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The Family Business in Iran since the Islamic Revolution as a Mode of Coordination

There has been very little research on family businesses (FBs) in Iran. Taking an institutional point of view, this article, based on a survey conducted in Iran, demonstrates that since the 1979 revolution FBs in Iran have been key intermediaries between political pressure from the top and societal trends from below. FBs in Iran since the revolution can be considered as a perfect mode of coordination reflecting “capitalism from below.” Based on unconditional support among the family members, they are perfectly adapted to the low-trust environment in Iran since the revolution. As a mode of coordination, the family business was also essential in protecting the modernization of Iranian society in promoting the role of women and the value of competency. It was also a mode of coordination which enabled FBs to protect their property rights which were threatened by a predatory state.

Keywords: Family Businesses; Mode of Coordination; Institutions; Trust; Iran

Family businesses (FBs) are the dominant model of economic organization in less developed economies (LDCs).¹ Companies in which a family stake is higher than 20 percent of the listed shares represent 65 percent of the twenty largest companies in Argentina, 70 percent in Hong Kong and 100 percent in Mexico.² Another study found that in East Asia emerging economies, around two-thirds of publicly traded companies were FBs.³ The mainstream approach has long neglected the study of FBs. Chandler considered that there was no future for a FB due to the necessity of gaining management expertise.⁴ But the resilience of this business organization has demonstrated the need to study it, especially through an institutionalist approach. Institutions matter because by enabling the protection of property rights, they decrease

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¹In this article, a FB will be defined as a business in which the members of a family have legal control over ownership. See Lansberg, Perrow, and Rogolski, “Family Business as an Emerging Field.”

²La Porta, Lopez-de-Silanes, and Shleifer, “Corporate Ownership aRound the World.”

³Claessens, Djankov, and Lang, “The Separation of Ownership and Control in East Asian Corporations.”

⁴Chandler, *The Visible Hand*.

transaction costs and lead to economic development.⁵ Institutionalists have long shown an interest in the family, Commons, for example, considered it as one of the two most important institutions, along with the state.⁶ The family has also been associated with the most important institutional changes leading to economic development in the western world.⁷ The FB is a “key link” between state and civil society. As an institution, it has a huge impact on economic performance, especially in LDCs. One example of the interest of an institutionalist view of FBs is the Islamic Republic of Iran. There is no official data on FBs in Iran but, according to most experts consulted, they would constitute around 80 percent of companies in the private sector there.⁸ They provide around 60 percent of the jobs for the employed population.⁹ Iranian FBs were deeply affected by nationalization after the revolution, which has reduced both their size (most FBs now have fewer than ten employees) and their share in national production (the private sector controls around 20 percent of the economy), but they have managed to survive in a difficult environment. FBs in Iran are also an expression of a “capitalism from below” whose role has been neglected by the government, which has instead supported large public organizations since the revolution.¹⁰ FBs in Iran are a perfect subject of study to understand how political, social and economic matters have been intertwined since the revolution. They are a “social laboratory” which has both attenuated political tensions from the top through managerial strategies and transmitted internal social dynamics to the economic field. As a mode of coordination, FBs in Iran have played an important role by accommodating the lack of horizontal trust (confidence in others) and vertical trust (confidence in public institutions) since the revolution. These organizations were able to survive in such a low-trust environment through the support of family networking. Coming to understand the importance of FBs, and the potential of an institutional approach to this issue, I decided to base my analysis on surveys. The use of a survey based on interviews led to the possibility of grasping the “dissimulated” and “non-quantifiable” issues of FBs in Iran.¹¹ The analysis of the answers to the

⁵North, *Institutions, Institutional Change and Economic Performance*.

⁶Commons, *Social Reform and the Church*.

⁷North, “Transaction Costs through Time”.

⁸This figure was confirmed in one of the interviews and is consistent with other estimations of the importance of FBs in the Middle East. See Pwc, “The Family Firm.”

⁹According to the Statistical Center of Iran (SCI), in 2015, 43.1 percent of the employed population aged ten or more were working in the private sector as employers and wage earners. Iranian data includes, in the private sector, the para-public organizations (companies belonging to the Foundations and *pās-dārān*). As a hypothesis, one can consider that the para-public sector contributes 20 percent of the jobs of the employed population. That means that the “real” private sector” would provide around 23 percent of the jobs for the employed population; 18 percent of the employed population would be employed by the FBs. Moreover, according to the SCI, in 2015 35.1 percent of the in-work population were self-employed, and 5.1 percent were non-paid family members. Thus, around 60 percent of the employed population could be considered as working in FBs.

¹⁰Nee and Opper, *Capitalism from Below*.

¹¹As it was nearly impossible to organize interviews with family business managers from outside Iran, the plan was to go into Iran and to realize this task through networking. Twenty-four interviews were

interviews drew on grounded theory with careful study of the diverse reactions of the interviewees. This work demonstrates the pertinence of an institutional approach to LDCs, especially as applied to the question of FBs.

This article will first consider how FBs have been analyzed in the mainstream economic literature. Then it will consider the FB from an institutional perspective, whereby it is defined as a mode of coordination. In the third section, this theoretical framework will be applied to the Iranian situation since the revolution. In the fourth, fifth and sixth sections, the main results of the survey will be presented. A short conclusion will follow.

Family Businesses in Mainstream Economic Literature

FBs can be analyzed through agency theory. Jensen and Meckling considered that an agency relationship, which is a contract where the “principal” engages an “agent” to perform a service on their behalf, could be applied to the problem of “separation of ownership and control” between shareholders and managers in a public ownership corporation.¹² As these two groups have different incentives, there will always be costs associated with the desire of the principal (shareholders) to ensure that the agent (managers) makes optimal decisions in the principal’s interest. These agency costs will be: monitoring costs (to control the activities of the agent), bonding costs (guarantees that the agent will ensure that their actions will be beneficial to the principal), and the difference between the agent’s decisions and those maximizing the welfare of the principal. Jensen and Meckling consider that in the case of an owner-manager, if the fractional ownership falls, the incentive to seek out new profitable ventures will be lower and the incentive to extract rents will increase: so there will always be agency costs due to the divergence of interests between the principal (minority stockholders) and the agent (the owner-manager).¹³ Ownership of 100 percent of the capital by the owner-

