

# **SMART**

## **Journal of Business Management Studies**

(A Professional, Refereed, International and Indexed Journal)

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**Vol - 14 Number - 2**

**July – December 2018**

**Rs.500**

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**ISSN 0973-1598 (Print)**

**ISSN 2321-2012 (Online)**

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Founder - Publisher and Chief Editor



**SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST  
(SMART)**

***TIRUCHIRAPPALLI (INDIA)***

***www.smartjournalbms.org***

## PROVIDING A MODEL FOR PREVENTING ADMINISTRATIVE CORRUPTION IN THE BANKING SYSTEM

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### **Abstract**

*In the past few years, an excessive number of administrative violations and deviations have been reported within the Iran banking systems and sanctions by foreign countries, have led to new deviances in the banking system of Iran. Researchers tried to identify a model, for reducing and preventing deviations, in the administration of banking system. After reviewing the literature and views on administrative deviances, variables affecting the administrative deviances in the banking system, were identified by holding in-presence meetings with experts. The affecting factors were lack of independent and professional central bank, senior managers who were experts and accountable to banking system, the systemic monitoring mechanisms, integrated data systems, reformation of the public administration in banking system, social capital and media. 108 questions of the questionnaire were answered by experts in monitoring, legal, and credit areas of specified banks. The results indicated that the variables did have an impact on reducing and preventing administrative deviance in the banking system.*

**Keywords:** *Deviance (Corruption), Administrative Deviance, Banking System, Central Bank*

**JEL Code:** *D73, G21*

**Paper Received :** 13.03.2018

**Revised :** 18.04.2018

**Accepted :** 27.04.2018

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## 1. Introduction

Administrative corruption is one of the most significant global issues. Security is often considered synonymous with economic security and world powers tried to establish and impose their domination over other countries by using war and economic sanctions. Employees of NGOs assessed the role of organizational culture in reducing corruption. A significant relationship was not observed among the factors in reducing corruption from the perspective of women and men and education. The fact that the most significant banking corruptions of the world happen in the banking system of Iran was due to lack of public monitoring system. In other countries, such corruptions do not happen since they have proper model and framework in controlling administrative deviance. According to Article 28 of administrative system, health promotion, law and the fight against corruption, the Council of monitoring systems of the country are obliged to develop indices, measuring the administrative health, as follows:

- a) Rule-orientation
- b) Establishment of electronic systems development
- c) Transparency
- d) Internal monitoring and controlling
- e) Accountability
- f) Financial and administrative discipline
- g) Training
- h) Meritocracy
- i) Consumption pattern

## 2. Review of Literature

**Rabii and Bigdeli (2010)** showed that in public and private organizations, organizational culture improves the health of the administrative

system and organizational models are the most powerful components and traditional values are the weakest cultural component in reducing the corruption. **Mohebi Nejad (2011)** found that formality, complexity and concentration contribute to corruption. The population of the research included Bank Melli Iran and its branches' employees in Tehran. The results indicated that factors such as high levels of formality, complexity and much concentration, and the unstable external environment of organization, provided the conditions for corruption. The effective use of technology, increasing the organizational culture and paying attention to human resources, could be effective in reducing corruption among the employees of the Bank Melli Iran. **Javid (2012)** developed three questionnaires of information technology, administrative corruption, and work ethics and after ensuring the reliability and content validity of them, he distributed them among a sample of 357 employees. It was found that at a confidence level of 99%, information technology exercised a negative impact on financial corruption and administrative corruption, and consequently, legal corruption. Also, the variable of work ethic, as the moderator, had no significant impact on the relationship between IT and corruption. **Taleghani and Tabatabai (2013)** identified causes and contributing factors of administrative corruption in Sepah Bank branches in Qom Province. According to them, there was significant business relationship among faith adherence, personality trait, communication style, leadership style and the quality of working life and administrative corruption. On the other hand, there was significant relationship between the system of control and supervision and administrative corruption. **Zare (2014)** showed that organizational factors, with a factor load of 0.532 and warning factors, with a factor load of 0.092, recorded the highest and lowest impact

on administrative corruption, respectively. Additionally, in corruption control section, the results of the study showed that the effectiveness of the rules, with a factor load of 0.325 and administrative management factors, with a factor load of 0.091, recorded the highest and the lowest impact on corruption control methods, respectively. The study recommended that the authorities could contribute to administrative corruption control, through the adoption of rules of effectiveness and reducing bureaucracy. **Kassaian (2014)** examined e-Governance and its impact on the reduction and control of administrative and financial corruption in public departments of Damghan. The principal question was, does e-Governance have a significant impact on the reduction or control of the administrative and financial corruption in Damghan City. The study aimed to identify the relationship between public trust and control of corruption in the public departments of Damghan City.

### 3. Statement of the Problem

Experts and politicians have concluded that corruption is the main obstacle to peace and stability, sustainable development, democracy and human rights around the world. Increasing corruption endangers the stability and security of communities, weakens the ethical values and threatens the economic, the social, and political development. Against this background, this study was attempted.

