essence Islam should assume trustfulness, this is not generally seen to be the case. Instead there is much distrust between superiors and subordinates. The team spirit is not for instance evident in companies as each individual performs his or her own duties but will not take responsibility for an action without the superior’s approval. Decision-making is, as a result, concentrated at the top, and management is mainly autocratic.\textsuperscript{45}

Briefly, national institutions and the role of the State include factors such as the national labour laws, politics, educational and vocational establishments, trade unions, government institutions, professional bodies, labour market and so forth. Iran follows a rather protectionist policy where the state vigorously follows a socialist pro-employee path in the name of social justice. As a result, employer–employee relationships are overshadowed by the strict provisions of the labour law, which creates additional tensions between the two levels. The Foreign Investment Law has tended to restrict rather than attract foreign investment and indeed there are

other laws that need to be modified or reinterpreted to fit in with current-day demands and the expectations of the young workforce. The Government has started the process of reform and the National Industrial Development Strategy Document, (prepared by the Management and Planning Organization) indicates that Iranian industrial development needs to pay greater attention to software and management issues as opposed to the hardware approach of the past. This distinction could also have implications for HRM.

In addition, activities such as hosting HR and management conferences, creating a professional HR society, organizing management and HR-related seminars and workshops, increasing educational links with foreign universities, identifying management competencies in the Managers for the Future plan and so forth all show the commitment of the Government to develop Iran’s HR and management base.

In terms of educational establishments in Iran, one witnesses a degree of inconsistency. On the one hand, Iran has followed a major literacy campaign over the past decades and now sees the fruits of her labour as over 85 per cent of the population are literate. On the other hand, as Latifi’s study shows, there is a gap between Iranian managers’ professional and skills needs in relation to what is offered in universities and business schools in order to operate successfully in the current Iranian economy. MBA courses, for instance, are generally modelled after American and British ones, which are primarily designed for their own domestic needs. The appropriateness of such courses for managers working in a protected economy dominated by the public sector is rather doubtful. In fact, the managers who participated in Latifi’s study considered such courses as irrelevant.46

This is a handicap which holds Iranian companies back with regard to PM as well as other techniques such as marketing and forecasting. However, the current privatization policies would make some of the imported business-education programmes more relevant to the needs of the managers, after appropriate modifications.

As for the industrial sector, the absence of a genuine long-term industrial strategy has led to fragmented industrial strategies based on regional and short-term approaches. However, steps are being taken to change this as the National Industrial Development Strategy document and the twenty-year Perspective show that in the future greater attention will be paid to the development of “software and management” issues but also proposing a way forward for industrial development.

In addition, the growing industrial sector, both in the public, semi-public and private sector, the emergence of joint ventures and multinationals in Iran are all influencing the development of HRM. Another challenge facing the public sector is to catch up with international standards and regulations, in all management spheres. Topics such as investors in people, International Organization for Standardization standards, European Foundation for Quality Management standards and so forth are all issues which the Iranian public and private sector enterprises are pursuing in order to become internationally recognized and up to date.

With regard to dynamic business environment, Iran is in a major shift. In essence, the country is moving from an original structure that relied on basic needs towards a growth-based economic pattern. This translates into a desire to make market structures more competitive, to remove monopolies and to reduce the Government’s role in economic activity. A more diversified private-sector economic base will also change the HR realities in
the country as more and more employees will have to move away from their expectation of being a ‘life-long’ government employee to becoming a competitive employee hired by progressive private-sector entities. The emergence of multinationals and foreign investment directly and indirectly influences the business environment, and the workforce in return demands better opportunities, training and development and better packages. This sector sees growth and change not only from the private sector but also from the semi-public sector and those public-sector companies which are due to be privatized.

Prevalent HRM policies and practices in Iran

HRM is not yet applied in Iranian companies and is not seen as a strategic function of management, or as ‘critical to achieving competitive advantage’. At present, the focus is more on hiring staff, getting them to perform and function efficiently in their jobs, providing reward and compensation for employees to fulfil their jobs.

