

## Factors Affecting Corporate Banking Implementation in Melli Bank of Iran

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**Abstract:** Corporate banking is one of banking concepts that existing banks prepare themselves to take advantages of its capabilities. The purpose of this study was to investigate factors affecting corporate banking implementation in Melli Bank of Iran at the basis of McKinsey's 7S Model. Current study is an applied survey research. The population was staff of Melli Bank all over the country. Sample size calculated as 380 by Cochran's formula. Data collection tool was five scale questionnaire built by researcher. Face validity confirmed by bank and university experts and confirmatory factor analysis verified construction validity of research tool. Cronbach's alpha for reliability of research tool calculated as 0.926. Various tests applied for analysis such as one sample t-test, independent sample t-test and Friedman test. Results showed that five factors are at inappropriate situation and other two, strategy and system are fairly moderate.

**Key words:** Corporate banking, McKinsey's 7S Model, Melli Bank of Iran, Melli Bank, Cronbach's alpha, analysis

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### INTRODUCTION

There is a set of banking products and services which can be offered for all customers but what that distinguishes a bank from others is the way of providing such services. Corporate banking is one of the new banking concepts that progressive banks can take advantage of its capabilities. Banking services should be introduced, represented and customized alongside with large enterprises in corporate banking section. Providing services to corporations has been common in banking system and banks usually name these costumers as special and big costumers but corporate banking is a systematic and grand strategy model which tries to satisfy all needs of corporate customers, who have different banking requirements, by applying quite distinct processes (Martel *et al.*, 2012).

Melli Bank of Iran as the largest bank of Islam world and Middle East has the registered capital more than one hundred trillion, abundant assets and numerous branches inside the country and abroad; by relying on 80 years reputation and thoroughbred staff is one of the strongest financial institutes in Iran and even the world. Melli Bank of Iran should approach the implementation of corporate banking to preserve its position. In order to prepare for corporate banking implementation, it should recognize its situation, strengths and weaknesses. With respect to the strategic role of corporate banking for banks, emerging of this banking method in Iran and its importance in banking future, the need for extensive specialized research in this

field is more than ever is sensed. So, the aim of present research is answering the question that how is the status of factors affecting corporate banking in Melli Bank of Iran.

### Literature review

**Theoretical background:** Traditionally, banks are known as institutions for receiving and paying operations of money and payables. Along with development of society, it was tried to match costumers' needs with present products for a while. Technology expansion and increase of society expectations, propelled banks to match products with costumers needs. During the past few decades, changes in small banking industry have helped development of comprehensive banking, international banking, corporate banking, investment banking and private banking. In fact, the nature of banking and financial markets has been changed. The demand for new services and the need to increase the income through new ways of mobilization of resources has changed the nature of banking. The necessity of paying more attention to costumers' needs and separation of small banking and corporate banking was discussed among the bankers in eighties but it revealed in the second half of the nineties. Real customer focus is achieved just by distinguishing small costumers from larger ones, so corporate banking should not be limited to a few numbers of large enterprises and it should also be extended to medium corporations.

Corporate banking is the set of banking services designed to satisfy the specific needs of customers related to special issues of each business. This banking services usually are formed around central role of customers account managers and relying on close relationship between corporations and account managers and try to fulfill the financial and banking needs of a company as soon as possible with the best quality. Corporate banking is an opportunity for commercial banks in order to segmenting their customers and focusing on important groups of them; recognizing the special needs of customers and determine their strategy and action plans to fulfill these needs; improving their profitability by providing special services to; this customers; promoting customer retention and loyalty by fulfilling specific needs; attracting potential and new customers to the bank.

Current services in corporate banking field generally can be divided into 8 categories: corporate payment services, credits, financial risk management, business risk management services, asset management, market management, corporate finance and international services. It must be considered that these services don't have equal weight. Generally banks focus on lending to corporate customers and some products such as asset management and payment services while other products like industry risk service and positioning in the market service are considered marginal.

McKinsey's 7S Model was introduced by Thomas Peters and Robert Waterman in the early 1980s and it was used in >70 large organizations subsequently. This model has been known as a simple recognizable and easy recalling model (Alshaher, 2013). McKinsey's 7S Model expresses that competitive advantage achieves through exact symmetry between organization key features and their centralization on special goal or mission. This requires proportionality between organization strategy and environment and also right coordination between seven interorganizational key factors. These factors include structure, strategy, systems, style, skills, staff and shared value (Armstrong, 2006).

Effective organizations have been achieved a proportion between these elements which can be divided into two categories: hard and soft. Hard factors (strategy, structure and systems) are practical, justified and easy recognizable. On the other hand, four soft factors (shared values, skills, staff and style) are difficult to identify and be applied. Due to characteristics of this model, present work investigates factors affecting corporate banking implementation in Melli Bank of Iran accordingly.

