

HISTORICAL ANTECEDENTS SHAPING CORPORATE REPORTING IN IRAN

Ali Yafthian*, Victoria Wise**, Soheila Mirshekary***

Abstract

This research paper examines the evolution of corporate reporting and governance in Iran over the last century. The approach adopted was to provide an historical perspective to examine the environment within which Iranian corporate reporting has emerged and been shaped. An historical framework allows the study to focus on the evolution and development of corporate reporting practice in Iran. By adopting an historical framework, this study is able to inform future research based on models that adopt an evolutionary approach to the assessment of environmental factors on economic systems. The conclusion reached in this study is that socio-economic and political changes during the century have been opportune as drivers of corporate reporting in Iran. The study makes an incremental contribution to the existing accounting history literature for Asia / Middle East / developing countries.

Keywords: Corporate reporting history, Accounting in Iran

* Deakin Graduate School of Business, Deakin University, Australia

E-mail: ali.yafthian@deakin.edu.au

** Deakin Graduate School of Business, Deakin University, Australia

E-mail: victoria.wise@deakin.edu.au

*** Deakin Graduate School of Business, Deakin University, Australia

E-mail: soheila.mirshekary@deakin.edu.au

1. Introduction

Since the 1970s, increasing attention has been paid to the role and influence of environmental factors on the management of business and corporate reporting practices (see Hofstede & Hofstede, 2005; Radebaugh & Gray, 2002; Baydoun & Willet, 1995; Douppnik & Salter, 1995; Perera, 1989; Gray, 1988; Wallace, 1987; Hofstede, 1980).

Wallace (1987) discussed corporate reporting environmental factors as the elements that directly affect contents of corporate reports. Radebaugh and Gray (2002) supported the idea that environmental factors have a significant influence on business and management practices. Perera (1989) argued that corporate reporting practices evolve to suit the circumstances of a particular society at a particular time. Douppnik and Salter (1995) put more emphasis on technological and macro-economic factors and argued that the stage of development affects the type of business transactions conducted in a country and the type of economy determines which transactions are more prevalent.

Gray (1988) drew a detailed figure of various influential and environmental factors on corporate reporting systems. Gray (1988) discusses that societal values are determined by ecological influences modified by external factors such as international trade and investment, conquest, and the forces of nature. In return, societal values have institutional

consequences in the form of the legal system, political system, nature of capital markets, and pattern of corporate ownership and so on. Gray's model (1988) is presented in Figure 1.

The patterns or assumed relationships between environmental factors and corporate reporting have been supported by a number of thinkers. Hooks (2011) argued that the political economy of accounting emphasises the relationship between the political and economic forces of society. Baydoun and Willett (1995) described the relationship as "it seems plausible to suggest the existence of an effect by culture on reporting practices but the mechanisms by which such effect might be transmitted are not immediately obvious". Hofstede and Hofstede (2005) believed the core culture is formed by values. In response to the question of what are the values, they defined them as broad tendencies to prefer certain states of affairs over others. Radebaugh and Gray (2002) described that the origins of culture or societal values can be found in a variety of factors affecting the ecological or physical environment.

In a narrower discussion on corporate reporting environmental factors, Wallace (1987, p.55) with respect to economic, cultural and social development for each country and their effect on development of corporate practices, argued that:

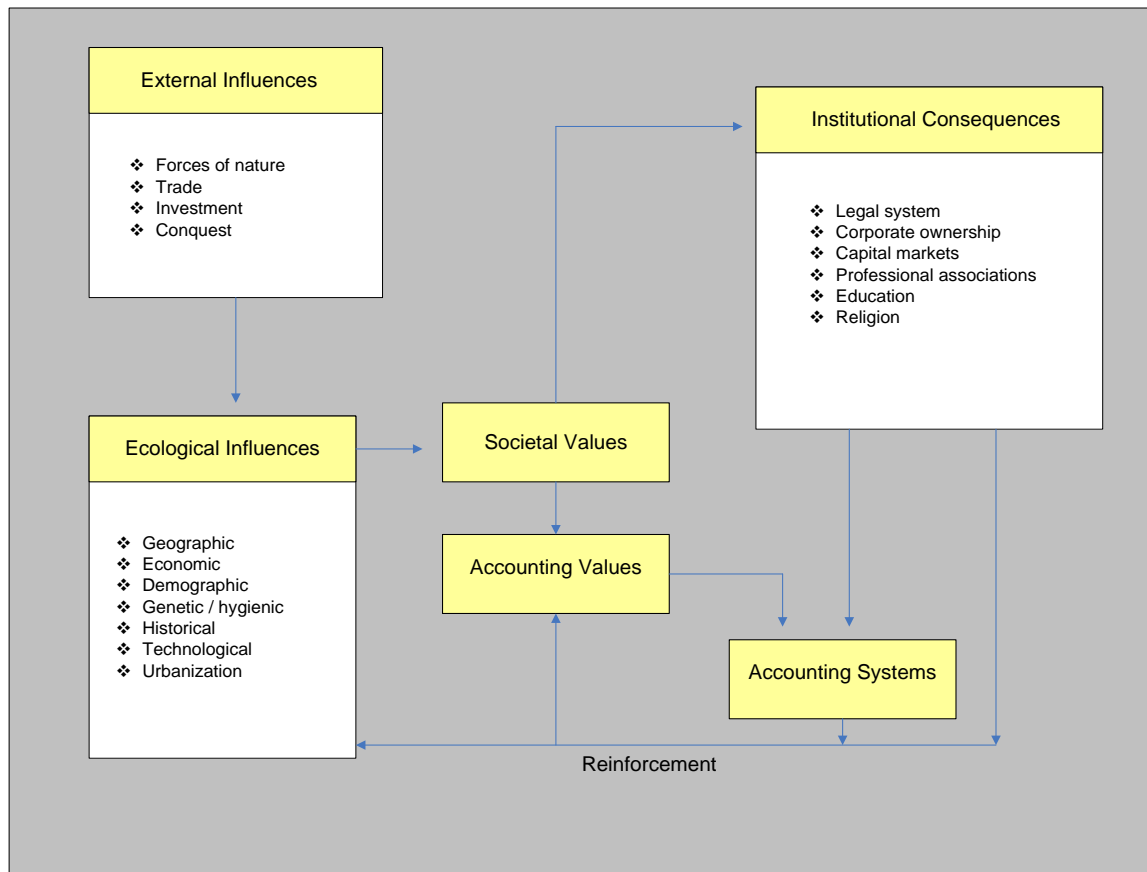
"Social changes such as changes in social values, literacy, social awakening, life style, social mobility, and cultural heritage are bound to create a

