

# Chapter 15

## Iran's Privatization Policy Analysis Based on Good Corporate Governance Principles

Amin Naseri, Rahmatollah Gholipour and Bita Mashayekhi

**Abstract** This paper investigates the factors of corporate governance in the public-sector companies, in accordance with the principles of good corporate governance in the public sector and the guidelines of the Organization for Economic Cooperation and Development (OECD) as a global organization making policies for corporate governance. Based on the established theoretical framework, the Enforcement Law of the privatization policies of Article 44 of Iran's constitution will be analyzed. These policies are the most important legal reference for the economic activities of the public sector's enterprises in Iran. Next, the strengths and weaknesses of the law in terms of good corporate governance rules will be examined. The research methodology is based on the qualitative content analysis. The obtained findings demonstrated that the most important weaknesses of Iran's privatization policies are as follows: (a) lack of a clear ownership policy for the state-owned enterprises; (b) insufficient consideration of the private and cooperative sectors and minority shareholders' concerns when privatizing large state-owned enterprises; (c) lack of an appropriate mechanism for a balanced relationship with all stakeholders. Moreover, the following are major strengths of the privatization policies: emphasis on transparency and disclosure of clear information by the businesses directly/indirectly owned by the public bodies to Iran's Competitiveness Council and obliging these businesses to present their financial reports to Iran's Securities and Exchange Organization.

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A. Naseri (✉)

School of Management, University of Tehran, Tehran, Iran  
e-mail: aminnaseriabc@gmail.com

R. Gholipour

Department of Public Administration, University of Tehran, Tehran, Iran  
e-mail: rgholipor@ut.ac.ir

B. Mashayekhi

Department of Accounting, University of Tehran, Tehran, Iran  
e-mail: mashayekhi@ut.ac.ir

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**JEL Classification** G38; L38

## 15.1 Introduction

“Corporate governance” refers to a set of control mechanisms, transparency, and accountability of the companies, whose concepts have been mainly developed for the private sector. The key purpose of the mechanisms and systems of corporate governance is to give a partial guarantee to shareholders for protecting their interests by managers. Through drawing the interests of these two groups, the agency costs will diminish, and the company value and performance will increase (Clarke 2004).

Given the competing interests of various stakeholders, a few questions need to be meticulously considered. First, if the main owners and shareholders of an organization are people/public or the government (on behalf of the people), what will be the suitable corporate governance for preventing the conflict of interests between shareholders and managers, and what will be the governance mechanism deal with the accountability to shareholders and other stakeholders? Second, should the governance of such businesses be distinct from that of the private-sector businesses? In response to these questions, it should be stated that “corporate governance in the public sector” has been less researched. Thus, it is of very high importance for the development of different countries, particularly emerging countries such as India and South Africa, which have special policies and charters for corporate governance in the public sector. This issue is greatly important that the Organization for Economic Cooperation and Development (OECD), which is a major global reference for making corporate governance policies, published a precious collection of guidelines on corporate governance for the state-owned enterprises (OECD 2005).

In Iran, approximately 60–80% of the country's budget is annually allocated to the state companies, institutions, and banks, and the rest to the country's general budget. The estimates indicate a high load of the activities performed by state enterprises in the field of economy. Considering different interpretations, it can be claimed that nearly 80% of Iran's economic activities are done by the “public sector” through three central ways as follows: (1) activities of state administrative agencies and public institutions (e.g., the organizations for water, electricity, gas, post, railway, ports and shipping, health care, education at different levels, and services of the state-owned enterprises and institutions such as municipalities, insurance companies, social security organization, their affiliates, charitable foundations); (2) activities of state enterprises/organizations (e.g., banks, and oil, petrochemical, energy and gas, steel, copper, and other corporations); and (3) activities of quasi-governmental organizations (the companies partly privatized but with a governmental management, such as private insurance companies and telecommunication offices) (Nikou-Eghbal 2010; Meidari and Kheirkhahan 2004).

Despite the increasing share of the public sector in Iran's economy, the corporate governance policies have been only expressed in the Business Law for the private-sector firms. Consequently, the governance of companies belonging to the state and the public sector has fallen into abeyance (Arabi and Zare 2011). This is while given the high load of activities of the state and the public companies in Iran, corporate governance in the public sector requires independent principles/policies. This requirement has been taken into account to some extent by the Iranian legislators in "the enforcement law of the policies of Article 44 of the Iran's constitution." Therefore, the purpose of this paper is to analyze the enforcement law of the policies of Article 44 of the constitution in terms of observing the principles of good corporate governance in managing the public-sector enterprises.

The remainder of the paper is organized as follows: Sect. 2 presents the research background, in two main categories of theoretical and empirical background. Next, the research methodology is elucidated in Sect. 3. In Sect. 4, the research findings are demonstrated and finally, the conclusions and recommendations of the paper are revealed in Sect. 5.

## 15.2 Research Background

According to Article 44 of the Iran's constitution, the economic system of the Islamic Republic of Iran is generally organized based on three sectors: public, cooperative, and private sectors. According to this Article, the private sector complements the presence of public and cooperative sectors in the activities of the agricultural, industrial, and service sectors. The policies of Article 44 of the Iran's constitution can be expressed under the following categories (Expediency Council 2005):

1. The general policies for developing the non-public sectors and preventing the enlargement of the public sector.
2. The general policies of the cooperative sector.
3. The general policies for developing the non-public sector through privatizing the public activities and businesses.
4. The general policies of privatization and ownership transfer.
5. The general policies for enforcing governance and avoiding monopoly.

These policies have been declared, aiming at realizing the acceleration of national economic growth, expanding the ownership at the public level and guaranteeing social justice, enhancing the efficiency of enterprises and productivity of the material and human resources and technology, increasing competitiveness in the national economy, increasing the share of the private and cooperative sectors in the national economy, lessening the financial and managerial burden of the government in managing economic activities, enhancing the general level of employment and encouraging people to deposit and invest, and improving the household income.