carried out in August 2014: the sample was composed of nineteen managers of FBs and five “experts.” These five experts were experienced businessmen (for more details on the FB managers interviewed, see Table 1). It seems that this sample is quite a good representation of the reality of FBs in Iran. The companies come from different sectors (agribusiness, industry, services). In the sample, one can also find seven small companies with fifty or fewer employees, which was an important issue as the large majority of FBs in Iran are SMEs. But it was also important to get the views of large companies, which are usually more exposed to the competition of state and para-public companies. Another important issue was the ability to conduct some interviews outside Tehran (three companies were based in Khorramshahr where the author had the opportunity to go). Besides, the sample takes account of the gender issue as three interviewees are women managers or directors. Another important issue was to include in the sample some companies which were created before the revolution, considering their view on the economic system after revolution would have an interest for this work. All in all, the sample in its diversity is quite representative of the situation of FBs in Iran. Despite this diversity, the research reflects that they have quite a similar perception of different issues. Nevertheless, it is clear that more research should be done with larger and more diverse samples, especially in terms of ethnic and geographic background.

¹²Jensen and Meckling, “Theory of the Firm.”

¹³Ibid.

Table 1. Characteristics of the nineteen FB managers interviewed

Companies	Date of creation	Location	Sector	Position	Gender	Number of employees
1	After revolution	Tehran	Transport	Owner-director	Male	50
2	After revolution	Tehran	Agribusiness	Owner-director	Male	3,000
3	After revolution	Tehran	Energy	Owner-director	Female	140–150
4	Before revolution	Tehran	Agribusiness	Owner-director	Male	100
5	After revolution	Khorranshahr	Wholesale trade	Owner-director	Male	10
6	Before revolution	Tehran	Transport	General manager	Male	20
7	Before revolution	Khorranshahr	Agriculture	Owner-director	Male	10
8	After revolution	<i>Tehran</i>	Agribusiness	Owner-director	Male	Not said
9	After revolution	Tehran	Construction	Owner-director	Male	3
10	After revolution	Tehran	Transport	Owner-director	Female	18
11	After revolution	Tehran	Construction	Owner-director	Male	900
12	After revolution	Tehran	Import-export	Owner-director	Male	5
13	After revolution	Tehran	Retail trade	Owner-director	Male	1,600
14	After revolution	Tehran	Transport	Owner-director	Male	Not said
15	Before revolution	Tehran	Energy	Manager	Female	2,900
16	Before revolution	Tehran	Transport	Owner-director	Male	167
17	After revolution	Tehran	Health	Owner-director	Male	100
18	After revolution	Khorranshahr	Import-export	Owner-director	Male	Not said
19	Before revolution	Tehran	Construction	Manager	Male	10,000

manager would lead to zero agency costs in such a company. Then, in a FB, agency costs are lower because there is an alignment of the incentives of the shareholders and managers, who are the same or belong to the same family.¹⁴

One of the limitations of agency theory is its exclusive focus on incentives. The transaction costs approach considers that human nature is based on bounded rationality and opportunism, leading to a situation where most contracts are incomplete and their implementation uncertain.¹⁵ The firm is a “governance structure” with the lowest transaction costs—costs of planning, adapting, and monitoring the contracts—when these transactions concern specific assets and face uncertainty.¹⁶ The transaction cost approach recognizes the role trust can play in the organization of a company and considers that a FB has lower transaction costs: due to the role of family trust, FBs offer advantages in terms of incentives and controls—managers, expecting a continuing relationship, “are less tempted to sacrifice long-run advantages for short-run gains” and are easier to monitor—as well as disadvantages, such as a high risk of conflicts, tolerance of inefficient behavior, and lack of talent in the family.¹⁷

Family Businesses as a Mode of Coordination

These theories are too restricted to address the question of FBs. First, the transaction cost approach is close to agency theory as it considers maximizing self-interest as the only goal of the economic agent.¹⁸ The FB is not exclusively an organization looking for the highest return for its shareholders. Analysis of the FB requires a theoretical background that insists on the relations between political, social and economic spheres. The institutionalist approach appears more appropriate for understanding FBs. For Polanyi, the economic system is embedded in the social system and man does not act to protect his self-interest but his social position.¹⁹ Other institutionalists consider that there are deep interrelations between the political environment and the market system.²⁰ The economic system governing transactions and disposition of goods then acquires unity through a combination of “patterns of integration.”²¹ One is based on “reciprocity”: these are relations based on symmetry in kinship groups which allow the individual to respect a code of honor. Another is “domestic administration” where people take care of their related group (family, village, etc.). Redistribution through a center and exchange through markets are the other

¹⁴Fama and Jensen, “Agency Problems and Residual Claims.”

¹⁵Williamson, *Markets and Hierarchies*.

¹⁶Williamson, “Transaction Cost Economics.”

¹⁷Pollak, “A Transaction Cost Approach to Families and Households.”

¹⁸This is reflected in the risk of opportunism—“all are tempted at times to prefer their own interest”—and in a vision of trust as merely calculative: to trust someone is to consider that the probability that they will perform an action beneficial to us is high. See Williamson, “Calculativeness, Trust, and Economic Organization.”

¹⁹Polanyi, *The Great Transformation*.

²⁰Lindblom, *Politics and Markets*.

²¹Polanyi, *Primitive, Archaic, and Modern Economies*.

“forms of integration.” Kornai refers to modes of coordination of transactions, these mechanisms being related to specific rules organizing the relations between persons.²² He distinguishes five modes of coordination: bureaucratic coordination, market coordination, self-management, ethical coordination (which may be based on reciprocity, on expecting mutual help or on one-sided altruistic behavior), and family coordination (between family members). So, the family could be considered as a “mode of coordination” alongside other mechanisms like market or bureaucracy. This means that a study of FBs in LDCs through the institutionalist theoretical framework should be especially relevant, for three reasons.