need or an expectation for more information because a literate citizen needs more information than an illiterate one.”

On similar conceptual lines, the above analyses suggest that corporate reporting systems/values and societal values/culture are not readily separable. Thus, it can be rationally assumed that environmental factors such as socio-cultural characteristics, economics, education, the accounting profession, reporting standards, and the legal and political systems are factors that collectively and individually

have influence on corporate reporting systems. However, the degree of influence and the mechanism by which each factor influences practices might not be immediately obvious. We agree with the Baydoun & Willett, 1995 and Wallace, 1987, who argued that evolution of a country’s corporate reporting can be better understood if the reader is aware of the characteristics of such a country.

Figure 1. Accounting Systems and Social Values



Source: Gray, 1988, *Abacus*, p. 7

Considering that Islamic nations have mostly been left out of the research on accounting development (Meek & Thomas, 2000), this study contributes to the corporate reporting literature by focusing on the evolution and development of corporate reporting in Iran. In this study we examine Iran and we consider whether institutional factors identified in the prior research might have also had an impact on the extant status of the Iranian corporate reporting environment. To facilitate such an understanding and the contribution, this paper undertakes an examination of the environment under which Iranian corporations operate and report. This examination is conducted and rationalized through a historical framework as it is undertaken within the cultural, social, political and economic context of

corporate reporting in Iran, and reflects on historical developments as drivers of change. The main focus of this study is the existence and roots of corporate reporting practices in Iran. In such an approach, knowledge of the history of corporate reporting is most informative for anyone who wants to influence the future direction of corporate reporting practice and education in any particular nation (Van Wyhe, 2007).

The remainder of this paper comprises six parts. The next part provides a brief discussion of the history of Iran. In part three the economic condition of Iran is covered. In part four, an examination of the legal and regulatory systems is provided. A discussion about the capital market and stock exchange history is presented in part five. The accounting profession and accounting standards in Iran are examined in part six;

and in part seven we provide a summary and conclusions.

2. History of Iran

Iran with more than 2500 years civilization, as one of the oldest of nations, has a very long and rich history. Iranians are descendants of Indo-Europeans (Aryans) who came from the Indian subcontinent about 2000 B.C. Cyrus the Great established the first Iranian Empire as the Achaemenian dynasty in 550 B.C. This became a great empire that encompassed parts of Eastern Europe, Egypt and India. The economy under this dynasty especially during the rule of Darius the Great, was well-regulated and organized upon satisfying the needs of people from the poorest to the richest (Mashayekhi & Mashayekh, 2008). The Sasanian dynasty was established in 224 B.C. In the reign of Sasanian, Zoroastrianism was promoted as the state religion. After a rapid period of expansion, when it contested supremacy with Rome, the empire was destroyed in 651 A.D. by Muslim Arabs at the Battle of Qadisiya. The 7th century Arabian invasion brought the Islamic religion to the country, with important cultural, linguistic, educational, religious and political implications.

As far as accounting, accountability and governance are concerned, the study of public governance in Iran demonstrates the evolution and development of accounting and taxation concepts throughout its long history as a nation. For instance during the reign of Seljuks in the 9th century, various accounting methods were invented in order to keep records of economic activities. One of these methods was called Siagh accounting which was used by public (government) and private sectors to keep records of their revenues and expenditures (Mashayekhi & Mashayekh, 2008).

This period continued with a number of dynasties of the shahs with absolute power, and with more or less the same governing systems until the nineteenth century. The Industrial Revolution in the late 18th and 19th centuries was a major turning point in social, political and economic history of industrialised countries, however the impact of such a revolution appeared much later in Iran. Within the comparative context of corporate evolution, despite a growing interest in industrial modernisation after the 1870s, the role of industry remained very limited in Iran's economy at the beginning of the 20th century (Issawi, 1980). In 1794, Aga Mohammad Khan defeated the last ruler of the Zand dynasty and established the Qajar dynasty. During the Qajar era, government revenues comprised direct tax, property income tax, customs (gifts/bribes) and leases. The first higher education institute to train Iranian youth in medicine and engineering was Dar ul-Funoon, established in 1851. Later in 1892, for the first time a government bond was introduced to Iran's economy (Mashayekhi & Mashayekh, 2008).