The enforcement law of the policies of Article 44 was offered to the Islamic Consultative Assembly (Iran's Parliament) as "an emergency bill for enforcing the general policies of Article 44 of the constitution of Iran and transferring the state activities and enterprises to the non-public sector." This law, containing 10 chapters, 92 articles, and 90 notes, was approved in an open meeting on Monday, 28 January, 2008, in the Islamic Parliament of Iran. It was consequently recognized as conforming to the principles of the Iran's Expediency Council in May, 2008. All the chapters of this law contain some subjects about governing and managing companies in the public, private, and cooperative sectors, which were analyzed in this research. However, Chaps. 2, 4, and 9 of the law, entitled, respectively, as "the scope of the activities of the public, cooperative, and private sectors," "organizing state enterprises," and "facilitating competition and avoiding monopoly," were more deeply analyzed by the authors, since they were more extensively related to the research subject. Furthermore, the law of "amending the articles of the enforcement law of the general policies of Article 44," which includes 3 articles and was approved by the Iran's Parliament and the Guardian Council in June, 2014, was also analyzed in this research. In this paper, the phrase "documents of the enforcement law of Article 44" means the text of the mentioned laws.

### ***15.2.1 Theoretical Background***

There are extensive investigations on corporate governance, which generally consider the issues about ensuring investors to provide managers with their capitals (Shleifer and Vishny 1997). Corporate governance deals with the solutions through which the suppliers of financial resources can ensure themselves of the return of their capital (Davis and Useem 2002).

Corporate governance dates back to the separation of ownership from control, where the board of directors, as a group distinct from shareholders, takes the responsibility of decision making and provides the possibility of establishing modern corporations (Bainbridge 2008). After this separation, different mechanisms were established for consistency and non-conflict between the interests of shareholders and managers. In an analysis of the new form of companies, Berle and Means in 1932 stated that shareholders, by transferring the company's supervision and responsibility to managers, relinquish their own right of directing the company's operations toward their absolute interests. Consequently, they position the society in a situation to request from a modern corporation, not only to serve the owners, but also the entire society (Berle and Means 2007).

During the last two decades, corporate governance has become a leading topic in financial, managerial, and legal researches. The main purpose of these researches is to find optimal organizational mechanisms so that while protecting the rights of all stakeholders, the economic efficiency can be also increased. Understanding the theory of corporate governance can lead to the application of tools for restricting agency problems in the public sector (Hess and Impavido 2003).

In developing the concept of corporate governance, the discussions are usually focused on the board of directors and the related theories. Reviewing the literature on governance indicates that the main focus of corporate governance is on the structure, tasks, and performance of the board of directors (Bailey 2012).

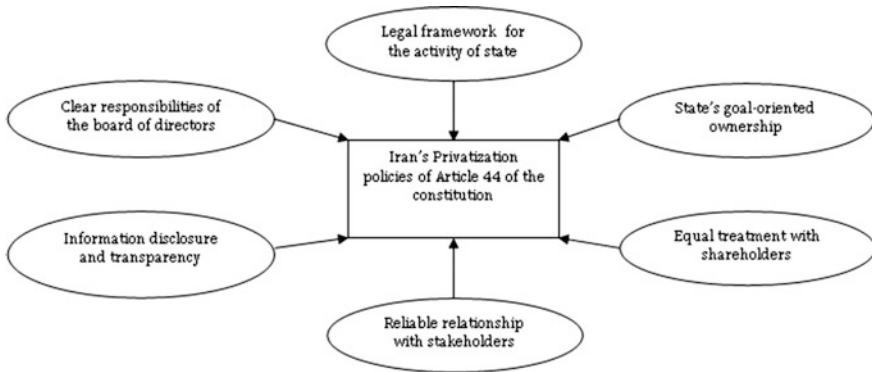
While the board of directors plays the main role in corporate governance, the concept of corporate governance is indeed something beyond that and refers to the practice of power in an organization (Clarke 2004). In fact, corporate governance includes institutional structures, legal laws, and patterns and determines that which section in an organization can make special decisions, how the members of that section are chosen, and what are the existing norms for decision making (Bainbridge 2011). Different frameworks and theories have been so far expanded to clarify various issues emerging in corporate governance studies. These theories consider different factors for corporate governance in accordance with the assumptions on the relationships between owners and managers. The set of factors affecting corporate governance on the basis of the theoretical basics and the corporate governance literature is summarized in Table 15.1.

Considering the mentioned factors and the principles of good corporate governance, in accordance with the guidelines of the OECD as a global policy-setting organization for corporate governance, the theoretical framework of the research for analyzing the content of the “enforcement law of the policies of Article 44” is shown in Fig. 15.1. Therefore, obtaining a good corporate governance structure in the public sector will be possible through observing the following principles (OECD 2005):

1. Legal framework for the activity of state enterprises
2. State's goal-oriented ownership
3. Equitable treatment of shareholders
4. Reliable relations with stakeholders
5. Information disclosure and transparency
6. Clear responsibilities of the board of directors.