A renewed interest in FB studies emerged in the 1990s. This new trend in research has developed a vision of the FB as an economic organization embedded in its societal, political and cultural environment.²³ An institutionalist view of FBs is also justified because in LDCs family businesses have been able to develop their own institutional arrangements to achieve the development of “capitalism from below.” If the market transition initiated by the Chinese government at the end of the 1970s created opportunities for these “entrepreneurs from below,” which were very often FBs, this “army of entrepreneurs,” through institutional innovations, mutual monitoring and enforcements in crosscutting networks of like-minded actors, generated a social dynamic which allowed the adoption of formal rules and better protection and enforcement of property rights.²⁴ In Vietnam in the 1990s, companies put in place their own institutional arrangements to compensate for the inability of the state to impose the rule of law: contracting took place without formal laws, and companies—most of them FBs—used other instruments, like scrutinizing potential trading partners or trust developed through longer duration of trading.²⁵ Moreover, an institutionalist framework to study FBs is especially relevant in LDCs where there are interrelations between social, political and economic changes. In South-East Asia, the governance of Chinese FBs is embedded in the traditional system of inter-personal relations based on trust known as *guanxi*.²⁶ Chinese family structures have changed in order to make FBs more conducive to modern economic activities—the balance of power is more favorable to younger generations and women in the governance system—but the maintenance of deeply felt family obligations makes it possible to have a devoted workforce in FBs.²⁷ Family businesses in LDCs are also indicative of inter-

²²Kornai, “The Hungarian Reform Process.”

²³For the relationship between a FB and its societal environment, see Tagiuri and Davis, “Bivalent Attributes of the Family Firm.” For the relationship between a FB and its political environment, see Carney, “Minority Family Business in Emerging Markets.” For the relationship between a FB and its cultural environment, see Whyte, “The Chinese Family and Economic Development” and Kiong and Kee, “Guanxi Bases, Xinyong and Chinese Business Networks.”

²⁴A large number of the companies created by these entrepreneurs are FBs. See Nee and Oppen, *Capitalism from Below*.

²⁵McMillan and Woodruff, “Interfirm Relationships and Informal Credit in Vietnam”; McMillan and Woodruff, “Dispute Prevention Without Courts in Vietnam.”

²⁶Kiong and Kee, “Guanxi Bases, Xinyong and Chinese Business Networks.”

²⁷Whyte, “The Chinese Family and Economic Development.”

relations between the political and the economic system. FBs as organizations, due to some special “qualities” (concentration of power, long-term view, secretive culture), can develop “privileged” relations with the political system.²⁸ Nevertheless, it has also been proved that, in some cases, state policies have also had a deep impact on FBs: public policies supported the development of FB groups in South Korea and Malaysia but could also be considered as detrimental to their interests, for example in India after independence.²⁹

FBS as a Mode of Coordination in Iran

Before the 1979 revolution, FBs dominated the Iranian economy. By the mid-1970s, the private sector represented 75 percent of industrial production.³⁰ Most of the largest companies were FBs, with 85 percent of the largest privately owned firms owned by forty-five families.³¹ Successful entrepreneurs like Mahmoud Ladjevardi (who created the Behshar Group), Mohamad Taghi Barkhordor (Pars Electric) and Mohammad Rahim Motaqi Irvani (Kafsh Melli) were then a reality. They benefited from a booming economy due to increasing oil revenues, but also demonstrated exceptional qualities in terms of leadership.³² After the revolution, banks, insurance companies and many large manufacturing enterprises were nationalized.³³ According to Article 44 of the 1979 Constitution, a large section of the economy had to be publicly owned.³⁴ Since then, the private sector has only controlled around 20 percent of GDP.³⁵ In addition, the average size of FBs has been considerably reduced. For example, in 1976, in the manufacturing sector, companies were divided in terms of size between 5,432 large companies (more than ten employees) with 98 percent of them belonging to the private sector, and 165,000 small companies (of fewer than ten employees) from the private sector.³⁶ In 2002, in the manufacturing sector, one could find 16,305 companies of more than ten employees (most of them

²⁸Morck, Wolfenzon, and Yeung, “Corporate Governance, Economic Entrenchment, and Growth.”

²⁹Khanna and Yafeh, “Business Groups in Emerging Markets.” In this article, the authors do not use the expression FB but most of the groups considered are FBs.

³⁰Shambayati, “The Rentier State, Interest Groups.”

³¹Ibid.

³²See the monographies of, respectively, Ladjevardi (Saeidi and Chirinkan, *Muq'iat-i tojār va šāhebān-i šanā' dar dowreh pahlavi: sarmāyedāri*), Irvani (Saeidi and Chirinkan, *Muq'iat-i tojār va šāhebān-i šanā' dar dowreh pahlavi: zendegi*), and Barkhordor (Saeidi and Chirinkan, *Muq'iat-i tojār va šāhebān-i šanā' dar irān asr-i pahlavi*).

³³Rashidi, “The Process of De-privatization in Iran”; Behdad and Nomani, *Class and Labor in Iran*.

³⁴Rashidi, “The Process of De-privatization in Iran.”

³⁵Keshavarzian, *Bazaar and State in Iran*.

³⁶Source: Salnāme Amari 1361 (statistical directory for 1982)—SCI, Iran for the data on the number of manufacturing establishments of more than ten employees; Behdad, “Production and Employment in Iran: Involvement and De-industrialization Thesis,” 100, for the data on the number of manufacturing establishments of fewer than ten employees. In 1976, according to Salnāme Amari 1361 (statistical directory for 1982)—SCI, 98 percent of the large manufacturing establishments (more than ten employees) belonged to the private sector.

belonging to the public sector) and 426,117 of companies of fewer than ten employees (belonging to the private sector).³⁷ In the private sector, the average number of working-class employees per employer declined from 16.3 in 1976 to 3.1 in 2006.³⁸ Besides, the percentage of self-employed people in the employed population aged ten or over (who may rely on the work of unpaid family workers) increased from 31.9 percent in 1976 to 35.1 percent in 2015.³⁹ Moreover, the nationalization process traumatized the Iranian private sector as the most successful entrepreneurs were suddenly accused of “collaboration” with the previous regime and their assets confiscated.⁴⁰ Uncertainties in the business environment were amplified afterwards, due to the war with Iraq and economic sanctions, especially from the US.⁴¹ Iranian FBs have also had to face the regular use of violence by quasi-public organizations to suppress competition.⁴² These quasi-public organizations are composed of companies belonging to the *bonyād* and the Islamic Revolutionary Guard Corp (IRGC). The *bonyād* are quasi-public organizations created after the revolution: they became the owners of the companies confiscated from private businessmen. Benefiting from tax exemptions and political support, some of these organizations have become huge.⁴³ The IRGC, the ideological army of the regime, also developed significant economic activities.⁴⁴

My fieldwork confirmed the interest of considering FBs in Iran as a mode of coordination for three reasons.

