

Original Article (Qualitative)

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Leveling the dimensions of the comprehensive risk management model considering the role of environmental uncertainty and legal transparency in the banking industry

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Abstract

The aim of the present study was to level the dimensions of the comprehensive risk management model with regard to the role of environmental uncertainty and legal transparency in the banking industry. This study has a mixed approach (qualitative and quantitative) that is applicable-developmental in terms of purpose, and survey in terms of nature and method. The data collection method in this study was a combination of library and field studies, and the data collection tools were document reference, interviews with experts, and a questionnaire; and the validity and reliability of the interview and questionnaire were confirmed with a high percentage. The statistical population of this study in the qualitative section includes university professors in financial management and experts in the field of risk management and senior bank managers; selected by purposive sampling, and their number is estimated to be 21 people; also, the interviews were examined and coded by the content analysis method. In order to level and examine the relationship between themes, the interpretive structural equation (ISM) technique and the Mick-Mac analysis were used. The results of open coding of the collected qualitative data led to the extraction of 87 primary codes, 27 basic themes, and 13 organizing themes. The results also show that the 13 organizing themes of the risk management model are arranged at four levels, considering the role of environmental uncertainty and legal transparency in the banking industry; and “strong supervisory management” is the most influential theme of the research; and the themes of “banking law risk control”, “transparency of macro-banking facilities”, “disambiguation of laws”, “assessment of customer credit level”, “analysis of financial and banking ratios”, and “creation of strategic opportunities for the banking system” are the most influenced themes of the research.

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Extended Abstract

Introduction

The increasing expansion of business activities has caused financial relations, processes, and methods of organizational and people's financial management to become more complex. Thus, the continuity of the activities of companies and economic enterprises must be sought in having sufficient financial resources (Khanboubi & Boulmakoul, 2020). In this regard, banking is one of the most important sectors of the economy. On the one hand, banks facilitate commercial and trade transactions by organizing receipts and payments and expand markets. On the other hand, they provide the basis for economic growth and prosperity by mobilizing micro and macro savings and directing them to productive enterprises (Giuliano et al., 2013). Laws and regulations are the framework for regulating relations between individuals in a society, and investors and economic activists regulate their plans based on these frameworks. The criterion for determining whether the performance of law enforcement officers is correct or incorrect is also based on the aforementioned frameworks (Chen et al., 2023). Therefore, if the laws and regulations of a society do not have desirable characteristics, the individuals of that society will face challenges in adapting their behavior and plans to the laws, and regulatory institutions will also face ambiguity and confusion in monitoring. Accordingly, the need for laws to have qualitative characteristics is considered self-evident (Markaz Malmiri et al., 2022).

The recent financial crisis has highlighted the impact of bank income growth on global economic stability and welfare. Regulators have responded by making bank income growth standards more effective and stringent in their rejection of bank risk-taking. Regulators have argued that regulation itself is better at ensuring optimal risk-taking by financial institutions in order to guide effective participation and market disciplines. Banks are connected to a variety of monetary and financial markets through multiple depositors and borrowers and are exposed to a variety of risks. Therefore, banks have always tried to manage their risk levels by using different methods and tools to increase environmental uncertainty, control, and legal transparency. According to the above explanations, this research seeks to answer the question of how to level the dimensions of the comprehensive risk management model with respect to the role of environmental uncertainty and legal transparency in the banking industry.

Research Methodology

This study has a mixed approach (qualitative and quantitative) that is applicable-developmental in terms of purpose, and survey in terms of nature and method. The data collection method in this study was a combination of library and field studies, and the data collection tools were document reference, interviews with experts, and a questionnaire; and the validity and reliability of the interview and questionnaire were confirmed with a high percentage. The statistical population of this study in the qualitative section includes university professors in financial management and experts in the field of risk management and senior bank managers; selected by purposive sampling, and their number is estimated to be 21 people; also, the interviews were examined and coded by the content analysis method. In order to level and examine the relationship between themes, the interpretive structural equation (ISM) technique and the Mick-Mac analysis were used.

Research findings

Based on the results of structural modeling, the final model of the relationship between the organizing themes of the risk management model was drawn considering the role of environmental uncertainty and legal transparency in the banking industry, which consists of four levels.

At the first level, the codes of "banking law risk control", "transparency of macro banking facilities", "disambiguation of laws", "customer credit level assessment", "financial and banking ratio analysis" and "creating strategic opportunities for the banking system" are located. In other words, the aforementioned codes are most influenced by other research codes. At the second level of the model, the four codes of "business environment control", "care for credit risks", "creating trust in the banking system" and "maintaining the health of the economic system" are located. The codes located at the second level affect the first level codes and are influenced by the third level codes. The third level contains the codes of "accountability and responsibility" and "protecting the bank's image, reputation and relationships with stakeholders"; and the fourth level contains the code of "strong supervisory management", which has the greatest impact on the lower-level codes. The results of the Mick-Mac analysis showed that thirteen themes affecting the risk management model, considering the role of environmental uncertainty and legal transparency in the banking industry, are divided into four categories of influential, linked, dependent and autonomous factors in terms of their influence and dependence. Each of the dimensions is also placed in one of the four categories of influential, linked, dependent and autonomous factors depending on the influence and dependence of their influence on the subject (Table 3). Based on the results of the Mick Mac analysis, the organizing themes of "banking regulatory risk control", "business environment control", "strong supervisory management", "transparency of macro banking facilities", "disambiguation of laws", "customer credit level assessment", "care for credit risks", "financial and banking ratio analysis", "accountability and responsibility", "building trust in the banking system", "maintaining the health of the economic system", "creating strategic opportunities for the banking system" and "protecting the bank's image, reputation and relationships with stakeholders" are located in the area of influential factors.

Discussion and Conclusion

Based on the results of structural modeling, the final model of the interpretation of the relationships between the organizing themes of the risk management model is composed of four levels, considering the role of environmental uncertainty and legal transparency in the banking industry. At the first level, the codes of "banking regulatory risk control", "transparency of macro-banking facilities", "disambiguation of regulations", "assessment of customer credit level", "analysis of financial and banking ratios" and "creation of strategic opportunities for the banking system" are placed. In other words, the aforementioned codes are most influenced by other research codes. At the second level of the model, the four codes of "control of the business environment", "care of credit risks", "creation of trust in the banking system" and "maintaining the health of the economic system" are placed. The codes placed at the second level affect the first level codes and are influenced by the third level codes. At the third level, the codes of "accountability and responsibility" and "protecting the bank's image, reputation and relations with stakeholders" are located; and at the fourth level, the code of "strong supervisory management" is located, which has the greatest impact on the lower-level codes. The results of this finding are consistent with the results of research by Shabir et al., (2023). According to the results obtained, it is recommended that managers and policymakers of the banking system pay special attention to factors affective on risk in the banking system, as these factors can improve the situation of the banking system and especially profitability in the country's banking system, which can ultimately lead to economic development and improvement of the situation and conditions of financial and production activities, as well as the volume of investments in the country. What should be kept in mind is that loan losses and deposit costs reduce profitability in banks.