As discussed, McKinsey's Model dimensions are connected with each other. But there are some essential

points; first, lots of factors affecting organizations capability to change, warn that we should not rely on few factors and ignore the others. Second, these factors are quite mutually related and improving one factor is not possible without improving other factors. Finally, there is no starting point or hierarchy between the dimensions of the model which means it is impossible to identify the factors priority at certain time and organization (Hanafizadeh and Zareravasan, 2011). Due to high capacity of 7S Model in providing comprehensive view about all organizations (Alshaher, 2013) present research inspired from this model to develop conceptual model.

**Experimental background:** Given the newness of 'corporate banking' subject, applied researches are not investigated inside the country and there is some theoretical papers which are as follows.

Noori Brojerdi in comparative study of corporate banking position in Iran and the world, found that corporate banking is the essential component of all commercial banks, top rated world banks and even regional banks. But for Iranian banks the results are vice versa. The most important result of this research is that corporate banking is crucial for new banking and Iranian bankers should implement and adopt it quickly.

Guo *et al.* (2008) studied service quality dimensions in China corporate banking and demonstrated that services quality in China corporate banking is determined by a group model which includes two construction of functional and technical quality and also four dimensions of human capital, confidence, technology and telecommunication. He showed that the banks should first provide reliable services to attract their customer's satisfaction, then the managers should hold training and justifying sessions for staff to provide better services for customers by telecommunication and customer attraction skills. The third important subject is converting short-term communication to long-term communication which needs bank managers' focus on present communication with customers. The fourth subject is that bank managers should advert technology that uses for providing services and they should try to improve these technologies and apply modern ones.

Srijumpa *et al.* (2007) investigated satisfaction and dissatisfaction of personal and online customers about receiving corporate banking and stock broker services in Thailand. The results showed that people welcomed more by the personal services and they are more satisfied by this method. Dissatisfaction from online services is more tangible than personal one. The 152 banks and 460 stock brokers were studied in this research. It was demonstrated that personal services are more significant than online services among the Thai corporate customers.

Anabela in research with the subject of corporate banking costumers investigated the relationship between excellent service capability, costumers' satisfaction increase and finally their loyalty. It was demonstrated that high quality services has indirect positive effect on loyalty while costumers' satisfaction has direct positive effect on it. Services quality has specially three dimensions: providing service according to costumer need, creating good relationship between corporation decision makers and bank commercial managers and ensuring about services with minimum mistake and inefficiency. The first dimension affects bank and enterprise relation and it also affects bank selection by enterprise. The second dimension emphasizes the relationship between staff which helps customer retention. Finally, 3rd dimension refers to the importance of service quality from corporation managers' view who expects receiving services with minimum error. In order to increase costumers' loyalty, corporate banking should identify these dimensions and utilize them in their service providing plans.

Eeva-Liisa studied electronic information transfer between Denmark Nordai bank and its customers. The main goal of this research was finding similarities and differences between government and private solutions for information transfer. He noticed that loss of standard model in banking industry may require technical solutions during the year. So, there are many final products. Although, systems are changing but it is possible to find certain similarities yet. To transfer information safely, encrypted messages can be used. Information security has a certain framework in Denmark and Sweden but in Finland and Norway, costumers determine to use protection mechanism for information security or not. Actually costumers have the right to select a certain service. Although, customers can choose the way of information transfer but they must be at the basis of ISO and BSI standards.

Tyler and Stanley (1999) focuses on large corporates' expectations of service delivery from their bank(s). The interview results showed that corporate banking expectations divided into technical and operational factors categories. Operational factors are direct and determined which includes: minimum error, high level of staff on time service delivery and providing bank orders without costumer's involvement. Technical factors emphasize on complexity reduction of service receiving by great corporate customers. The operational factors include, bank preventive activities, trust, real partnership, honest and thorough communication, costumer's needs understanding and high level of costumer's information.

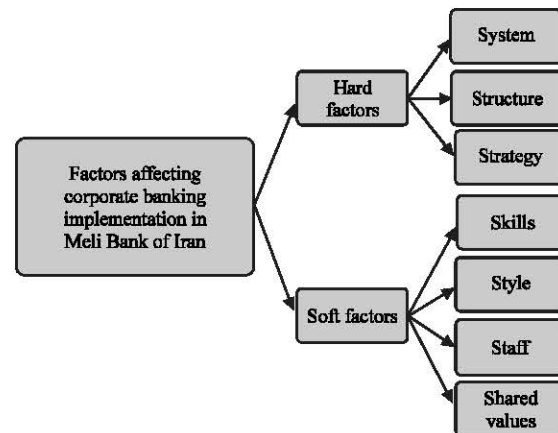


Fig. 1: Research conceptual model

**Conceptual model:** According to investigated background and factors, present work conceptual model is defined as bellow (Fig. 1).