**Table 15.1** The factors affecting corporate governance based on the previous studies

Corporate governance dimensions	References
Stewardship process	Huse (2007), Keasey and Wright (1997)
Structure and composition of the board of directors	Fung (2003), Kendall (1999), Vo and Phan (2013), Maher and Andersson (2000)
Control, supervision, and risk management	IFAC (2001), Ryan and Ng (2000)
Strategic leadership and behavioral standards	Huse (2007), Ho (2005)
Capital focus and structure	Demirag et al. (2000)
Stakeholder management	Jamali et al. (2008)
Transparency, accountability, and external reporting	Ryan and Ng (2000)



**Fig. 15.1** Factors affecting the analysis of Iran's privatization policies in terms of good corporate governance

### 15.2.2 Empirical Background

There are extensive researches throughout the world on the efficiency and effectiveness of the economic policies of countries in the field of the interaction between the government and the market and also, the analysis of different political, economic, social, managerial, and legal causes and outcomes. There is no empirical literature in Iran on the analysis of the policies of Article 44 of the constitution, in terms of the corporate governance principles. However, considering the high importance and the vastness of the subjects mentioned in Article 44 of the constitution, there is a significant background about the economic, social, and managerial analysis of the Iran's policies on the interaction between the government and the market, and privatization, with an emphasis on the policies of Article 44 of the constitution.

Investigating the financial, economic, and commercial conditions of the Iranian public sector's enterprises during the last decades has indicated their inefficiency in the domains of policy-setting, planning, supervision, and management. These enterprises, which have a decisive and essential effect on Iran's markets and economic activities, have been managed during the past decades in a way that their outcome has largely lacked the acceptable socioeconomic principles. Lack of motivation of the non-public sectors to be present in economic activities has not been merely due to the lack of permission for attending these sectors, but it is also caused by the disturbances that the public and the state enterprises have created in the respective markets. Such obstacles have led to some problems in the general process of privatization in practice. Among these issues, the following items can be enumerated (Khoshpour 2006):

1. Impossibility of performing an accurate cost-benefit analysis in economic markets.
2. Lack of transparency about the advantages/limitations of the economic activities and target markets.

3. Senselessness of the financial statements and performance reports of the state enterprises in financial and commercial terms.
4. Impossibility of valuing the enterprises and separating the interests and benefits of the government and the public sector from the private sector.

In an empirical survey in Iran, the factors influencing the deviance and vulnerability of the enforcement law of the general policies of Article 44 of the constitution were evaluated. Then, the factors affecting the deviance of this law were modeled. According to this research, weakness in the law enforcement (30.5%), incapability of the law (26.5%), deficiency in the private sector (23.2%), and empowerment of the quasi-public sector (19.7%) were among the most important vulnerability criteria. The research findings demonstrated that the success of this law solely depends on the reinforcement and empowerment of the private sector. It should be stressed that the main topic in privatization is transfer of management to private sector, and the ownership transfer is of the second priority. This means that the purpose of privatization is to release the corporate governance out of the government's control and make the transfer of ownership embodying the transfer of management. Otherwise, changing the type of ownership will not assist the privatization objectives (Din-Mohammadi and Azhdari 2012).

Another study portrayed that the implementation of the privatization policies of Article 44 of Iran's constitution has not been effective as expected and has achieved none of the enterprises' performance improvement objectives (microlevel) and the public interest objectives (macrolevel). In terms of the micro-level objectives, the hypothesis of the positive effect of the enforcement of these policies on the components (such as enterprise profitability, enterprise productivity, competition facilitation, and stock value) was rejected. Moreover, in terms of the macro-level objectives, the hypothesis of the enhancement of the components (such as equity, public welfare, employment, and environment) for enforcing this law was rejected (Azar et al. 2011).

By analyzing the policies of Article 44 of the constitution about the interaction between the government and the market as well as the role of the government in economic adjustment, it can be concluded that the extreme viewpoints about the government and the market for ensuring the economic efficiency at the national level have been failed. In recent years, public tendency is toward the government-market cooperation approach. According to this approach (known as good governance approach, agreed by institutional economics), the government plays a guiding, supervising, and adjusting role and complements the market mechanisms. It also provides the mechanisms required for creating a suitable context for the activities of other sectors, particularly the private sector. However, in order for this approach to be effective and to assist the government for achieving its objectives, governance must possess four essential characteristics: democracy, justice-orientation, accountability, and participation (Hosseini and Shafiei 2007).

The general policies of privatization in Iran concentrate not only on the government's action to transfer the ownership and management to non-public sectors, but also on receiving the people's participation and empowering the private and

cooperative sectors to involve in economic activities. Hence, whereas the government's obligation for privatization is the necessary condition, the acceptance of the private sector and people for substitution is the sufficient condition. Moreover, the susceptibility of the business context and the economic freedom is among the prerequisites of this success (Nobakht 2008). Added to them, in another research, improving the business context was mentioned as the prerequisite to successful enforcement of the general policies of Article 44. In this regard, the most important aspect is the attraction and participation of the private sector. According to this research, among the most significant detriments of the privatization process, we can refer to the privatization of the state enterprises without preparing the private sector for the governance of large enterprises and also, lack of proper rules/regulations for the privatization procedures. All of these mismanagement practices will make the involvement of the private sector in Iran's economic activities remarkably difficult (Tabatabaei-Yazdi and Mafi 2007).

Moreover, Kianpour (2009) emphasized on this concept and believed that making the country's economy non-public will be infeasible without developing the private sector and providing the suitable institutionalization. With the expansion of the activities of the private sector, the public-sector enterprises have come into competition and should consequently improve the productivity of their activities; otherwise, they will have no option but to terminate their operations. In other words, the privatization policies will be unsuccessful, unless two essential factors exist: (a) efficient money market and (b) non-public competitive capital. Implementing privatization in the current conditions of Iran is practically equal to changing the ownership of state enterprises from one public sector's institution to another. In fact, what occurs in reality is that the powerful monetary and financial non-private institutions will attempt to buy the offered enterprises, and this will be to defeat the goal of privatization (Kianpour 2009).