³⁷Source: Hafdehtan, “Āsib shenā va paidār sāz eshteghāl,” 11. Considering the usual estimation of the weight of the public and para-public sectors in the Iranian economy, as stated by Keshavarzian (*Bazaar and State in Iran*, 168), it can be assumed that, in 2002, around 80 percent of the large manufacturing establishments belonged to these sectors. Under this hypothesis, one can consider that the percentage of establishments of fewer than ten employees rose from 97 percent in 1976 to 99 percent in 2002. There has been no official publication of the number of manufacturing establishments of fewer than ten employees by the SCI since 2002. There is no indication that this industrial structure, characterized by the coexistence of a small group of mostly large public establishments, and a large number of very small private companies, has changed since. One can rather see a decline of 10 percent in the number of manufacturing establishments of more than ten employees between 2006 and 2014 (Source: *Iran Statistical Yearbook* 2015).

³⁸Behdad and Nomani, *Class and Labor in Iran*. This trend has not been modified since 2006, considering the instability of the macro-economic environment, the implementation of nuclear-related sanctions since 2007 and the absence of policies supporting the private sector.

³⁹Saeidi and Chirinkan, *Muqīat-i tojār va šāhebān-i šanāī dar dowreh pahlavi: sarmāyedāri*; Saeidi and Chirinkan, *Muqīat-i tojār va šāhebān-i šanāī dar dowreh pahlavi: zendegi*; Saeidi and Chirinkan, *Muqīat-i tojār va šāhebān-i šanāī dar irān ašr-i pahlavi*.

⁴⁰Source: SCI.

⁴¹On the impact of the Iran–Iraq war on the Iranian economy, see Amuzegar, “The Iranian Economy before and after the Revolution.” On the impact of sanctions, see International Crisis Group, “Spider Web.”

⁴²Vahabi, “An Introduction to Destructive Coordination”; Vahabi, “Ordres contradictoires et coordination destructive.”

⁴³Maloney, “Agents or Obstacles?” and Saeidi, “The Accountability of Para-governmental Organizations.”

⁴⁴See Harris, “The Rise of the Subcontractor State” and Coville, “The Economic Activities of the Pas-daran.”

FBs in Iran as a mode of coordination closely associated with a low-trust environment. Lack of enforcement of contracts raises the transaction costs of companies.⁴⁵ In Iran, this led to a low-trust environment. There is a distinction between vertical trust—trust in public institutions—and horizontal trust—trust in others.⁴⁶ Vertical trust relates to the ability of legal and administrative systems to operate fairly.⁴⁷ Horizontal trust is generalized trust in other people. In Iran, since the revolution, both vertical and horizontal trust, are very low. The interviews reflect a perception of the legal system characterized by favoritism (leading to low vertical trust) and limited trust in others, outside the family, as “social corruption” (meaning a general disrespect for the rule of law) seems widespread.⁴⁸ This low horizontal trust might be the result of a complex business environment since the revolution: in the semi-liberalized economic system since the 1990s, the increasing importance of smuggling and its interactions with “licit” activities, have led the private businessman to permanently risk being arrested, a situation which obviously limits horizontal trust networks.⁴⁹ For example, the increasing importance of the individual and of economic calculation in everyday business activities after revolution caused some *bāzārī* to participate in smuggling activities, which led implicitly to a disregard for the traditional “code of honor” regulating social relations in this community, and obviously to a lower horizontal trust.⁵⁰ In such a low-trust environment, the FB, with its emphasis on loyalty, is the most suitable mode of coordination. After the revolution, FBs preferred not to have non-family shareholders. Banfield described life in the south of Italy, where there is a complete distrust of the external world outside the family.⁵¹ The situation was somehow similar in Iran, where the social environment was considered “corrupt.” Moreover, there was also a deep distrust of public institutions like the judiciary. The FB was then seen as a way to limit contacts with the “external” world and public institutions.

FBs as a mode of coordination protecting “modernity” in Iran. There has been a “modernization” of Iranian society since the revolution. There was a spectacular demographic transition since the revolution: the fertility rate has decreased from 6 in the

⁴⁵North, “Institutions.”

⁴⁶Eek and Rothstein, “Exploring a Causal Relationship between Vertical and Horizontal Trust.”

⁴⁷Susan Rose-Ackerman, “Trust and Honesty in Post-Socialist Societies.”

⁴⁸This expression was used by one of the interviewees, meaning that the external world looked dangerous.

⁴⁹Adelkhah, *The Thousand and One Borders of Iran*. Fariba Adelkhah describes the interrelations between licit and illicit (smuggling) activities. It is hard to believe that smuggling cannot be associated with some degree of horizontal trust as these illicit activities can, for example, generate evergetism. Nevertheless, due to the anxiety of being caught by the police, in the end smuggling limits horizontal trust.

⁵⁰Erami and Keshavarzian, “When Ties Don’t Bind.” *Bāzārī* defines a trader specialized in import-export business in traditional Iranian bazaars. This case reflects the transition in Iran from a relation-based system to a rules-based system (see Adelkhah, *Être moderne en Iran*). This transition, if it is not achieved, could have a detrimental effect on horizontal trust.

⁵¹Banfield, *The Moral Basis of a Backward Society*.

1980s to 1.7 in 2016.⁵² The mean age for first marriage for women has increased from 19.7 in 1976 to 23 in 2016.⁵³ This demographic transition in Iran has transformed the model of the Iranian family, especially in cities, from an “enlarged” family based on a patriarchal order, to a nuclear one where relations between parents and children are more balanced, similar to the western family model.⁵⁴ The Iranian modernization process has been characterized by four elements.⁵⁵ There is an increasing influence of the autonomy of the individual in opposition to the group to which they belong; this has led some groups like the young and women to be willing to choose their own “lifestyle.”⁵⁶ There has also been a rationalization and bureaucratization effort by the state with an emphasis on expertise, which has affected Iranian society.⁵⁷ Another characteristic is the increasing influence of capitalist relations since the revolution.⁵⁸ Iranian society has also been interacting with globalization through the role of technologies of communication and relations with the Iranian diaspora.