### 4. Need of the Study

The healthy administrative system and fight against corruption are essential functions of a stable governmental system. Governments strive, with different ideological and philosophical structures and trends, to survive with legitimacy. Sociologists and social psychologists believe that in a society, where a

sense of injustice, oppression, and deprivation, discrimination, non-observing laws and unethical practices are spreading, such a social order or country will not develop and the ruling system will face the crisis of acceptance. The establishment of an efficient, effective and fair government is necessary to fight against corruption.

### 5. Objective of the Study

The main objective of the study was to find out the factors of administrative corruption in the banking system and to propose measures to reduce it.

### 6. Hypotheses

The following null hypotheses were tested in the study.

**NH-1:** Independent and professional central bank did not have an impact on preventing administrative deviance in the banking system.

**NH-2:** Skilled and accountable senior managers did not have an impact on preventing administrative deviance in the banking system

**NH-3:** Systemic monitoring mechanisms did not have an impact on preventing administrative deviance in the banking system

**NH-4:** Data integrated systems did not have an impact on preventing administrative deviance in the banking system.

**NH-5:** Reforming public structure of management in the banks (bureaucracy, transparency, etc) did not have an impact on preventing administrative deviance on the banking system.

**NH-6:** Social capital (religious teachings, culture, and public participation) did not have impact on preventing administrative deviance in the banking system.

**NH-7:** Media and informing did not have an impact on preventing administrative deviance in the banking system.

## **7. Research Methodology**

### **7.1 Sample Selection**

The population of study in this research included experts involved in the field of banking and legal violations, audit, supervision and senior managers of national banks like, Saderat, Mellat, Parsian, and Central Bank. A sample of the study was selected among senior managers and executives of banks, who were active in the areas of monitoring and supervision headquarters of banks. The sample size was determined as 108 managers.

### **7.2 Data Collection**

In the study, a standard questionnaire was used as a tool to collect data.

### **7.3 Period of the Study**

The study was conducted during the period of 2018.

### **7.4 Tools used**

In this study, for modeling based on structural equations, PLS software was used to analyze the data.

## **8. Analysis of Data**

According to the rating of **Transparency International (2013) (Chart-1)**, Iran is among 177 countries, with a score of 25 and ranked 144. This year, Denmark with a score 91, was the first country where there was minimum financial and economic corruption. The last country was Somalia and its score in corruption was 8. Since the banking system is a platform for economic, political, social, cultural actions, deviance in its activities affects the development of various sectors, including production, development, culture and many other activities

of the country significantly, directly and indirectly. Administrative deviation in the banking system causes the system performance to be reduced and even acts contrary to the main route and the nature of it, leading to dissatisfaction and distrust to the country's banking structure. What are the causes of deviation in conventional banking functions and operations. In September of 2011, a significant embezzlement was discovered in Iranian banks, in which Mahafarid Amir Khusravi stole 30 trillion Rials or 2800 Millard Rials from Iranian banking networks.

In another case of embezzlement, seven banks were involved, and the rate of embezzlement in 2009, was less than 800 Millard Rials, and it was 8000 Millard Rials in 2010 and 28000 Millard Rials in 2011. This embezzlement was discovered through Iran's Saderat Bank, leading to the cancellation of license to Arya Bank and its head Amir Mansour Arya, was arrested. National Bank, Saman Bank, Sepah Bank, Industry and Mine Bank, and Parsian Bank were also involved in the embezzlement (Official Site of Transparency International Organization). The World Bank in its latest Business Space Report - 2016, compared 189 countries regarding ease of economic activities and the status of their business space. Based on the evaluation of this international institution, based on one-year statistics, the business space in Iran, showed relative improvement. According to the World Bank Report, among 189 countries, Iran ranked 118 in 2015, which showed one rank improvement compared to one year ago. At the same time, this international institution revised its evaluation of Iran's business space compared to one year ago and Iran's rank was reported 119 in that year. Iran's score in the overall index of business space was reported 57.44. In the past year, Iran's score was 56.74. The global rank of Iran, concerning the ease of receiving loans and desirability of laws and regulations

related to it, also decreased. While Iran was ranked 90 in the previous year, its rank dropped to 97 in this year. Indices, based on which this rank was determined, are as follows: Strength Index of legal rights power in which Iran scored 2 out of score 12, the index of depth of credit information in which Iran scored 7 out of 8, and the rate of coverage of recording the credits was 49.1% in Iran (**Chart-1**).

The criterion used for assessing the relationship among structures, forms the structural part of the research model also. If T-Value is greater than 1.96, it will show the accuracy of the relationships among structures and thus confirming the structural model and the hypotheses of the study at the 95% confidence level in the research. As shown in **Table-1**, all significant numbers were greater than critical value of 1.96, and it shows the accuracy of the relationship among all structural model structures, except for the variable of an integrated data system, whose value was less than 1.96. Redundancy criterion was obtained by multiplying communalities of structures in values of coefficient of determination (R<sup>2</sup>) related to them, and it shows the importance of variability in indices of an endogenous structure, affected by one or more exogenous structures.