In the early 20th century Iran witnessed another significant social-historical event; the rise of the Constitutional Revolution (Mashruteh Movement). In 1906, the first Iranian Constitution was drafted by the first parliament as a consequence of the Mashruteh Movement (Kuniholm, 1980). World War I (1914-1918) had a huge impact on Iran's social, economic and political situation. In 1921, Persian Cossack Brigade officer, Reza Khan, took advantage of this situation and seized power in a coup which ended with the establishment of a new monarchy regime in Iran with Reza Khan (Pahlavi dynasty) at the helm in 1925.

Under his ideas and rules efforts at industrialisation commenced (1925-1941). A socio-economic consequence of this period was the introduction of modern administrative techniques, including accounting for public and private organizations, an extensive system of secular primary and secondary schools and the establishment of the first European style university in Tehran. These reforms broke the power of the religious hierarchy by excluding the clerics from judgeships, creating a system of secular courts, establishing a civil code, the General Accounting Act, a new tax law, and a civil service code.

Reza Khan's modernization reforms effectively took power from the parliament, muzzled the press, imposed heavy taxes on the peasants, and took land away from the big landowners. The 'reforms' were all sources of dissatisfaction. The modernisation dreams were far from reality as the Shah showed no commitment to power sharing in the handling of modernization issues. In politics, he allowed neither democracy nor transparency in any aspect of the governing and rules of the country. Table 1 presents the trend of establishment of modern factories with 10 or more employees 1926-1947.

In spite of the progress of the manufacturing sector during this period, the oil industry which had been established by the Anglo Persian Oil Company (then Anglo Iranian Oil Company) in 1901, was still by far the most important industry during this period (Floor, 1984).

During World War II the Allies objected to Reza Shah's rapprochement with the Germans, and in 1941 British and Russian forces invaded and occupied Iran. Forced to abdicate in favor of his son, Mohammad Reza Shah, died in exile in Johannesburg in South Africa in 1944. Mohammad Reza Shah, ruling from 1941 until 1979, was the last shah of Iran, and during his reign he followed the same style of modernisation as his father. This piece of history has been a challenging period for Iranians and their political leaders. The 1940s was a period of contraction leading to full industrial recession by the end of the decade. The recession started with the occupation by the Allies (1941-46) and ended in the early 1950s (Agah, 1958).

Table 1. Number of established factories and number of employees, 1926-1947

Year	Number of Factories Established	Number of Employees
1926-30	8	3,322
1931-35	36	12,394
1936-40	35	20,228
1941-47	18	4,477
Date not given	39	3,143
Total	136	43,564

Source: Adopted from Bharier (1971, p.173)

In 1951 Mohammad Mossadegh, as leader of the National Front and Prime Minister, forced the parliament to nationalize the oil industry and form the National Iranian Oil Company (Ghods, 1989). In 1953, Mossadegh was toppled by a CIA-backed coup led by General Fazlollah Zahedi (Risen, 2000).

After the coup, with the support of the US and UK, a rush of oil revenue along with increases in foreign aid provided opportunities for the Iranian government to invest in economic infrastructure, which mainly involved transport, communications and light industries such as textiles, sugar and cement. One consequence of such growth was an increase in demand and development of modern administrative techniques including accounting and corporate reporting.

The 1960s through to 1978 was a politically calm period enabling a rapid growth of private and public capital formation in the manufacturing sector which in turn created a huge demand for professional accountants and their services. For instance, the Tehran Stock Exchange (TSX) was established in 1967. During this period, besides an increase in the locally educated and trained accountants in universities and colleges (Roudaki, 1996), big international accounting firms (e.g. KPMG, Deloitte and Winney Merry) also played a significant role in responding to the demand by setting-up independent or affiliated operations in Iran.

The dissatisfaction with Mohammad Reza Shah's economic and socio-political policies fuelled a potential political movement against him. In January 1979, Mohammad Reza Shah and his family were forced to flee Iran, following a year of extreme turmoil and public protests, heralding the Iranian revolution. Following his departure, Ayatollah Khomeini abolished the monarchy and established an Islamic Republic in Iran.

In February 1979 Mohammad Reza Shah's regime was formally overthrown by Revolutionary forces, thus ending a 2500 year tradition of monarchy in Iran. Ayatollah Khomeini, as leader of the revolution appointed the moderate, former, opposition politician, Mr. Bazargan, as Prime Minister. Bazargan's moderate policies came under sharp attack by the radical Islamic revolutionaries, who dominated a variety of ultimate power centers (Ghods, 1989). In 1979 Bazargan was forced to resign and a

Revolutionary Council took control of government. Later, in September 1980, Iraq invaded Iran, commencing an eight-year war primarily over the disputed Arrvand Roud waterway that forms a boundary between the two countries. In July 1988, Iran and Iraq agreed to accept a United Nations cease-fire to end the war. Ayatollah Khomeini died in 1989 and was succeeded by Iran's President, Ayatollah Khamenei. The presidency was subsequently filled by Ali Akbar Rafsanjani, who sought improved relations and financial aid with Western nations, while somewhat diminishing the influence of religious fundamentalism. Rafsanjani was re-elected President in 1993. Then, in 1985, the US suspended all trade with Iran, accusing the country of supporting terrorist groups and attempting to develop nuclear weapons. Several European Union countries began renewing economic ties with Iran in the late 1990s. The US, however, continued to block more normalized relations, arguing that the country had been implicated in international terrorism and was developing a nuclear weapons' capacity. In 1997, Mohammed Khatami, a moderately liberal Muslim cleric, was elected president and this was widely seen as a reaction against the country's repressive social policies and lack of economic progress (BBC News, 2009). Khatami's presidency provided a more conducive environment for the Iranian accounting profession to increase its cooperation with international accounting firms and accounting bodies than during Rafsanjani's term of office. Khatami finished his second term in office in August 2005 and was replaced by an Islamic hardliner, Mahmud Ahmadinejad. The change has brought about a radical shift in domestic and international policies of the Iranian government. Ahmadinejad policies have resulted in tough sanctions on Iran by western countries and the accounting profession is no exception. For instance as a result of lobby group pressure, KPMG and many other mid-tier accounting firms ended their affiliation or operations with Iran (IAB Editorial, 2013). Hickman (2010) interpreted the situation as 'politics strikes profession' and wrote "Experts, including the leader of the International Federation of Accountants (IFAC) warn the Big Four's departure could stall the development of Iran's profession".