In this context, FBs were a mode of coordination protecting the aspiration to modernity of Iranian families. These families were attracted to the idea of the FB sheltering them against a threatening political order. After the revolution, a policy of discrimination against women was officially applied, especially through the legalization of gender inequalities with the ending of the Family Protection Law and the imposition of Islamic dress.⁵⁹ The FB was seen as protection for women against these policies. For example, the new law on heritage considered that a woman’s value should be half of a man’s. Many FB owners gave shares to their wives when they created their FB, using “company law” as a protection against religious law (*shari’a*). In Iranian FBs, the emergence of new values like competency led to the hiring and promotion of women at a time when there was more discrimination against them in the public sector. Again, the defense in FBs of a social order defending “modern” values like efficiency protected women against the prejudices of religious law. The imposition of an Islamic moral order after the revolution could also be considered as a threat for the young.⁶⁰ The

⁵²Source: World Bank.

⁵³Source: SCI.

⁵⁴Ladier-Fouladi, “La famille en Iran.”

⁵⁵See Adelpkhan, *Être moderne en Iran*.

⁵⁶Higher education and the development of new communication technologies led the young generations to aspire to more freedom “not in an abstract way, not only in the realm of ideas, but in matters pertaining to daily life,” especially in large cities (see Khosrokhavar, “Two Types of Secularization.” In 2016, 49.1 percent of the Iranian population was under 30 years old and 74 percent lived in urban areas (Source: SCI).

⁵⁷This is a clear reference to Max Weber’s view of bureaucratization as an expression of modernity. See Weber, *Économie et société 1*.

⁵⁸This can also be associated with Weber’s view of capitalism and its rationality being linked with modernization. See Weber, *The Protestant Ethic and the Spirit of Capitalism*.

⁵⁹This law, voted on during the previous regime, gave equal rights to women for divorce and child custody. *Shari’a* law was imposed and women were encouraged to stay at home and to devote themselves to motherhood. See Keddie and Richard, *Modern Iran: Roots and Results of Revolution*.

⁶⁰Coville, *Iran, la révolution invisible*, 84–7.

FB was an instrument used to “protect” children. Their employment in the FB was a way for the business owners to protect them from an external world considered dangerous while providing them with a job.

FBs as a mode of coordination protecting property rights. Historically, the development of vertical trust guaranteeing law enforcement and protection of property rights was a key factor behind economic development. The importance of “vertical trust” for economic development was reflected by the emergence of merchant guilds during the late medieval period: they developed the necessary instruments to enforce agreements with rulers and enabled trade expansion.⁶¹ Other institutions important for building vertical trust are Community Responsibility Systems.⁶² These institutions put coercive local power in the hands of those who benefited from impersonal exchanges. That provided the local courts with an incentive to protect the property rights of alien merchants and promoted trade. Institutions guaranteeing the protection of property rights do not exist in Iran. The confiscation and nationalization that took place after the revolution led to real trauma in the private sector, which considers that the risk of expropriation is still high. Moreover, since then *setād*, an organization under the direct authority of the Supreme Leader, and independent from the government, has confiscated a large amount of property, assets and stocks.⁶³ The IRGC has regularly used “pressure” or “violence” to seize ownership of private companies.⁶⁴ FBs became a very efficient mode of coordination to organize an “economy of escape” due to this “predatory” political order.⁶⁵ The FB could develop governance mechanisms that would be ready to protect the family income in the event of risks of predation: a double accounting system (the official one being prepared in case of nationalization), the hiding of large amounts of cash, the accumulation of very liquid assets, etc. Iranian FBs also developed strategies to be as “secretive” as possible. The family-owner would go abroad and transfer management to a trusted employee or another family member. Another strategy was to limit the size of the company. For all these operations, the FB, with its emphasis on trust among its employees, was a suitable organization.

FBs in Iran as a Mode of Coordination Related to a Low-Trust Environment

In Iran, trust inside FBs is important, because of a pronounced distrust of the external environment. This reflects a general lack of trust in formal institutions. Several interviewees referred to the lack of legal protection, “especially if you haven’t the right

⁶¹Greif, Milgrom, and Weingast, “Coordination, Commitment, and Enforcement.”

⁶²Greif, “History Lessons.”

⁶³*Setād*, or *setād-e ejrāi-ye farmān-e emām*, was originally created in 1989 by the Ayatollah Khomeini to manage property without any owner and to use the revenues generated to finance social activities like supporting the families of the martyrs of the war with Iraq. It gradually became a large conglomerate (its total assets were estimated at \$95 billion in 2013). It is used to finance the administration working for the Supreme Leader (see Secklow, Deghanpishheh, and Torbati, “Assets of the Ayatollah”).

⁶⁴Coville, “The Economic Activities of the Pasdaran.”

⁶⁵Vahabi, *The Political Economy of Predation*.

connections.” One referred to the erratic application of the rule of law. Others would talk of a threatening environment after the Revolution due to the development of “social corruption.” Several managers criticized the inefficiencies of commercial justice which led Iranian businessmen to prefer to work within the family because they feared that, in the event of a dispute with non-family partners, it would be impossible to resolve it in court. Interviewees shared the view that the government only “protected” “insiders.” The perception is that one cannot trust the government because it is not fair and advantages its “cronies.” Interviewees made a distinction between real “entrepreneurs” and “rent-seekers” able to obtain special advantages due to their connections with the state. Some interviewees call these rent-seekers, *khoşulati*: these companies are successful only because they get special advantages from the government.⁶⁶ According to one interviewee, “the system is not fair because these [non-productive] people would not be able to manage a grocery store or a bakery!” Managers of FBs consider that the government has created “rules of the game” which allow these *khoşulati* to prosper. One interviewee said: “there is an unwritten rule in Iran: who are your friends?” For one interviewee, “the government does not want proper institutions to develop because it would lead to less rent-seeking activities for its cronies.” Another declares that he “refuses a state that gives advantages to some and deprives others.” The perception is that the government has created “rules of the game,” to use Baumol’s expression, which have favored the unproductive and well-connected.⁶⁷

There is clearly a deficit of vertical trust in Iran since the revolution. There is both a top-down explanation for this lack of vertical trust—the unfairness of the law and order institutions—and a bottom-up explanation—high levels of economic inequalities leading to high levels of corruption and a perception of the legal system as unfair.⁶⁸ The state being considered by some as inefficient and unfair, it is logical to avoid taxes: one FB manager said, “FBs prefers to pay *khoms* and *zakāt* because at least they can give access to Paradise ... if we pay our taxes to the government, we don’t know what will happen.”⁶⁹ FBs do not consider the state as acting in the general interest and this de-legitimization of the state can justify fiscal avoidance.⁷⁰

⁶⁶*Khoşulati* is a word created through the contraction of *khoşuşi* (private) and *dūlat* (public).