In total, it should be expressed that despite the advanced goals of the general policies of Article 44 of the constitution (known as the economic revolution in Iran), which have been codified according to the theoretical basics and the global experiences, there is a significant difference between the objectives and the performance of these policies. In analyzing the lack of success in proportion to the expectations, it should be mentioned that in spite of the accomplished privatization cases, new shareholders do not possess any part of the managerial decisions. As a result, these companies have ultimately remained under the management of the government or public institutions. Therefore, due to the lack of delegation of the management authority along with the transfer of ownership, the objectives of Iran's privatization policies, which include enhancing the productivity and increasing the competitiveness, have not been realized yet (Nobakht 2008).

Based on the mentioned theoretical and empirical background, it seems that reforming the type of corporate governance, which plays a very effective role in enhancing the performance of the private corporations and consequently in flourishing Iran's economy, can be a more suitable solution than mere privatization. The literature review demonstrated that implementing privatization policies in Iran has



encountered a variety of problems that have impeded reaching the intended objectives. As explicated above, a part of these issues has been due to unclear corporate governance mechanism of the public-sector enterprises.

## 15.3 Research Methodology

### 15.3.1 Research Method

The strategy of this research is of qualitative type. The used method is a descriptive technique with a qualitative content analysis approach. In this method, the authors analyzed the content of the enforcement law of Article 44 of the constitution based on an analytical framework. This framework was adopted from the principles of governance of state-owned enterprises, published by the OECD. In this work, the *Summative and Directed* content analysis methods were employed (Hsieh and Shannon 2005).

Therefore, the coding scheme required for the content analysis of the enforcement law of the policies of Article 44 was first codified by the *summative* content analysis method. Then, using the coding scheme and the directed content analysis method (Hsieh and Shannon 2005), the research findings were extracted. To do so, all the contents of the privatization policies, encompassing the enforcement law of the policies of Article 44 (approved in 2007) and its amended law (approved in 2014), were uploaded in the software as the main content. After that, according to the coding scheme of corporate governance, the content was coded. Next, the codes were categorized according to “the presence of positive evidence,” “presence of negative evidence,” or “lack of evidence” in the samples selected from the qualitative data. In the following, each of these stages is fully described.

### 15.3.2 Coding Scheme

The coding scheme of this research was prepared based on the principles of corporate governance of the Organization for Economic Cooperation and Development (OECD). Each of these principles has its associated subsections, which are presented based on the authors' summative coding in Table 15.2. In fact, this table has been the main foundation of the content analysis of the enforcement law of the policies of Article 44. In this coding, which was conducted using the software, the coding was first conducted for the semantic units (samples). Then, the codes from Table 15.2 with a (positive or negative) semantic relationship were assigned to samples.

**Table 15.2** The coding scheme for the qualitative content analysis of the enforcement law of the policies of Article 44, extracted from (OECD 2005) by the authors

Principles	Subsections/codes
Legal framework for the activity of state enterprises	<ol style="list-style-type: none"> <li>1. Separation of the ownership and governing duties of the state</li> <li>2. Legal simplification and transparency of the public firms' activities</li> <li>3. Presence of a legal expression for the services, to be offered to the public by public firms</li> <li>4. Informing the public about the services, offered by firms</li> <li>5. Covering the costs related to public services, beyond the business</li> <li>6. Non-discrimination for public firms, and equality in legal duties</li> <li>7. Presence of a legal possibility for changing the firms' capital structure</li> <li>8. Equal competitive conditions for the private and public sector's firms</li> </ol>
State's goal-oriented ownership	<ol style="list-style-type: none"> <li>9. Clear policies for the ownership of the public sector</li> <li>10. Non-intervention of the state in daily management of public firms</li> <li>11. Independence of the members of the board of directors in decision making</li> <li>12. Existence of a central entity in the government for ownership policy-setting</li> <li>13. Existence of an ownership entity to be accountable to parliament and other authorities</li> <li>14. Observance of the firms' legal framework by the public sector</li> </ol>
Equitable treatment of shareholders	<ol style="list-style-type: none"> <li>15. Ensuring a fair interaction with all shareholders</li> <li>16. Providing a high level of transparency for all shareholders</li> <li>17. Clear policies for the relationship and consultation with all shareholders</li> <li>18. Participation of minority shareholders in the firm's decisions</li> </ol>
Reliable relations with stakeholders	<ol style="list-style-type: none"> <li>19. Respecting the stakeholders' rights</li> <li>20. Reporting on the relationship with stakeholders</li> <li>21. Codification and implementation of the code of ethics for interacting with stakeholders</li> </ol>
Information disclosure and transparency	<ol style="list-style-type: none"> <li>22. Annual reports on the performance of public firms by the ownership entity</li> <li>23. Information disclosure and developing viable internal auditing mechanisms</li> <li>24. External independent auditing based on international standards</li> <li>25. High-quality standards for the accounting and auditing of firms</li> <li>26. Information disclosure, in the areas of public interest</li> </ol>

(continued)

**Table 15.2** (continued)

Principles	Subsections/codes
Clear responsibilities of the board of directors	27. Accepting the ultimate responsibility of the firm's performance by the board 28. Strategic guidance and monitoring of managers by the board of directors 29. Appropriate composition of the board for independent decision making 30. Separation of CEO and chairman 31. Improvement of the skills, knowledge, and independence of the members of the board of directors 32. Establishment of the auditing, risk management, and compensation committees in the board of directors 33. Assessment of the annual performance of the board of directors

### 15.3.3 *Qualitative Data and Sampling Method*

The qualitative data in this research include all words and *meaning units*, related to corporate governance, in the text of the “enforcement law of the policies of Article 44 of Iran's constitution” and its amendment.