In June 2013 Hassan Rouhani was elected as the new President. His motto is ‘moderation and change’, however, it is too early to judge his precise political actions and their impact on economics and the accounting profession.

3. The Economy

In this part we examine the structure, progress of Iran’s economy during the last century, and its extant position. Douppnik and Salter (1995) argue that the stage of development in a country affects the type of business transactions it conducts, and the type of economy determines which transactions are more prevalent: each of these intrudes on the shape of corporate reporting.

A brief review of the last century shows a continuous attempt to raise the standard of living of the population in Iran. During this period, many and substantial changes have taken place within the economy. These changes and also other environmental factors have influenced the corporate reporting system which is a reflection and product of its environment.

Early 20th century to pre revolution - a shortage of quantitative data makes discussion of the precise situation of the Iranian economy in the early 20th century difficult Bharier (1971).

Studies of the economics of early 20th century Iran indicate that ‘factories, as the term is understood and used in Europe, did not exist (Bharier, 1971). The government had a very weak influence on the economy (Katouzian, 1981, Bharier, 1971). Foreign trade followed the growth pattern of the last quarter of the 19th century. The reason for increasing foreign trade during this period has not been viewed as domestic economic development but as the result of growth in European demand for primary products (Katouzian, 1981). During this period an important factor, oil, emerged in Iran which was destined to dominate almost every aspect of the economy in the following decades. The modern banking system was in an early stage of establishment. There was no general government budget or statement of accounts (Bharier, 1971) and obviously no economic accountability from those who were in charge.

The end of World War I created an opportunity for the devastated Iranian economy to recover and, to some extent, reintegrate into the global economy. After the growing extension of central authority, security on roads increased and the general risk of trade reduced (Katouzian, 1981); oil became the main source of revenue for the Iranian government and a key factor of its economy. This situation facilitated the economic progress, industrialization and modernization of the country.

Table 2. Oil revenues and exports 1919-1926

Year	Oil revenues (£ m.)	Volume of oil exports ('000 long tons)	Oil revenues per long ton (£ sterling at the 1919 exchange rate)
1919	0.47	1106	0.42
1920	0.59	1385	0.58
1921	0.59	1743	0.67
1922	0.53	2327	0.43
1923	0.41	2959	0.23
1924	0.83	3714	0.39
1925	1.05	4334	0.43
1926	1.4	4556	0.60

Source: Katouzian (1981, p.93)

After 1925, the financial administration of the American advisor, Dr. Millspaugh, set Iran’s internal and external finances on a sound footing, and provided for the first time, clear budget allocations for capital expenditures. The general policy of the government during this period was the establishment of state factories, along with various protective devices for privately owned plants. Many new enterprises, each of them employing ten or more workers, were founded during this period (Katouzian 1981). The 1930s was also the beginning of world economic recovery followed by general rearmament and then World War II. These events ensured the stability, and later growth, of Iranian oil revenues.

During World War II, Iran was occupied by the Allied forces and this superseded the government role and influence in the economy. At the end of this war,

when conditions improved, the idea of systematic planning by government emerged. *The First Seven-Year Development Plan* (1949-1956) was prepared with the help of American consultants, and approved by parliament in 1949. The nationalization of the oil industry was a big shock to this plan, as oil revenue stopped for three years. Jalali-Naini (2003) believes that in planning the budget, it was assumed that the economy was faced with missing markets, pervasive market imperfections, and an economically and politically weak private sector. This view of the economy paved the way to a ‘centralized’ view wherein the state should step in to direct economic conditions.

The general trend in the Second Seven-Year Development Plan (1955-1962) was not a great deal different from the First plan. The Third Development

Plan (1962-1967) commenced with a five-year period and was extended to a five-and-half year period. The basic developmental thinking in Iran since the 1950s has been a planning framework in which the oil industry would supply any surpluses for investment in other sectors (Jalali-Naini, 2003). The Fourth Development Plan (1968-1972) began with three alternative economic growth rate targets. The targets were an annual growth in gross national product (GNP) of 6, 7 or 8 percentiles. As the years preceding the start of the plan had seen higher growth rates, the target was finally set at about nine per cent. Similar to the Third Plan, this plan followed an official policy of import substitution; expenditure on projects, such as dams and transport facilities, was expected to play a large part.

The Fifth Development Plan (1973-1977) was the most ambitious of all the plans (Amuzegar, 1993). The sharp oil price rise in 1973 precipitated some hasty changes to this plan, resulting in the total investment target of \$36 billion being increased to nearly \$70 billion for the period. According to Amuzegar (1993) the Fifth Plan turned out to be highly unrealistic in its revenue projections, and the feasibility of its goals. It was hoped that the Fifth Plan problems would be addressed within the next plan, but preparation of the Sixth Development Plan did not occur. Instead, the government decided to put aside the five-year planning process altogether, and to proceed with annual developmental budgeting for each economic or social program within ten- and twenty-five year guidelines.