⁶⁷Baumol, “Entrepreneurship: Productive, Unproductive, and Destructive.”

⁶⁸For the top-down explanation of the lack of vertical trust, see Rothstein, “Creating Trust from Above.” For the bottom-up explanation, see Uslaner, “Trust and Corruption” and Uslaner, “The Bulging Pocket and the Rule of Law.” Inequalities in income distribution in Iran have been high since the end of the 1980s (see Salehi-Isfahani, “Poverty and Income Inequality”).

⁶⁹According to the Quran, Muslims should show their solidarity with the poorer classes. In the Quran, *zakāt* and a tax called “a fifth” (*al-khoms*) are presented as taxes for the poor. The *khoms* are important among Shias. In Iran, it is considered a duty for the believer to pay these taxes directly to the clergy (see Saeidi, “The Accountability of Para-governmental Organizations”). Besides, this comment reflects a reluctance to pay taxes directly related to a lack of trust in the government. This does not mean that the Iranian private sector does not pay taxes. According to the Central Bank of Iran, tax revenues have increased from 5.4 percent of GDP in 1980 to nearly 8 percent in 2016.

⁷⁰In a recent interview, a member of the Iran Chamber of Commerce explained the large number of private companies dissimulating information from the authorities by the fact that those which were transparent paid too many taxes and social contributions. He also said that the private sector will pay its taxes

This lack of vertical trust has also led to a “strategy of discretion.” One FB manager declared that some small FBs do not reveal their real addresses, do not have any sign-boards describing their activities and do not keep a register of their employees as they do not want to pay social contributions. This lack of vertical trust has also generated a deficit of horizontal trust. The inefficiencies of the legal system have led people to avoid working with potential partners due to potential conflicts: it is considered safer to work inside the family. That confirms the complementarity between vertical and horizontal trust.⁷¹ Nevertheless, in some cases FBs could also develop horizontal trust in order to compensate for the lack of vertical trust. One interviewee referred to a situation where, due to the loss of a public contract for “political” reasons (the contract being allocated to a para-public company), the company nearly went bankrupt: “the employees decided to stay and to work for several months without any salary until the company was profitable again.” Another referred to an “emotional relationship” with clients, that can lead to the acceptance of payment delays and the avoidance of commercial legal proceedings. This confirms the ability, in some cases, of a private order to be a substitute for a non-functioning public order as experienced in Central and Eastern Europe.⁷²

The interviews did not describe an absolute distrust of public institutions and of the rest of the population. Some, especially the younger entrepreneurs, considered that institutions like commercial justice were working slowly but adequately. Other interviewees rejected the view of a complete opposition between trust in the family and distrust in “external” institutions. Some referred to the fact that “there are families where there is a new dispute every day.” So the interviewees consider that it depends on the type of family involved. Besides, trust is not always absolute inside the family. One interviewee told me that nowadays, in FBs, spouses or children are worried about the individual consequences of financial difficulties of the company: “a payment default by the company could lead to a prohibition to leave the country for the shareholders and my wife is worried.” This distrust of public institutions is more common among the older generations who have experienced the trauma of the nationalization process and are accustomed to a world where social relations with relatives are the only means to survive. The younger and more individualistic generation seems less sensitive to this perception and one interviewee considered that “the young generation is more willing to start companies with friends.”

Nevertheless, quasi-general distrust in public institutions and low “generalized trust” have created a “low trust” environment where FBs can survive. According to agency and transaction cost theories, FBs, with their trust-based relations, have the ability to succeed in such an environment.⁷³ But post-revolution, public institutions

when all “other organizations” pay their dues. This proves again the lack of vertical trust among Iranian FBs related to a perception of government actions as “unfair.” See Amsiran, “Ziān chafofiāt mali baroyeh bakhch.”

⁷¹Rothstein, “Creating Trust from Above.”

⁷²McMillan and Woodruff, “Private Order under Dysfunctional Public Order.”

⁷³Fama and Jensen, “Agency Problems and Residual Claims”; Pollak, “A Transaction Cost Approach to Families and Households.”

were not only perceived as inefficient, but also as unfair—benefiting the insiders—and even threatening, due to the trauma of nationalization and the use of violence by new “quasi-public” competitors. The Iranian case confirms that the “perceived” lack of fairness of public institutions usually leads to a deep distrust of public institutions and low general trust.⁷⁴ One can see that, in Iran, the FB is not only a governance structure adapted to a low-trust environment. In Iran, the unfairness of the “rules of the game” made the survival of FBs based on pure economic rationality highly problematic and the FB, as a mode of coordination based on family solidarity, had the necessary resilience to survive.

FBS in Iran as a Mode of Coordination Protecting “Modernity”

After the revolution, the state put in place a new “moral order” based on Islamic law which led to discrimination against women. In such an environment characterized by a threatening political order, the FB could be considered as a refuge. More specifically, the FB could, in some cases, give support to women against discrimination. One female owner-director said that she created a FB because she needed moral support, as the sector in which she wanted to start a company was known for gender discrimination. Another noted that due to inheritance laws, female entrepreneurs did not usually have enough assets to provide collateral and could not get financing from the banks, and so had to rely on the family to start their businesses.⁷⁵ The FBs also used commercial law to defend women’s rights. According to the interviewees, most Iranian managers who created FBs gave shares of the company to their wives, opposing the Islamic inheritance law in Iran which states that a woman accounts for half a man. More generally, interviewees gave a positive appreciation of women in the workplace. “Women are more loyal in business. They give greater attention to detail.” “They are more efficient and courageous than men.” “I have always preferred to work with women than men: men often talk too much; women are more concentrated on their task.” Most acknowledged that there are few women who run FBs. But several directors gave me examples of women who were highly successful in managing FBs. Most of the directors told me that they would not have any problem with their daughter succeeding them (if she was qualified). This does not mean that there are no obstacles to the presence of women in management positions in FBs. One of the women interviewed referred to the huge “government pressure” exerted on women who work. Another remarked that the difficulties she had to get access to bank credit when she created her company had more to do with society’s reluctance to

⁷⁴Rothstein, “Creating Trust from Above”; Uslander, “Trust and Corruption”; Uslander, “The Bulging Pocket and the Rule of Law.”