The meaning units are the implicit concepts, which can be interpreted based on the *analysis units*. The analysis units are sentences with the meaning, related to the subject and questions of the research (Iman and Noshadi 2012). In this study, considering the type of the data, the research method (qualitative content analysis), and the lack of need for the generalization of the results, the theoretical sampling method was selected. In this method, the sample size was not predetermined, and the criteria for the completion of sampling were saturation, stability of the classes, and formation of a theoretical explanation based on the qualitative data. Therefore, all the meaning units, related to corporate governance, in the enforcement law of the policies of Article 44, were selected and analyzed as the research sample. In total, 32 meaning units were chosen as the sample. Some instances of these samples are presented here, in the form of quotations from the law:

Sample (1) “Any type of governmental assistance/concession (in Iran's Rial or foreign currencies, in the form credit, exemption, discount, priority, information, etc.), which is discriminately provided to one/several enterprises/companies and leads to their dominance in the market or obstruction of the competition, is forbidden.”

Sample (2) “The government is obliged to privatize eighty percent (80%) of the total value of the state enterprises' shares, in any activity included in Article 2 of this law (except for railway) and transfer to the private, cooperative, and public non-state sectors.”

- Note 1: In order to maintain the optimum share of the public sector, for the protection of state governance, country's independence, social justice, and economic development and growth, the government is allowed to invest to the extent that the government's share does not exceed twenty percent (20%) of the value of these activities in the market.

Sample (3) "All the rights related to the ownership of state enterprises will be delegated to the Ministry of Economic Affairs and Finance, and from the time that the privatization is approved, any transfer of properties and fixed assets of the state-owned enterprises without a permit issued by the Ministry of Economic Affairs and Finance will be regarded as illegal possession and will be prosecuted."

Sample (4) "The board of privatization is allowed to make the required amendments in the letter of association and the regulations, governing the companies transferable to non-public sector. This is to facilitate the privatization of companies and can be done only during one year, extendable to two years. In the mentioned period, these companies are not subject to the regulations of the state-owned enterprises."

### 15.3.4 *The Software Used for Content Analysis*

For data analysis, special software for content analysis was used in this research. In this software, the scripts and documents of the enforcement law of the policies of Article 44 and its amendments were primarily uploaded. Then, the required codes for *directed coding* were entered into the software based on the coding scheme presented in Table 15.2. After coding the scripts, the related reports and outputs were extracted using the software analytical and graphical tools.

In summary, in this section, in accordance with the intended objectives, the qualitative content analysis method was employed to meticulously analyze the privatization policies in Iran, from the perspective of observing good corporate governance principles in the public sector.

## 15.4 Research Findings

The purpose of this research was to consider and analyze the enforcement law of the policies of Article 44, in terms of observing the principles of good corporate governance in managing the public-sector enterprises. This law was accordingly categorized based on the existence of evidence for the comprehensive codes stated in Table 15.2. In the following, the content details of the documents of the enforcement law of Article 44 (the script and the amendment) were analyzed in the analytical networks of the software. The gained findings are presented in the below tables.

**Table 15.3** The results of the quantitative analysis for the principles of good corporate governance in “documents of the enforcement law of Article 44” (The figures indicate the number of words in the analysis units of the mentioned documents)

Principles of good corporate governance in the public sector	Document A: Article 44, approved in 2007	Document B: amendment of Article 44, approved in 2014	Total
Reliable relations with stakeholders	Zero	Zero	Zero
Information disclosure and transparency	Zero	30	30
Equitable treatment of shareholders	83	34	117
Legal framework for the activity of state enterprises	584	29	613
State's goal-oriented ownership	224	Zero	224
Clear responsibilities of the board of directors	Zero	Zero	Zero
Total	891	93	984
Total words of each documents	17,366	1749	18,119
Percentage of the related words to total words	5%	5%	5%

**Table 15.4** The results of analyzing the enforcement law of Article 44, in terms of existence of the evidence for the principles of good corporate governance in the public sector

Coding for good corporate governance in Article 44 (families)	Evidence in Article 44 (the number of codes grounded in the related family)
Presence of positive evidence	12
Presence of negative evidence	7
Lack of evidence	15
Total codes, related to evidence	34
Total codes for good corporate governance	33
Total codes, shared between positive and negative evidences	1

The descriptive statistics of the analysis, along with the number of the related words in the enforcement law of the policies of Article 44 approved in 2007 (document A) and its amendment approved in 2014 (document B), are presented in Table 15.3.

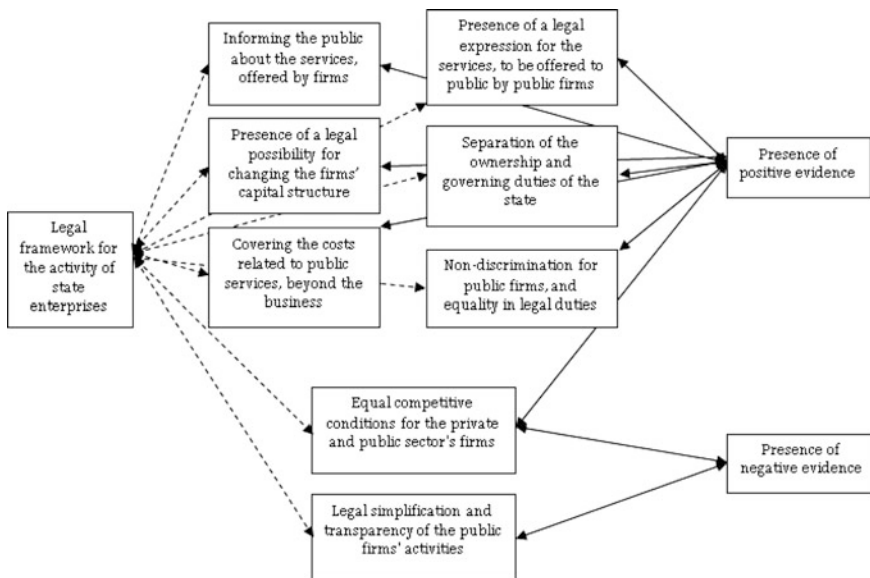
In Table 15.4, the findings related to the presence of positive/negative evidences (in compliance or non-compliance with the corporate governance principles) or lack of evidence in the analysis of the enforcement law of the policies of Article 44 are

disclosed. In fact, the codes that had agreeable semantic relationship were categorized as “presence of positive evidence,” and those with contrasting semantic relationship were classified as “presence of negative evidence.” The remaining codes were labeled as “lack of evidence.”