The review provided in this part of the paper, of the economic development before the changing of the political regime in Iran, summarizes the progress from the early project-lists of the first two plans, to the more comprehensive approaches in the later plans. Overall, this era witnessed an increasing level of corporate activity in the Iranian economy. This created and extended an interaction between society and corporations in day-to-day life, and lead to the call for accountability and governance through mechanisms such as corporate reporting.

Post revolution - in February 1979 Mohammad Reza Shah's regime collapsed and soon after the Islamic Republic of Iran formally acknowledged a devastated economy. Amuzegar (1993, p.34) stated the position of the economy as:

More than a year of political turmoil, public disturbances, strikes, sabotage and physical destruction had left the economy in chaos. Economic activity was in deep recession. Oil production and exports were down to half their annual levels, as were government revenues. The banking system faced an imminent collapse due to massive withdrawals and increasing non-functioning loans. Unemployment, inflation and capital flight were on the rise. Foreign trade, domestic investment and public confidence were on the decline.

With such a situation, the revolutionaries from almost all factions against the former regime found themselves in office with no acceptable economic agenda. Eventually, after short term challenges between various political factions, the clerics and followers of Ayatollah Khomeini captured the key positions and became the main power in developing the Constitution. Thus, direction of the country's macro-economic structure moved toward an Islamic economy.

One of the very early consequences of the new political and economic regime was in the banking sector of Iran. The first step was the merging and nationalization of 36 banks, many of which were privately-owned. Within the scope of an Islamic banking system, laws and regulations pertaining to money and banking institutions and monetary policy design and implementation, were amended to reflect the priorities and principles as set out in the Constitution. Then to implement the Islamic rules, the Usury-Free Banking Act was approved in 1983 (Komijani, 2005) setting the structure for Iran's current banking system.

In 1980, Iran's economy was involved in another fundamental change over the ownership of all major manufacturing and service companies. The owners of many private companies had left the country and defaulted bank loans became a major economic problem. More than 500 companies were nationalized and the Iran National Industries Organization was established to manage them. After implementation of the Nationalization Law, shares in private industrial enterprises were abandoned by the private sector (Mirshekary, 1999).

During the early years after the revolution the government took a large controlling position in the economy. This was seen as the way to social justice and a foundation for rapid economic development (Mirshekary, 1999). Changes in international politics in the late 1980s brought some new thoughts regarding the level of government interference in the economy. Thus, in the First Five-Year Social and Economic Development Plan (1989-1993), transferring part of government social and economic activity to the private sector became a serious agenda for the Iranian authorities.

By the enactment of the First Five-Year Social and Economic Development Plan, the government signaled that it intended to entrust state industrial units, except strategic industries, to the private sector. The change of trend from a centralized economy to a more open economy coincided with the fall of the centralized economies of Eastern Europe in 1990. Due to some fundamental problems affecting developing nations such as; absence of an open trade regime, an unstable and unpredictable environment; weak economic security for investment, and the lack of a well-developed institutional and regulatory capacity, the Plan ended with many failures (Mostashari, 2004). However, it is believed that many

economic problems after the revolution, largely had roots in political rather than economic problems²². In the Second Plan which began in 1994, the focus was on issues such as employment, environmental protection, development of heavy and light industries, self-sufficiency, and providing basic housing and health needs (Abadi, 1995).

In designing the Third Plan (2000-2004), authorities were more acutely aware of the serious consequences of oil price fluctuations on the economy. With this acknowledgment, the Third Plan was formulated with a focus on: liquidation, privatization, merging and restructuring of state owned enterprises; raising the efficiency of the tax system, and eliminating organizational bottlenecks, the establishment of an 'Oil Stabilization Fund' to cushion the economy and government budget against fluctuation of oil revenue; adjustment in the regulation, and introducing flexibility into the banking industry.

According to Komijani (2005) the plan succeeded in meeting some objectives such as appropriate economic growth, growth of capital formation, improvement in balance of payments and reductions in the unemployment rate. But the high rate of liquidity growth and the inflation rate, the large size of the government sector and the unsuccessful privatization program of state-owned enterprises, were weak points of the implementation of the plan. Part of the problem as Komijani (2005) pointed out, stemmed from an unstable situation due to the occupation of Iraq and its internal war, and issues relating to Iran's nuclear energy industry and the concomitant political tensions between Tehran and Washington. These problems particularly the nuclear energy issue still exist and are impediments to social and economic progress.

The Fourth Plan (2005-2009) targeted objects that would challenge the Iranian economy for a long time. The main issues were: a more open economy based on competitiveness, privatization and a lesser role for the government in the economy, more autonomy for the Central Bank in monetary policy design and implementation, more independence for the National Iranian Oil Company based on a royalty scheme, and implementation of a clear legal framework for foreign investment in Iran (Komijani, 2005).

In the first year of the Fourth Plan, 2005, Iran's political climate changed dramatically. A moderate government was replaced in office by a hard-liner team led by Mahmoud Ahmadinejad. The new government demonstrated little interest in the economic plans set by its predecessor. Ahmadinejad started with populist economic and social justice

promises such as bringing oil revenue on to the Iranian table, and selling government-owned shares in companies to low-income earners at a reduced price (the 'Justice Stock Scheme').