⁷⁵These two women interviewed are considered as very successful entrepreneurs in Iran in sectors (transport and energy) traditionally dominated by men (see Table 1). Nevertheless, it is in the public sector (health, education) where there is the highest share of women in the workforce: see International Monetary Fund, *Islamic Republic of Iran: Article IV Consultation*, 20. It is also true that there is widespread discrimination lowering women participation in the Iranian labor market: see International Monetary Fund, *Islamic Republic of Iran: Selected Issues*, 18–22.

let women manage companies than with official banking policies. The FB can also be considered as a refuge for the whole family, especially for children, as the new Islamic moral order put pressure on them: one interviewee said that “The father had to create a FB to protect the family from the state.” Besides, very often, the objective of providing jobs for children was put forward as a reason for creating a FB, which reflects a lack of trust in the efficiency of the labor market. Anecdotal evidence shows that FBs also provided a safe harbor for people who, due to their political views, were barred from employment in the public sector. Some research partly relates the creation of a large number of very small companies (mostly FBs) in Iran after the revolution to a strategy by the middle-class elite, forced out of the public sector, to make a living and stay out of reach of the government.⁷⁶

This ability of the FB to defend a modern social order is, in fact, related to its adaptation to new societal dynamics. First, Iranian FBs were able to change in order to give a central role to competency as a core value. All interviewees stressed the importance of expertise in their company. One even said that “My family name can open doors, but ultimately it will be my expertise which will make a difference.” Several times, interviewees reported that they have fired incompetent relatives. In another case, one refused to hire his father because he knew he was not fit for the job. An interviewee said that he preferred his financial director to succeed him because his son was not prepared. Others consider that “nepotism is more prevalent in the public sector than in the private sector.” This does not mean that nepotism has completely disappeared from Iranian FBs—some interviewees referred to cases they knew where an incompetent son had put the FB in trouble—but emphasis on expertise is now prevalent. Reflecting these changes, an interviewee said that “processes like reporting and performance measurement are more important than relations.” Expertise has superseded all other values: “I don’t care if my successor is a man or a woman, young or aged, all I care about is for my successor to have the ability to manage the company.” “We say to our employees that they have to prove their religiosity in their behavior, which implies ... providing the best products for the population.” This has also led to more participative management: “if I grant more importance to others’ ideas, my company is more efficient.”

Furthermore, FBs had to adapt to the deep internal changes in the family power structure. The traditional Iranian family based on a patriarchal model is no longer the norm in Iran. There is a consensus in the panel that “the young are more educated now.” The development of information technology has led to a certain loss in the authority of the fathers in FBs because “fathers do not understand anything in e-commerce.” This has changed the organization of FBs: there is now greater communication between the father and his children. Some managers have changed their own behavior. One said that the traditional model of a *bāzārī* FB where there is unconditional acceptance of the father’s authority and where “the children first learn to do the cleaning in the company” had to change. “I prefer to take my son by the hand to go along the way with him,” said another. Very often, fathers would recognize the

⁷⁶Khalatbari, “Iran: A Unique Underground Economy.”

importance of considering their children's preferences: in several cases, they insisted that their children were working in the FB because they wanted to (or that they would decide in the future to work in the FB if they liked it). Nevertheless, this increasing assertiveness of children has led to some conflicts. In some cases, the father still wants to impose a hierarchical mode of management and that creates tensions with the children. Several managers even considered that "culturally, Iranians just don't know how to work as a team, even in the family." In several cases, the father-manager had distributed shares to his family for fiscal reasons. The children (and wives) then went to court to defend their rights as shareholders. According to some interviewees, children want to have responsibilities very early, whereas before the revolution, children would listen to their fathers and would accept lesser responsibilities at the beginning. Several managers also emphasized that their children were not prepared to succeed them because they did not want to work too hard. One said that "we were the generation which would eat the skin of watermelons. Today the opposite is true as the parents eat the skin and leave the best part to their children." The increasing assertiveness of children in FBs does not mean that their organization has been completely transformed. There is respect for the "father" in every FB. Several FB directors declared that they learnt a lot from their fathers. And in most companies the father commands the company from the top. But blind acceptance of the father's authority is no longer the norm in Iran.

All these changes in FBs took place with family solidarity preserved. One FB head referred to one of their values, respect for elders, and said that they were employing very old relatives. All these transformations show the ability of the Iranian FB to be a key intermediary between social and economic changes. One could consider that these new societal dynamics associated with a higher average level of education had a deep impact on FB values and organizations. But these changes, like the emphasis on competency, may also be a sign of economic pressures due to competition.⁷⁷ Again, the Iranian FB cannot only be considered as a governance system. It is a mode of coordination which has been very effective in defending a modern view of society in opposition to the Islamic moral order legalized after the revolution.

FB as a Mode of Coordination Protecting Property Rights

It is also possible that this distrust of formal institutions is not due to the explicit inefficiencies of institutions but to a perception by some FBs of these official institutions as threats. For one interviewee, "nationalization has been more destructive for the Iranian economy than the war with Iraq." There is a fear in the Iranian private sector that private companies could once again be exposed to this risk of expropriation.⁷⁸ Such a fear is amplified by a sense of fragility as the public sector controls

⁷⁷Some of the interviewees referred to the high level of competition in some sectors like agro-business.

⁷⁸There has been an implicit recognition by the Iranian state that expropriation and nationalization were in fact costly mistakes. One interviewee, whose family owned a famous FB before the revolution, told me that a minister recognized the "great work" that his FB had done.