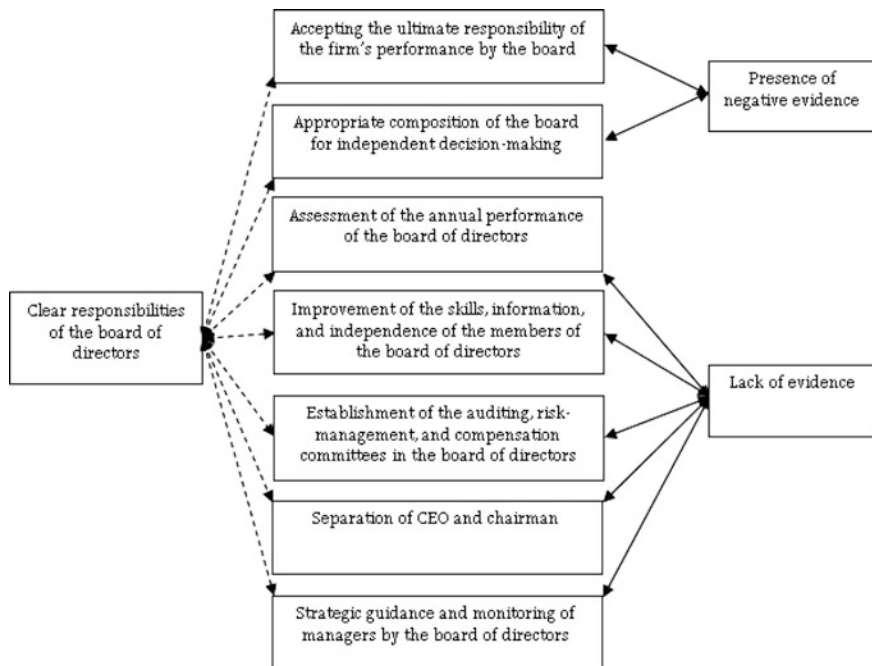
As can be seen, out of 34 codes related to the existence of evidence of good corporate governance, 12 were indicative of the presence of positive evidence and 22 were indicative of the presence of negative evidence or lack of evidence in the law.

Moreover, among the 12 positive codes found, which were considered as the strengths of the privatization policies with respect to the observation of corporate governance principles, the most evidences (7 related codes) were associated with the principle of “legal framework for the activity of state enterprises.” This shows the adequate attention paid to this principle at the time of codifying the policies. The details of this analysis can be witnessed in the analytical network of Fig. 15.2.

Furthermore, according to the software results, 22 codes conveyed the presence of negative evidence or lack of evidence in the content analysis. These cases are considered as the improvable points in good corporate governance. Based on the software results, out of the 22 mentioned codes, the principle of “clear responsibilities of the board of directors” had 5 codes for lack of evidence and 2 codes for negative evidence. This principle has been ignored at the time of codifying the privatization policies in terms of corporate governance principles. The related details are shown in the analytical network of Fig. 15.3. In the following, the



**Fig. 15.2** The relational network for the position of the principle of “legal framework for the activity of state enterprises” in the Iran’s privatization policies



**Fig. 15.3** The relational network for the position of the principle of “clear responsibilities of the board of directors” in the Iran’s privatization policies

analytical networks of the principles mentioned in the software are extracted and described.

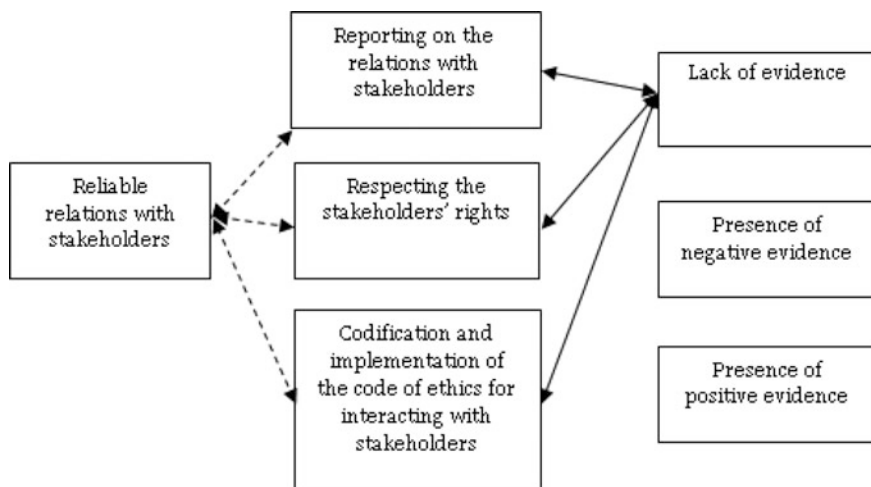
Figure 15.2 exhibits the relationship between the good corporate governance indices (from the perspective of “legal framework for the activity of state enterprises”) and the enforcement law of the policies of Article 44. As can be seen, most of the mentioned principles of the law of Article 44 have positive evidence, and only the principle of “legal simplification and transparency of the public firms’ activities” has not been observed in this law and has negative evidence. In addition, the code of “equal competitive conditions for the private and public sector’s firms,” which pertains to the principle of “competitiveness” in good governance, has both positive and negative evidences, which is also presented as an instance in Table 15.5.