## MATERIALS AND METHODS

Present study is an applied research since the expected results of it can be used to improve Melli Bank of Iran operating. In other words, this research proposed some suggestions to improve the situation of factors affecting corporate banking implementation in Melli Bank of Iran by using the cognitive and informational basis which obtained from previous researches. In term of procedure, present study is descriptive survey research since it tests hypotheses according to predicted relations and seeks for identifying variables relations by inferential statistics.

Present study is done at lineup and staff units of Melli Bank of Iran all over the country. The statistical population includes Melli Bank of Iran staff who answers the research questionnaires. Therefore, population includes 37836 staff of Melli Banks branches in Iran. The level of confidence of present study is 95 and acceptable error percentage is considered 5. With respect to population volume, sample size obtained 380.

Data collecting tool was researcher made questionnaire which were accumulated through different ways and finally 402 questionnaires shaped the basis of analysis. The questionnaires return rate has the suitable value of 93%. Content validity was evaluated by university experts and banking specialists while construct validity was tested by confirmatory factor analysis method and reliability of the research tool was calculated by Cranach's alpha which showed a very appropriate value.

## RESULTS AND DISCUSSION

One sample t-test was used to investigate the situation of factors affecting corporate banking implementation. So, the average of respondents' ideas about each factor was compared with the middle limit of measuring tool scale which is 3.  $H_0$  and  $H_1$  hypothesize can be expressed as Eq. 1:

$$\begin{cases} H_0 : \mu \leq 3 \\ H_1 : \mu > 3 \end{cases} \quad (1)$$

**Hypothesize 1 (situation of structure factor is appropriate for corporate banking implementation):** Obtained results presented in Table 1 and 2 indicate that calculated Sig. is  $>0.05$ , so it can be concluded that  $H_0$  assumption can't be rejected. Therefore, it can be said that structure factor situation in corporate banking implementation is inappropriate.

**Hypothesis 2 (system factor situation in corporate banking implementation is appropriate):** The results obtained from Table 3 shows that Sig.  $>0.05$ . So, it can be demonstrated that the assumption of responses average equal or  $<3$  is not rejected. Therefore, the situation of this factor for implementing corporate banking is not suitable. But according to the obtained lower and upper levels which are positive and negative respectively, it can be said that system factor situation equals 3. In other words, this factor has a moderate situation.

**Hypothesis 3 (strategy factor situation in corporate banking implementation is appropriate):** According to Table 4, calculated Sig. is  $>0.05$  which shows that assumption of responses average equal or  $<3$  can't be rejected. So, conditions of this factor for corporate banking implementation are not suitable. But according to the negative and positive values of lower and upper levels

demonstrates that average of answers about this factor is equal to 3. So, strategy factor condition is fairly moderate.

**Hypothesis 4 (style factor situation is appropriate for corporate banking implementation):** Table 5 represents the results for this factor. Calculated Sig. was  $>0.05$  which shows that the assumption of responses average equal or  $<3$  had not been rejected. So, it can be concluded that style factor condition is inappropriate for corporate banking implementation.

**Hypothesis 5 (staff factor situation for corporate banking implementation is appropriate):** Table 6 shows the results about this factor. Calculated value of Sig.  $>0.05$ , so the

Table 1: Confirmatory factor analysis results for questionnaire items

Table factors	Items	Factor loadings	KMO	Bartlett's test	Explained variance
Structure	Q1	0.825	0.756	0.000	63.554
	Q2	0.855			
	Q3	0.726			
	Q4	0.777			
Systems	Q5	0.797	0.795	0.000	65.174
	Q6	0.856			
	Q7	0.844			
	Q8	0.726			
Strategy	Q9	0.840	0.818	0.000	72.609
	Q10	0.866			
	Q11	0.854			
	Q12	0.848			
Style	Q13	0.816	0.701	0.000	70.949
	Q14	0.844			
	Q15	0.866			
	Q16	0.820			
Staff	Q17	0.906	0.740	0.000	63.508
	Q18	0.877			
	Q19	0.528			
	Q20	0.815			
Skills	Q21	0.894	0.815	0.000	70.932
	Q22	0.866			
	Q23	0.791			
	Q24	0.843			
Shared values	Q25	0.865	0.711	0.000	72.136
	Q26	0.839			

Table 2: Results of t-test for structure factor

Factor	No. of samples (No.)	Mean	SD	t-value	Degree of freedom (df)	Significance level (Sig.)	Lower level	Upper level
Structure	402	2.67	0.85	-7.592	401	0.999	-0.407	-0.240