The Fifth Plan (2010-2015), is the latest plan prepared by the government based on its vision of affairs, and is focused along the lines of justice-based progress. It targets boosting the private sector's role in national economic growth, increasing the cooperative sector's economic share to 25 percent, and reducing the unemployment rate to seven percent by 2015.

4. The Legal and Regulatory System

The legal system is part of an institutional framework within which a corporate reporting system is very likely to interact as the legal system influences the way in which business rules are promulgated. This in turn, influences the nature of the rules themselves (Doupnik & Salter, 1995; Iqbal et al., 1997). In this section of the paper we review the legal system and commercial code of Iran in two parts. In the first part, we provide a discussion of past and current constitutional laws and the structure of the current political power. In the second part, the focus is on the commercial code.

5. The Constitutional Laws

The idea of having modern constitutional laws came to Iran through the increased influence of Europeans in the late 19th and early 20th centuries. In 1906, as a result of the Constitutional Revolution, this idea became an historical achievement for the Iranian people. The first constitution laws, influenced by the 1791 French and the 1831 Belgian constitutions, laid out the skeleton of a modern parliamentary system for Iran (Afary, 2005). The Iranian law vested the parliament with many of the rights that had previously been given to European kings or the Japanese Emperor (Afary, 2005). For Iranian people the constitution was a means to make political power accountable through a democratic system.

In fact, despite all historical struggles and challenges, the constitution fell under continuous distortion and inattention in particular during the Pahlavi dynasty (Katouzian, 1981; Afary, 2005). The Islamic Revolution has now replaced the first constitution. The current constitution was adopted in December 1979, with significant revisions expanding presidential powers and eliminating the prime minister position. This constitution has a unique, complex and unusual political structure as it is a system that combines elements of the old and modern Islamic theocracy with democracy. The system on the one hand includes a network of unelected institutions controlled by a Supreme Leader, and on the other hand a president and parliament elected by the people.

²² See for instance Arvind Hickman's article in The Accountant, "Iran exodus: Politics strikes profession" at: <http://www.theaccountant-online.com/news/iran-exodus-politics-strikes-profession> and Geoff Dyer's article in the Financial times, 26 April 2013, "Three accounting firms pull out of Iran"

6. The Commercial Code

Following World War I, after the advent of constitutional government and the attendant efforts at modernization and reform of the legal system, the first Iranian Commercial Code was introduced in 1925. This code was heavily influenced by some of its European counterparts particularly the French and Belgian Companies Acts. In 1932, the Code was amended for the first time; setting some new provisions in regard to the organization and operation of commercial companies, including, to some extent, the issues of business transactions, and corporate reporting. The second amendment in 1969, focused on the regulatory framework for joint stock companies (Pour-Naini, 1993). The amendments were in response to the needs of the new emerging phenomena such as the establishment of large scale joint stock companies, and introduction of a stock exchange into the economy. This amendment regulated the legal form for various types of companies, securities regulations, the capital market, negotiable instruments, and bankruptcy (Amuzegar, 1977).

There have been many vigorous alterations in the Iranian business environment as a result of social, economic and political changes such as the rapid growth of private foreign and local investments in the decades surrounding the revolution. It seems the current Code does not fully address current financial reporting environment demands. For instance, there is a lack of specific legislation concerning corporate mergers and foreign investment in the Tehran Stock Exchange (TSE). The Code is limited to specifying the minimum of corporate reporting provisions, such as requiring a company's board of directors to prepare a balance sheet and income statement at the end of each fiscal year (Articles 232-242 of the Code) and requiring that these reports be accompanied by a directors' report about the company's activities and affairs. In regard to quality of information, the company must only maintain consistency, and use the same structure and evaluation methods as in the preceding fiscal year.

The introduction of accounting standards since the 1990s which are enforceable by law means there is now a set of regulations dealing with economic measurement and corporate reporting. With only two very minor exceptions about human resource related disclosures, neither the Commercial Code nor the Accounting Standards, or any other rules, mandate any sort of disclosure about other business issues such as social and environmental matters.

7. The Capital and Stock Markets

The idea of having a stock exchange and capital market in Iran dates back to the 1930s. The early studies of establishment of a stock exchange were conducted by Bank Meli Iran (National Bank),

assisted by experts from the Brussels Stock Exchange. The outbreak of World War II and other political and economic problems at the time prevented any further progress in the establishment of a stock exchange in Iran. The Iranian parliament did not ratify the Stock Exchange Act until 1966, and the TSE officially started operations in 1968.

Initially the TSE operation was limited to trading a few companies' shares, some government bonds, and certain state-backed certificates. Mirshekary (1999) believes this lack of interest in the capital market can be attributed to socio-cultural features and the existing problems of transactions in joint stock operations. During the 1970s this trend changed due to institutional changes within corporate ownership structures such as the transfer of shares of public companies and large private firms to their employees and the private sector.

During the 1978-1979 revolution, trade dropped dramatically and in 1979 just a few new listings were recorded on the TSE. After the revolution TSE operations were affected with many companies either confiscated or nationalized reducing the number of listed firms to only 55 (Mirshekary, 1999), and bond trading ended in 1983. After about a decade, the TSE was again playing a more active role in the capital market, and despite some extreme volatility, its role and activity in the capital market has continued to expand (Mashayekhi & Mashayekh, 2008). In the last two decades the market has been expanded by new types of activities such as trading corporate bonds issued by listed companies and the establishment of a Small and Medium-Sized Enterprises Market. The TSE with a listing of 316²³ companies under 37 industry classifications is now a unique capital market in terms of diversity in the Middle East region.