Figure 15.3 displays the relationship between the good corporate governance indices (in terms of “clear responsibilities of the board of directors”) and the documents of the enforcement law of Article 44. According to the results, no positive evidence for this principle was found in the law of Article 44. This signifies

**Table 15.5** The evidences existing in the law for the code of “equal competitive conditions for the private and public sector’s firms”

The evidence existing in the law documents of Article 44	Related code	Type of evidence	Description
<p>Article 2 of the amendment of the enforcement law of the policies of Article 44 (approved in 2014): “The public non-state institutions, which are subject to Article 5 of the General Accounts Law, along with all their affiliates, which possess a legal permission to perform economic activities, can operate in the market of goods and services production, unless their activity causes disturbance in the competition. These institutions are obliged to send the report of the total direct/indirect ownership of all their affiliates in each of the markets of goods and services production, to the Competitiveness Council, every 6 months”</p>	<p>Code 8: Equal competitive conditions for the private and public sector’s firms</p>	<p>Positive</p>	<p>As can be observed, the amount of the state enterprises’ shares, which will be allocated to public non-state institutions, must be to the extent that does not cause monopoly and disturbance in the competition. In addition, companies are obliged to present their reports to the Competitiveness Council. This article has positive evidence for the principles of “competitiveness” and “transparency” in good governance</p>
<p>Note 1 of Article 13 of the enforcement law of the policies of Article 44 (approved in 2007): “Participation and investment of any state company in other state enterprises is only allowed if the subject of the activity of the investee company is related to that of the investor company and the government has issued its permit. This directive does not include banks, credit institutions, insurance firms, and their investor companies”</p>	<p>Code 8: Equal competitive conditions for the private and public sector’s firms</p>	<p>Negative</p>	<p>This note that has excluded banks, insurance firms, and the state investor companies from the relatedness of their activities with the investee companies is in conflict with the principles of competitiveness in good governance. In fact, the state banks and insurance firms, referring to this clause, can found some so-called private investee companies as their subgroup using public capital, while the real private sector will be unable to compete with them in terms of the volume of the required capital</p>





**Fig. 15.4** The relational network for the position of the principle of “reliable relations with stakeholders” in the Iran’s privatization policies

that policy-makers have only focused on the transfer of ownership and have not sufficiently thought on the governance of the public-, private-, and cooperative-sector firms after privatization. Such a situation can lead to lack of transparency, rent, and corruption in the economy. In particular, in the board of directors of state enterprises, the members will be selected through corrupted processes, which will bring about their dependence in decision making and is clearly in contradiction with good governance. The other relational networks of the principles of good corporate governance are exhibited in Figs. 15.4, 15.5, 15.6, and 15.7.

The above networks were codified and analyzed for the sextet principles of good corporate governance in the public sector. In analyzing and interpreting these networks, it should be stated that the principles of “state’s goal-oriented ownership,” “equitable treatment of shareholders,” “clear responsibilities of the board of directors,” and “reliable relations with stakeholders” have not been taken into account in preparing the privatization policies and lack sufficient positive evidence. However, there is a positive evidence for the principles of “legal framework for the activity of state enterprises” and “information disclosure and transparency.” This indicates that they have been properly taken into account in policy-setting for the economic activities of the public sector.

The research findings demonstrated that the law for implementing the privatization policies in Iran has not appropriately elucidated the good corporate governance principles in the public-sector companies after privatization. Therefore, there still exists some vagueness in these enterprises that will consequently cause abusing the law and the country’s general budget and lead to financial corruption.

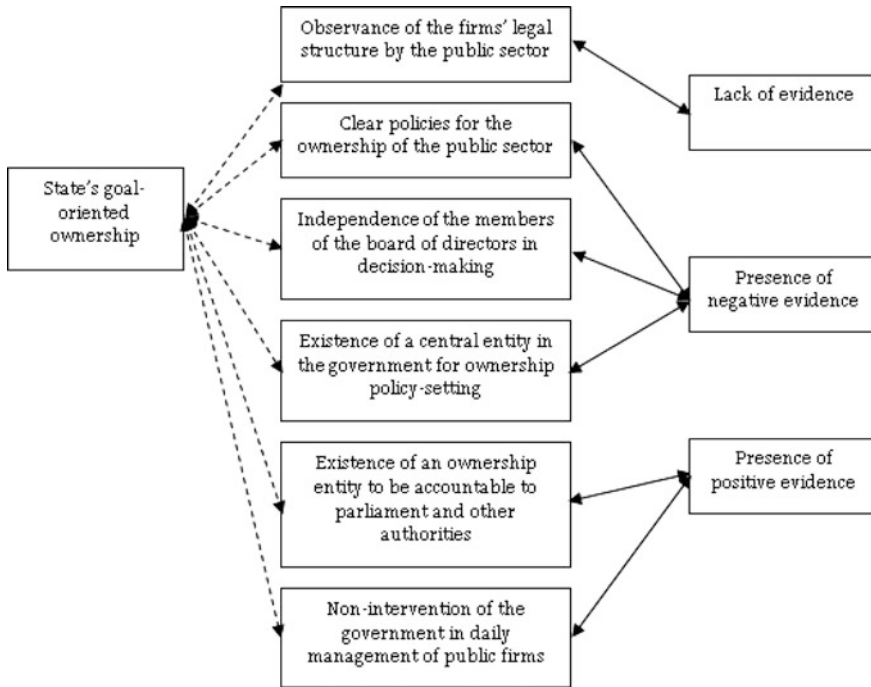


Fig. 15.5 The relational network for the position of the principle of “state’s goal-oriented ownership” in the Iran’s privatization policies