Training is provided, but it is not an interrelated function within Iranian firms. Although the present workforce is educated, they are not multi-skilled. This clearly is an effect of the past two decades of isolation from the international business scene. The workforce is unfamiliar with international working standards and also does not exhibit an understanding for a career-path focus. This is gradually changing and improving with the entrance of multinational corporations (MNCs) and the internationalization of many Iranian firms. The existing Iranian workforce working with MNCs in Iran is gradually becoming a highly trained and sought-after workforce. Presently, a number of Iranians who have worked for MNCs in Iran are now becoming international staff in other subsidiaries around the world.
In most public companies, lack of motivation is a very apparent problem. There is a problem with efficiency, productivity and performance. Although HR practices and policies are used, they are not interconnected to show the added value to individuals.

Performance appraisals are performed, numerous training and development programmes conducted and diverse compensation packages based on government legislation provided. However, they do not encourage commitment and loyalty, nor do they enhance productivity and efficiency to the employer or company. Compensation is not commonly linked to performance measures. In private-sector companies, this is slightly different, as the emphasis is more on profit-making and as companies need to follow stricter and tighter monetary and budgetary controls. Some companies apply their own systems of performance management, training and development and staff appraisal.47 It is necessary to differentiate between public and private companies in Iran. The public sector, controls over 80 per cent of the Iranian economy. These are mainly organizations which were confiscated at the time of the Islamic revolution or major industries which were in government hands.

The lower and middle level workforce in these organizations clearly lacks initiative, motivation and leadership. The benefits and compensation packages are rather good and although base-line salaries may not be very competitive, the benefits make the work worthwhile.

On the other hand, private companies are more flexible and profit oriented. For this reason, the staff is selected on better procedures and incentives are tailor made in some instances to retain and motivate key

47 Namazie, P., “The Transferability of HRM Practices and Policies in IJVs: An Examination of the Macro and Micro Environmental Factors in IJVs based in Iran”, op. cit.
personnel. MNCs are usually perceived as companies that appreciate and develop their local staff. They are known to be upper quartile in salary and compensation factors, are flexible organizations, pay attention to the human dimension, attempt to develop personnel and increase efficiency and motivation in their staff.

**Recruitment and selection**

Nepotism is a commonly observed practice in many Iranian companies which prefer to recruit staff through word of mouth and more informal channels. The reason for this goes back to the effects of the macro-environment and the history of Iran. Through an unstable environment, full of unanticipated events and high-risk factors, Iranians are generally suspicious and unsure of the unknown. In order to reduce risks, recruitment and selection of someone known and trusted is better than recruiting a complete stranger. This also explains why many companies consider loyalty as a more significant attribute in a candidate than skills and expertise at the recruitment stage. The belief is that a loyal person can learn new skills, but it is more difficult to teach loyalty to a skilled person.

Nepotism is more commonly seen in higher managerial positions. In middle and lower staffing positions, recruitment is done through official advertisement. Many MNC and Iranian private-sector companies are also using the newly emerged professional recruitment agencies.

There are differences between Iranian companies and MNCs with regard to selection factors. In Iranian companies, selection factors are more traditional and include seniority, level and location of education, work experience and prestige of previous company.
Selection in Iranian companies can range from a very informal basis, depending on the years of experience in related industry, personality and cultural fit of the individual to a very formal structure where every factor needs to be tested and assessed. Some public-sector companies even go so far as applying clinical psychometrics tests to recruit staff. In addition to numerous testing stages in the public sector, one of the stages of selection is an ideological test to assess the individual’s knowledge of Islamic values and beliefs. This test gradually seems to be declining in importance. In private organizations, selection methods are simpler and more straightforward.