8. The Accounting Profession and Accounting Standards in Iran

Short History - modern accounting is a relatively new profession in Iran. In regard to the history of the accounting profession, as noted by Salami (1993) the early stage of the emergence of modern accounting and auditing in Iran was in the 1930s. In 1936, for the first time the terms 'balance sheet', 'debit' and 'credit' were used by an Iranian government official in a directive note related to accounting and auditing. The application of modern accounting techniques during this period was common only among active foreign firms in Iran such as the (former) Oil Company, the Imperial Bank of Persia and some other foreign firms. Bank Meli Iran was the first Iranian firm to use modern accounting techniques (Salami, 1993). Throughout this early period, the training of accountants was in the hands of British and American professional bodies and just a few institutions.

In 1944, the first independent professional accounting association was founded by a group of

²³ As at 30 July 2013 when TSE website was visited.

Iranian graduates in accounting from UK colleges (Salami, 1993; Roudaki, 1996). However, for various reasons such as the non-availability of a sizable body of qualified accountants, and the lack of support from government, this body never became an active and formal professional society in Iran.

The use of expert accounting and auditing services was considered in the Income Tax Law in 1949 and reintroduced in the revised Income Tax Law 1955. Article 33 of the Income Tax Law required the submission of income statements and balance sheets of companies to the Tax Office after being examined by a member of the Institute of Expert Accountants set up under this bill. However, the legislated requirement remained only on paper without any significant effort by the official bodies to recognize and introduce the expert accountants until 1963. Shortly thereafter (1967) the Institute of Expert Accountants was disbanded in the new tax law, the Direct Tax Act (DTA), as it was perceived by the legislators to be failing to meet its expected functions (Mokhtar, 1992). In addition DTA 1967 recognised the role of auditors and referred to these professionals as the Official Accountants. The practical role of these accountants, as a private arm of the Finance Ministry, was to examine corporate reports from the tax perspective (Roudaki, 1996). In 1970 the Finance Ministry decreed the membership of 16 accountants as the first members of the newly established government accounting body, the Society of Official Accountants.

The major social and economic changes in the 1960s and early 1970s became the vehicle for fast growth of the accounting profession in Iran. Mokhtar (1992) believes two specific factors contributed to these changes. The first factor was the establishment and expansion of the TSE, and the other factor was the increase in the number of accounting graduates from local and international universities. According to TSE regulations, listed companies were required to present corporate reports audited by certified auditing firms. The purpose of this regulation was to improve the quality of corporate reports (Mirshkary, 1999). This, in turn required increasing the level of professionalism and knowledge in accounting practice and training. In 1972, the Iranian Institute of Certified Accountants (IICA) was established as a professional body by a group of accountants who were educated in accounting in the UK²⁴. The members of this institute functioned as self-employed accountants, or accountants of private and government firms. From this time, some big international audit firms established subsidiary firms in Iran using member of Society or IICA members as their domestic partners.

After the Revolution - after the Revolution in 1979, the Iranian accounting profession faced some dramatic changes in the corporate reporting

environment (Mokhtar, 1992). All major private banks, insurance and manufacturing companies were confiscated or came under the direct supervision of the government. The Society of Official Accountants was terminated and professional influence became limited. To manage the confiscated firms, government bodies established their own audit firms such as the National Industries and Plan Organization Audit Firm (1980), Mostazafan Foundation Audit Firm (1981) and Shahed Audit Firm (1983) (Salami, 1993).

The establishment of these relatively big audit firms became a major factor in bringing together many well trained accountants from the previous regime that had lost their positions in liquidated international subsidiary firms or inactive domestic firms (Mirshkary, 1999). Fundamental problems confronting of corporate reporting such as the lack of national accounting and auditing standards, and having major professional activities in the hands of government were yet to be addressed.

Audit Organization - in 1983, after a long debate between professionals and government, the merging of the four audit firms was ratified by the parliament (Roudaki, 1996). The firms merged into the Audit Organization and included all three audit firms established by the government bodies after the Revolution and the Audit Company (Sherkat-e Sahami-e Hessabressi, another government owned audit firm established in 1971). In 1987, the Audit Organization's by-laws were approved and the organization formally established as a legal entity, with financial independence and affiliated to the Ministry of Economic Affairs and Finance. In 2003, in order to comply with Article 4 of the Third Economic, Social and Cultural Development Plan the Audit Organization's by-laws were revised and its legal status changed to that of a State Owned Limited Company.

According to its by-laws (2003), the main functions of the Audit Organization are in the areas of practice, setting accounting and auditing standards, research, training, and publications in the field of accounting. On the practice side, according to Article 7 of the by-laws, it is involved in auditing of those corporations in which the government owns 50 percent or more of the equity, and other government foundations. Perhaps its most significant role is that it is the official body in charge of setting accounting and auditing standards, the code of professional ethics, and providing guidelines on the professional standards.

The legislated recognition and responsibilities of the Audit Organization as the authoritative body for setting accounting and auditing standards and as a center for training, research and publication, paved the way for greater growth and development of the accounting profession particularly during the two decades of 1990s and 2000s. The growth and development came in the form of setting national accounting and auditing standards, establishing the

²⁴ All information about IICA is cited from the institute website (accessed 9 July 2013) <http://iranianica.com/site/1/default.aspx>

Iranian Association of Certified Public Accountants (IACPA), and, promoting a more active role for private professional firms and international accounting firms in professional activities.