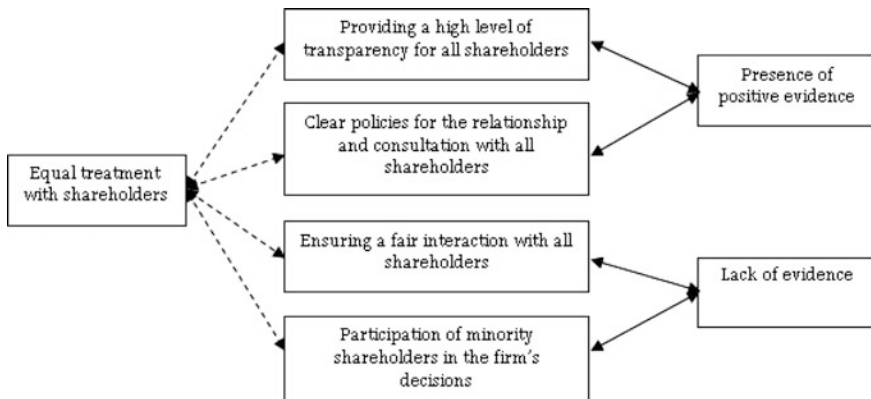


Fig. 15.6 The relational network for the position of the principle of “equitable treatment of shareholders” in the Iran’s privatization policies

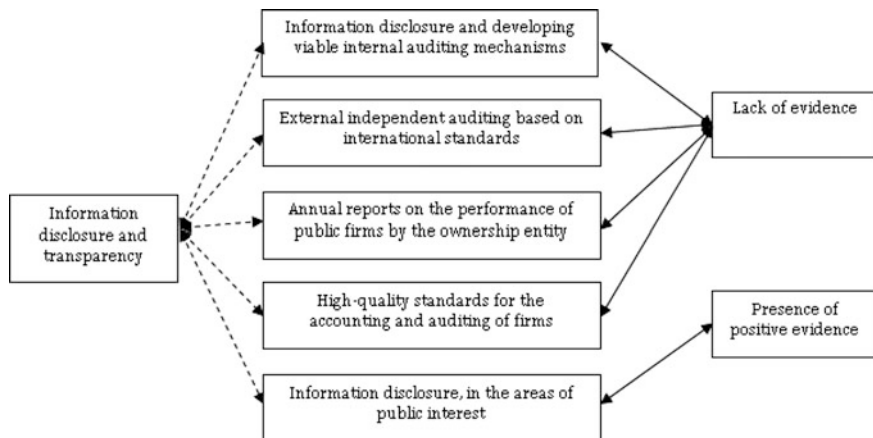


Fig. 15.7 The relational network for the position of the principle of “information disclosure and transparency” in the Iran’s privatization policies

## 15.5 Conclusions and Recommendations

After presenting the theoretical concepts of corporate governance in the private and public sectors, this paper investigates the documents of the enforcement law of the policies of Article 44 of the Iran’s constitution based on the good corporate governance principles of the OECD. The findings showed that the enforcement law of the policies of Article 44, as the most important official reference for the privatization policies and the economic activities of Iran’s public sector, has some weaknesses as follows: (1) lack of a clear policy for the state-owned enterprises; (2) insufficient heed to the proper preparation of the private and cooperative sectors and minority shareholders for ensuring a competitive environment after privatization; (3) lack of an appropriate mechanism for a balanced relationship with stakeholders. Among the strengths of this law, in terms of good corporate governance, we can refer to two major points: (1) developing a legal framework and emphasizing transparency and disclosing the related information to Iran’s Competitiveness Council by the businesses directly/indirectly connected to the public sector; and (2) obliging these businesses to present their financial reports to Iran’s Securities and Exchange Organization. With regard to the improvement strategies, the findings of this paper conform to the results of Nobakht (2008), Tabatabaei-Nejad (2008), and Kianpour (2009).

Considering the fact that today, the Iranian government eagerly intends to expand the participation of the private sector; it is suggested to revise the enforcement law of the policies of Article 44 of the constitution toward an extensive empowerment and participation of the private sector. The focus needs to be shifted from the transfer of ownership to the improvement of management and governance of public-sector companies. This revision is especially recommended for Chaps. 2 and 4 of the law, which are related to the scope and manner of the activities of

state-owned firms. In other words, the only way to achieve the objectives of Iran's privatization policies and flourish the economy is not laid in the ownership transfer. Rather, exploiting the management and innovation capabilities in the private sector is definitely more essential than the capabilities of the private-sector ownership. It is apparent that this recommendation does not negate the transfer of ownership, but emphasizes a proper and effective prioritization. Hence, it is proposed to codify the mechanisms required for the economic activities and good corporate governance of the public-sector companies. It is worth mentioning that this issue is currently suffering from legal obstacles and research gaps.

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## Author Biographies

**Amin Naseri** recently completed his Ph.D. in Management at the University of Tehran. His research interests lie in sustainability, corporate governance, and corporate social responsibility. His thesis entitled “Articulating the good corporate governance framework in the public sector corporations” has well attracted attention in local academic communities and was scored “Excellent” by the reviewers. Amin is currently developing his researches in the subject of his thesis, with the aim to improve corporate governance in the state-owned enterprises, which will have a great contribution to Iran's economy.

**Rahmatollah Gholipour** is a Professor in the Department of Public Administration at the University of Tehran. He received his Ph.D. in Public Management from Allameh Tabatabaei University, Tehran. His researches are mainly focused on policy making and human resource management in the public and private sectors. He has several publications in the field of public management in the journals, such as IGI Global, Computers & Education, International Business Management, and European Journal of Social Sciences.

**Bitra Mashayekhi** is an Associate Professor in the Department of Accounting at the University of Tehran. She has been a faculty member since 2005. She is the Chair of her department in the Faculty of Management. Bitra completed her Ph.D. in Accounting. Her research interests lie in the areas of sustainability, corporate governance, internal auditing, and financial reporting quality. Bitra has published several papers in high index journals, including International Journal of Accounting, and Contemporary Journal of Accounting and Economics. In recent years, she has concentrated on qualitative research methods and bringing social theories to the accounting field.