However, seniority and relationships are important factors; at times these factors outweigh relevant experience and competencies. MNCs can also be put in two categories. The Western MNCs recruit and select mainly on the basis of the individual’s potential, competencies and skills (specifically language and computer knowledge). In Eastern MNCs, selection factors are mainly dependant on seniority and experience.

The trend in recruitment and selection is increasingly moving towards selection based on competencies and potential in candidates. However, the nepotism in Iranian companies still remains a factor as it is too deep-rooted in the Iranian culture. This is especially seen for higher managerial positions.

Training and development

Training and development is indeed significant for the development of the HR base in organizations, as realized by both Iranian and multinational companies. However, what is available on the market and what is the desired outcome for companies are two very different matters. In terms of availability, there are a number of local training schools that teach
very much theoretical and lecture-type courses. There are also a handful of local companies that are filling the professional-training gap. Additionally, in recent months, a number of foreign management schools and colleges have gradually entered the promising Iranian market, offering Master of Business Administration (MBA) and Doctor of Business Administration (DBA) courses, especially proposed to the knowledge-thirsty Iranian population. Many Iranian managers come from engineering backgrounds and, indeed, only a small number of managers have received managerial education. For this reason and also for the fact that Iranians are generally very education- and knowledge-driven, MBA and DBA courses are growing in popularity.

MNCs however, use a more systematic training and development plan for their staff and in many cases bring in expert MNC trainers to offer MNC standard training programmes. The general courses offered in Iranian companies and MNCs are technical and management-development training. However, although the importance of training and development is felt and more and more training providers are appearing both locally and internationally, the most visible problem is the lack of a systematic training and development framework both for companies and for individuals. Another important point is that although companies prefer to have management-training courses, fewer companies address the greater need in the Iranian workforce, which is skills-development courses.

Compensation and rewards

Socio-economic and cultural differences also play a role in determining compensation strategies in countries. With the harsh economic and demographic challenges in Iran over the past decades, remuneration strategies have tended to respond to some these challenges. For example, the
labour law adheres to a strict protectionist policy, which provides social security, food, housing, education and clothing provisions among the most common compensation components. Although the labour law is mandatory mainly for the majority of the private sector and MNCs in Iran, on its own it is minimal and does not provide any motivation to the workforce. The public sector uses a lower base salary but provides a diverse and complex basket of benefits. It also has its own laws and does not need to follow the strict labour law of Iran. The range of diverse benefits and lifelong employment make the public sector attractive to many, but the system is bureaucratic, layered and does not link benefits to performance. The benefits are routinely provided, without any assessment of performance measures.

The private sector competes with a higher base salary and more straightforward and simple financial benefits as defined by the labour law, however, in many cases it retains key staff through the provision of personal loans. Individuals working in the private sector feel they have more flexibility and potential to grow as compared to the public sector.

MNCs follow the highest salary structure and are usually positioned in the upper quartile salary range, not only retaining staff on financial rewards, but also offering an attractive benefits package including loans, additional medical service and recreational club benefits.

It is interesting to note that the emergence of the multinational companies will have a gradual effect on the overall HR practices and policies used by the private sector and, in turn, will put pressure on the public sector.48

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Key steps taken regarding the development of HRM

One of the underlying principles in the development of HRM in Iran is the demographic and employment challenges the country faces. The Government has embarked on a number of plans and strategy documents, such as the National Industrial Development Strategy, the twenty-year perspective and, recently, the fourth Five Year Economic and Development Plan (2005–10). Each of these plans aim to modernize, develop and push Iran to realize her economic, social and HR strengths. The Government also intends to embark on making employment and labour laws more flexible, giving more room to employment agencies. There is indeed a greater awareness to software and management issues, reflected in Iran hosting its second annual management conference in December 2004 and second HR conference in April 2005.

Public- and private-sector companies are inviting more foreign experts and trainers to provide training programmes on HR and management-related topics. There are a number of HR graduate programmes being discussed as joint programmes with foreign universities. There is a major increase in assessment and development centres as the Iranian public- and private-sector companies look to identify potential, expertise and competencies in their future managers who are chosen to lead the path of globalization.