80 percent of the economy and most private companies are very small. A FB manager said: "In Iran, the relation between the government and the private sector is a relation between a master and his slave." Moreover, the perception has developed that the "rules of the game" do not protect the private sector. This refers to an economic system where predatory behavior from para-public companies can put private business at risk.⁷⁹ These perceptions have led some of the Iranian businessmen interviewed to consider the favorable situation of the private sector in Iran before the revolution as a "lost paradise." They consider that before the revolution, there was a "real" private sector and that is no longer the case: "Before the revolution, we had Ladjevardi, Barkhordar or Hojabr Yazdani ... Their name was their honor. [Today] family businesses don't have such a reputation. Now, they have destroyed all these families."⁸⁰

In Iran, due to the trauma of nationalization and a general perception of the "unfairness of the system," the risk of nationalization is seen as real and it is difficult for the authorities to issue a "credible commitment." These concerns have been amplified with the existence of competing political orders since the revolution. The new para-public economic entities belonging to the Foundation and the IRGC are only accountable to the Supreme Leader. These para-entities are independent from the Iranian state and government. In this context, the "violent" and sometimes "predatory" behavior of these para-public entities has given them the ability to easily buy out profitable public or private companies or "eliminate" them if they are serious competitors.⁸¹ These para-public entities could for example buy a large number of public companies in total opacity during the different periods of privatization at the beginning of the 1990s and in the mid-2000s. This environment has led to a huge uncertainty in the Iranian private sector about the protection of property rights. One interviewee even said: "The reality is that our government does not want a powerful private sector ... As soon as a private company gets bigger, the government takes over ownership". Iranian history since the revolution demonstrates that it is difficult for a government to issue a "credible commitment"—defined by Williamson as a situation that, once the private investments have been made, there will not be an expropriation—when numerous economic actors have lived through the era of confiscation.⁸² That was the case for example during the reform process in Hungary, where the majority of the people working in the private sector or their parents had lived through the era of confiscation in the 1940s.⁸³

Coherent with such a vision, the Iranian state is now considered by some as dangerous. FBs have the ability to deal with these institutional constraints, especially the necessity to be secretive. As most of the FBs are very small, it is possible for them to have few tangible assets. This makes them very flexible and able to quickly transfer

⁷⁹Vahabi, *The Political Economy of Predation*.

⁸⁰Hojabr Yazdani was a famous banker during the Mohammad Reza Pahlavi reign.

⁸¹Williamson, "Comparative Economic Organization."

⁸²Vahabi, "An Introduction to Destructive Coordination"; Vahabi, "Ordres contradictoires et coordination destructive."

⁸³Kornai, "The Hungarian Reform Process."

money abroad or reinvest in another activity. This flexibility allows them to be ready for short-term opportunities. One interviewee said: “The whole concept in Iran is how to make easy money in a very short time ... because people feel insecure and the state is the cause of insecurity.” This flexible capital can be easily mobilized for speculative activities. Another FB manager said: “Why should one take the risk of producing under the threat of expropriation? People prefer to build shopping centers and housing.” This policy of maintaining a high level of liquidity of assets has been the usual strategy of FBs in LDCs where there are weak property rights.⁸⁴ Moreover, trust inside the company affords the ability to be very reactive and flexible in such a risky environment.⁸⁵ The owner of one FB had to leave Iran just after the revolution. So, the interviewee started to manage the company in Iran and kept the owner informed about its activities. The FB, with its code of ethical conduct, could manage to adapt to such situations. This fear of government expropriation has also led FBs to adopt a policy of dissimulating any information on the financial situation of the company. One FB manager declared that “people create FBs because they don’t want to reveal their secrets.” Another associated the “usual practice in FBs of accounting dissimulation” with “a judicial system which is terrible at protecting property rights ... They still want to protect private property in the sixth development plan when it was already an objective after the revolution.”⁸⁶ Moreover, several interviewees said they had created several companies, related or not to their main area of activity: this could be due to a desire to avoid too much concentration of capital in order to protect their wealth against the risk of expropriation.⁸⁷ This strategy of Iranian FBs confirms an environment characterized by the fear of the state as a “predator”: in such an environment, there is a preference for assets which are mobile and hard to appropriate, because of their dispersion and the difficulty of measuring them.⁸⁸

Again, the ability of FBs to resist the predatory economic order in post-revolutionary Iran reflects qualities which are not only those of a governance structure. The FB, confronted with the violence of para-public groups and the government’s inability to make “credible commitments” in terms of property rights protection, has had to rely on family trust-based relationships. This gives the FB the ability to develop the flexible strategies that have allowed its survival so far.

⁸⁴Carney, “Minority Family Business in Emerging Markets.”

⁸⁵One can suppose that the increase of the risk associated with business activities since revolution has been the result of the “predatory” activities of state and para-state organizations. But this increasing risk of economic activities has also been the result of a very volatile environment due to the implementation of sanctions on the Iranian economy. During the period 2010–19, the Iranian economy, according to the IMF, has experienced five years of recession, mostly due to international sanctions. One can then consider that the FB with its flexibility also has the ability to survive in such a volatile and risky business environment.

⁸⁶Economic policy in Iran is based on five-year development plans. Here, the interviewee is referring to the preparation of the sixth Development plan (2016–21).

⁸⁷One FB, for example, had one company active in property development and the other in its main activity. Another had created several companies and each was producing a distinctive product.

⁸⁸Vahabi, *The Political Economy of Predation*.

Conclusion

This article has demonstrated that an institutional perspective considering FBs in Iran as a mode of coordination is better adapted to the Iranian situation since the revolution than frameworks analyzing this organization exclusively as a governance structure. The societal dynamics in Iran reflect a preference among economic players for a “new” behavior, based on professional expertise and the respect of processes, more autonomy from the family, respect for the law and rejection of violence, etc. In a sense, this evolution of behavior in the Iranian middle class could be related to the long-term historical changes in social attitudes which generated civilization of manners from the sixteenth to the eighteenth century.⁸⁹ It might reflect a social dynamic in Iran which started at the end of the nineteenth century with the first protests against despotism.⁹⁰ Obviously, the FB as a mode of coordination was very efficient in supporting this class demand for change. Above all, since the revolution, the FB in Iran has fulfilled three important functions, all related to the issue of trust. First, it is used as a mode of coordination to be able to survive in a low-trust environment characterized by distrust in public institutions and in the rest of society. It is also used a way to protect social dynamics aiming at modernity in Iran (especially through the employment of women) against the impact of religious laws. Lastly, it is also used as a mode of coordination to protect private property against a political order perceived as “predatory.” In the present Iranian context, this study should be completed by further research on the necessary sequencing of political and economic reforms required by FB managers in their demands for modernity.⁹¹

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⁸⁹Elias, *The Civilizing Process*.

⁹⁰Keddie and Richard, *Modern Iran: Roots and Results of Revolution*.

⁹¹Modernity here refers both to the long-term changes in manners which led to a psychologization of the self (see Elias, *The Civilizing Process*) and to the spread of a capitalistic ethos based on rational calculation (see Weber, *The Protestant Ethic and the Spirit of Capitalism*).

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