An excellent index to assess the fit of the structural part of structural equation models is the mean of redundancies, related to endogenous structures in a model. As the value of redundancy value of endogenous structures is more, it will indicate it to be the more appropriate fit of structural part in the model. As shown in **Table-2**, calculated values for Q<sup>2</sup> were reported between 0.22 and 0.63, indicating a strong predictive power of the model and the perfect fit of the structural model. After examining the fit of measurement models and structural model of study, this study investigated the fit of the overall model using the goodness of fit criterion.

According to calculated data, the goodness of fit value was 0.842, which was higher than 0.36, and therefore, the overall model was a good fit. The results of the analysis indicated rejection of all null hypotheses (**NH-1 to NH-7**). It means that public trust and its dimensions (reliability, risk and integrity) were significantly and positively correlated with reduced corruption in public departments of Damghan City.

## 9. Findings of the Study

It was found that e-Government excised a significant impact on the reduction of administrative and financial corruption in the public departments of Damghan City and hence the level of impact of e-Government on any of the examples of the administrative and financial corruption was determined. Independent and professional central bank helped in preventing administrative deviance in the banking system. Skilled and accountable senior managers reported an impact on preventing administrative deviance in the banking system. Systemic monitoring mechanisms also exercised an impact on preventing administrative deviance in the banking system. Data integrated systems had an impact on preventing administrative deviance in the banking system. Reforming public structure of management in the banking system (bureaucracy, transparency, and so on) did have an impact on preventing administrative deviance in the banking system. Social capital (religious teachings, culture, and public participation) helped in preventing administrative deviance in the banking system. Media and informing caused an impact on preventing administrative deviance in the banking system.

## 10. Suggestions

It is recommended that top economic managers of the country should establish a central bank so that by the presence of each political process, they are not forced to change

monetary and banking policies, based on the view of politicians in the government. Economic managers and top officials of the central bank are advised to select those people who have adequate expertise and experience in management areas and banking strategy. It is recommended that administrative deviance could be prevented by shaping the organizational behavior through the participation of employees. It is recommended to upwardly revise the banking employees wages and incomes, to increase their loyalty and quality of employees and prevent deviance in the banking system.

### 11. Conclusion

It is found that instead of using traditional methods of monitoring activities, that usually fail and are time-consuming and cause mental stress among employees, automatic controlling systems should be used in the banking system. Banking system could prevent administrative deviance among employees, by equipping systems and programs for discovering violations and control of transactions and connecting to parallel portals in the economic system and training employee's skills and values. Both the banking system and legislative system of the country should jointly reform the banking rules and strengthen the knowledge base of each other.

### 12. Limitations of the Study

It should be considered that the proposed suggestions in this study may not be applicable to all the economic systems and some modifications should be taken into account while applying them to any economic system.

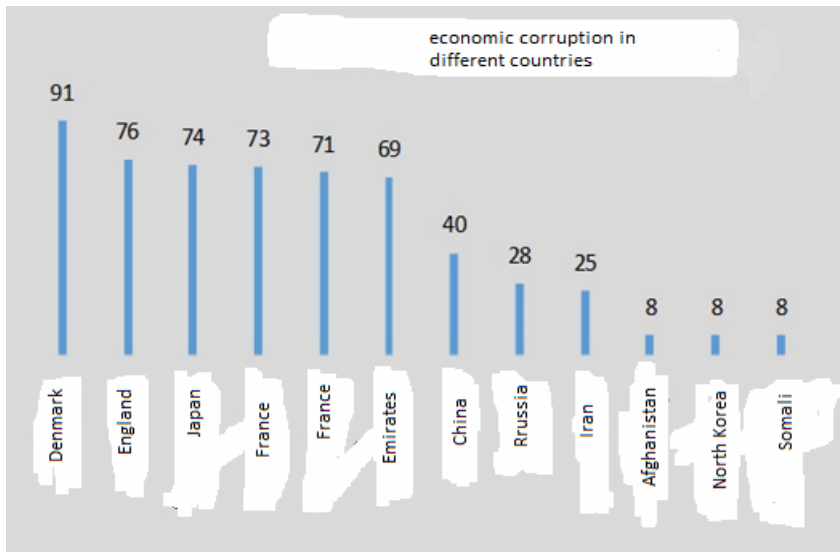
### 13. Scope for Future Study

For further study, researchers could opt for a wider sample selection to obtain more comprehensive results.

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**Chart-1: Economic Corruption in World Countries**



Source: Transparency International (2013)

**Table-1: Results of Structural Model at the state of Significance of Coefficients**

Factor	Deviance
Central Bank	21.997897
Reforming Banking Management	24.392140
Accountable Managers	13.253869
Media	3.760926
Integrated Data System	0.878220
Social Capital	5.985187
Monitoring Mechanism	17.166406

Source: Primary Data (2018) using SPSS (version 20)

**Table-2: Redundancy Index**

Factor	1-SSE/SSO
Central bank	0.603668
Reforming Banking Management	0.557143
Deviance	0.639199
Accountable Managers	0.597414
Media	0.360544
Integrated Data System	0.425023
Social Capital	0.227668
Monitoring Mechanism	0.619792

Source: Primary Data (2018) using SPSS (version 20)