Accounting Standards - in 1994 the process of setting national accounting standards began with the release of some accounting guidelines. An extended set of the guidelines was issued by the Audit Organization in 1999. These guidelines were an adapted version of 22 standards issued by the International Accounting Standards Board (IASB). The purpose of issuing these guidelines was to seek views and comments on the application of IASB standards in Iran. Overall, the standards were welcomed by the accounting profession and business communities in Iran. After the trial period, the first set of 22 guidelines came into force as official Iranian National Accounting Standards (INASs) on 20th March 2001. Currently, there are 32 binding accounting standards. The Audit Organization acknowledges on its website and each individual standard that INASs are set in accordance with the standards issued by the IASB with a few exceptions. The exceptions are discussed later in this section. The INASs are not a replication of International Accounting Standards (IASs) or of the more recent International Financial reporting Standards (IFRSs) rather they are adapted to suit the Iranian financial reporting context. For instance, IAS 1 is adapted in the form of two INASs: INAS1 Presentation of Financial Statements and INAS14 Presentation of Current Assets and Current Liabilities. Of the current 32 standards there are two standards, INAS24 Financial Reporting of Development- Stage Enterprises and INAS29 Accounting for Real Estate that have been developed independently of the IASB framework. INAS24 clarifies that there is no equivalent to this standard in the IASs. INAS29 is accompanied by a similar statement and also a statement that it is inconsistent with the appendix of IAS18, Revenue. In order to keep up with continuous revision and change in the IASs the Accounting Standards Committee in the Iranian Audit Organization also introduces new projects for incorporating IASs/IFRSs revisions into INASs. The comparison between the details of INASs and IASs/IFRSs is not the scope of this paper. However, such an investigation is important and should be the subject of a future study designed to identify and consider differences between these two sets of standards.

Auditing Standards - similar to the introduction of accounting standards, initially 30 International Standards on Auditing (ISA) were adapted and issued as guidelines by the Audit Organization in 1997. After a two-year trial period, all standards were approved as formal Iranian National Auditing Standards (INAuSs) with no major change to the earlier drafts. Currently, the suite includes 41 auditing standards which all are

consistent with ISAs issued by the International Auditing and Assurance Standards Board (IAASB).

Code of Ethics - in regard to the introduction of a professional code of ethics, the Audit Organization followed a similar approach as it did for accounting and auditing standards. That is, it adapted the code of the International Ethics Standards Board for Accountants (IESBA) as a base for the Iranian Professional National Code of Ethics (IPNCE). The IPNCE consists of a preface and three parts: Part A covers issues related to professional accounts in business; Part B, addresses the issues related to the professional accountants in public practice; and, Part C focuses on general application of the IPNCE. The IESBA code was altered to accommodate the Iranian corporate reporting and cultural environment.

Corporate Governance - the first edition of a corporate governance code was published by the TSE in 2004. The 22 clauses in this code contain common definitions, and specifications relating to the board of directors, structure and duties, shareholder responsibilities, and the necessity for audit committees.

The IACPA – IACPA was established as a non-government accounting professional body with financial independence by parliamentary approval in early 1994. The establishment of the IACPA can be seen as a major factor in underpinning sustainable development of the accounting profession in Iran. It continues to have a significant and authoritative role in accounting performance in Iran. The membership conditions are stringent including that: members must have Iranian nationality; a bachelor degree in accounting or similar field; six years auditing work experience; and they must complete the IACPA Tests which include accounting, auditing, commercial law, finance and taxation. Only IACPA firms are allowed to audit the reports of TSE companies, unlisted public companies and their subsidiaries, foreign companies registered in Iran, and government owned companies.

Currently both IICA and IACPA are members of the International Federation of Accountants.

Summary and Conclusions

Institutional factors have been found in prior research (Radebaugh & Gray, 2002; Douppnik & Slater, 1995; Perera, 1989; Wallace, 1987) to influence a country's corporate financial reporting environment (see 'Introduction' pp. 3-5). This paper has provided details of some major events that have collectively or individually, had a direct or indirect impact on the development and evolution of corporate financial reporting in Iran during the last century. In this regard the political and economic history, legislation and regulation, and development of the accounting profession have all been considered through an historical lens in order to gain insight into the origins, growth and development of the corporate financial reporting environment in Iran.

The purpose of this paper has been to reflect on the development of the corporate reporting environment in Iran, and in that process, to articulate the relevant major hurdles and opportunities in the past century. This analysis has been undertaken within the cultural, social, political and economic context in which the Iranian accounting profession operates. Thus an historical perspective is an appropriate lens for undertaking such a reflection.

It can be seen that the Iranian corporate reporting environment has been influenced by many significant events across the 20th century. Among the more important events are the influences of the Mashruteh Movement, two World Wars, symbolic modernization reforms, the emergence and nationalization of the oil industry, and the 1979 Islamic Revolution.

Despite many political, economic and cultural differences relative to some influential Western countries, Iran's international professional accounting connections together with its adaptation of international accounting and auditing standards and code of ethics have aligned Iran with the international harmonisation movement in the matter of corporate reporting.

Research has shown that the economic and political changes, in particular, during the last century have created many obstacles but have also provided great opportunities for development and enhancement of the corporate reporting environment and of the accounting profession in Iran.

The main implication of this study is that, knowledge of past trends of corporate reporting and its environment provides policy makers with a better understanding of likely future directions and how these trends can influence the development of the regulatory and financial reporting framework and corporate governance. More specifically, considering the major changes in Iran's corporate reporting environment (e.g. adoption of IFRS, political, social and economic upheaval) in recent decades, it is crucial for policy makers to identify the systems' successes and failures from an historical point of view in order to best meet the challenges of the future.

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