Iran and Iranian companies are indeed paying more attention to HRM. There is an awareness and realization that in order for companies to become more international, to compete in global markets and to progress and gain market share, there is a need for structure and continuity that cannot be achieved with the current level of brain drain and the emergence of MNCs. Therefore, Iranian companies, especially those that are competing
in international markets are realizing the potential, significance and strategic alignment of HR. They are beginning to feel the pressure of identifying their HR as part of their assets, especially if they want to be part of the economic and capital growth.

It is therefore fair to say that in some private, semi-public and public-sector companies HRM is emerging, although at different levels, speeds and degrees. The speed of implementation of HRM is, of course, dependent on the needs of the businesses and the growth of the industries and companies.

**Key challenges facing HRM in Iran**

It is important that the pace of change and development or the realization of HRM comes at a slow and culturally balanced pace. Otherwise, once again Iran will make the mistake of importing management policies and practices from the West or East without determining how they will fit in with the Iranian national culture and values. Should that happen, there is a danger that the companies will be dissuaded and will return to more traditional functions of personnel management and the already disillusioned youth in the country will continue their brain-drain pattern of the past.

Another major gap and problem in the development of HRM in Iran is that most Iranian managers come from engineering backgrounds and not the social sciences. Many of them do not have any management training behind them, and hence they lack the required education, training, experience and knowledge. One of the key challenges will be to provide the resources to develop these managers into individuals who can lead Iranian companies on the path to globalization.
Moreover, universities do not offer any HR courses, and no professional HR bodies are present. However, there is change in the air: in October 2003 Iran hosted its first HR conference. Gradually, there are more HR seminars being proposed, numerous research studies conducted and a fast-emerging group of HR professionals being developed and trained. These professionals are being sent to international conferences and courses, learning to share their knowledge with HR networks inside and outside Iran. The speed of change is indeed phenomenal.

Another key obstacle to the development of HRM in Iran is a lack of knowledge and belief in the importance and indeed strategic nature of HRM. A senior manager might ask, ‘What exactly does HR do for my organization? How does it benefit my organization? What benefit and added value will it bring?’ There are many gatekeepers who will hinder the development of HR, mainly due to the fear and insecurity of losing their jobs to HR professionals. HRM is not supported or understood by senior management, who should be the key people to support the HR function. Finally, all said and done, when the importance of HR is realized, then the bigger problem remains as there are no trained HR professionals in Iran who can come forward to fill the much-needed position.

It is fair to say that Iran has embarked on the development of HRM. The shift from PM to HRM is being felt in the public sector and also in more progressive and modern private-sector companies. Although much of this at present may just be theory and learning, the journey and transition has begun. It began from the moment Iran realized the mistakes caused by mismanagement over the past two decades. Now companies find it is time to catch up and to try to gain the lost time.
The trends in the development of HRM in Iran can be summarized as follows:

1. Iran is moving from PM to HRM by paying more attention to the value of individuals as strategic resources in a firm's development and future direction.

2. Iran is experiencing a cultural shift to professionalize the workforce and base selection and development of staff on factors such as the value of expertise rather than loyalty.

3. External and internal pressures are causing Iran to respond faster to the development of HRM. These factors include globalization and internationalization, fairer competition, technology advancement, a young and educated workforce, brain drain, job creation and so forth.

4. The Government is responding to these pressures by relaxing and modifying laws, privatization, creating professional bodies, allowing better links for international education, improving training and development and so forth.

5. Iran is moving to a more systematic approach to HRM with procedure and practices being created. This applies for all HR functions: recruitment and selection, compensation, training and development, appraisal and promotion criteria.

6. One of the main challenges, however, is to have HRM as an integrated set of functions rather than islands apart. If companies and organizations treat HRM as separate functions, they will not be successful in bringing about the much-needed change and development in Iranian business environments.