Table 3: Results of t-test for system factor

Factor	No.	Mean	SD	t-value	df	Sig.	Lower level	Upper level
System	402	2.96	0.88	-0.778	401	0.563	-0.120	-0.052

Table 4: Results of t-test for strategy factor

Factor	No.	Mean	SD	t-value	df	Sig.	Lower level	Upper level
Strategy	402	2.92	0.887	-1.672	401	0.905	-0.161	-0.013

Table 5: Results of t-test for style factor

Factor	No.	Mean	SD	t-value	df	Sig.	Lower level	Upper level
Style	402	2.92	0.887	-1.672	401	0.905	-0.161	-0.013

Table 6: Results of t-test for staff factor hypothesis 6

Factor	No.	Mean	SD	t-value	df	Sig.	Lower level	Upper level
Staff	402	2.36	0.76	-16.723	401	0.999	-0.379	-0.203

Table 7: Results of t-test for staff factor

Factor	No.	Mean	SD	t-value	df	Sig.	Lower level	Upper level
Skills	402	2.7	0.89	-6.50	401	0.999	-0.379	-0.203

Table 8: Results of t-test for shared values factor

Factor	No.	Mean	SD	t-value	df	Sig.	Lower level	Upper level
Shared values	402	2.9	0.88	-2.03	401	0.957	-0.176	-0.002

Table 9: Descriptive results of Freidman's test

Indicators	Values
Sample	120
Chi-square	180.366
Degree of freedom	3
Significance level	0.000

Table 10: Preferences of factors at the basis of inappropriateness

Variables	Ranking average	Priority
Structure factor	3.58	Sixth
System factor	4.60	First
Strategy factor	4.52	Second
Style factor	4.21	Fourth
Staff factor	2.80	Seventh
Skills factor	3.86	Fifth
Shared values factor	4.42	Third

assumption of responses average equal or  $<3$  can't be rejected. As a result, it can be concluded that the situation of staff factor in corporate banking implementation is inappropriate.

**Hypothesis 6 (skills factor situation in corporate banking implementation is appropriate):** According to Table 7, the calculated Sig.  $>0.05$ . So, it can be concluded that assumption of responses average equal or  $<3$  cannot be rejected. It can be said that skills factor situation in corporate banking implementation is inappropriate.

**Hypothesis 7 (situation of shared values factor in corporate banking implementation is appropriate):** Table 8 represents the results about this factor. The Sig.  $>0.05$  which shows that the assumption of responses average equal or  $<0.05$  is not rejected. So, it can be concluded that shared values factor situation is inappropriate for corporate banking implementation.

As mentioned in previous study about seven factors investigation, Melli Bank of Iran has inappropriate situation for corporate banking implementation. Freidman test was used in order to rank factors to find the worst factor. Table 9 and 10 show results respectfully.

Table 9 shows that significant level for this test is  $<0.05$ . This means that these factors have not equal preferences. It can be referred to ranking averages in order to investigate situations rank. With a more rank average, the factor has better situation. With regards to

inappropriate situation of factors in present study, the variable with the least rank average has the worst situation. Therefore, staff factor has worst position and the structure, skills, style, shared values, system and energy factors are placed afterwards. The order of these factors shows how Melli Bank should focus on them in order to implement corporate banking.

## CONCLUSION

The first hypothesis results showed that the status of organizational structure, working processes, decision making style and activity operating methods in Melli Bank make it difficult to implement corporate banking. As discussed before, corporate banking emphasizes on corporate customers, organizations and enterprises. Therefore, its activity performing methods and decision making style is different from individual banking. The organizational structure and working process of Melli Bank have been formed by focusing on real costumers and individuals. According to existing structure and working processes, corporate banking implementation in Melli Bank is not possible. The obtained results of this section correspond to Amirshakari's research which identifies organizational structure modification of banks as the prerequisite of corporate banking implementation.

The second hypothesis investigation demonstrated that although information systems, hardware systems, software, electronic services and network systems, like Shetab network and swift are not inappropriate in Melli Bank, the corporate banking implementation is not simple and essential actions should be done to improve factors conditions. Melli Bank background shows that this bank has not inappropriate situation but the point is in which extent these factors are changed for corporate banking implementation. Amadeh and Jafarpour (2009) demonstrated that technically, technological factors are not a barrier for creating new banking methods and their capacity can be used to help their implementation. The tendency to use software, hardware and information systems in Melli Bank, does not consider special facilities for their corporate customers and for this reason this factor is indicated as inappropriate.

Third hypothesis investigation suggested that the situation of long term strategies, policies, visions, long term and short term goals of Melli Bank do not provide favorable conditions for corporate banking implementation but they are not also a barrier in this way. The results of this hypothesis corresponds to Keshmiri which introduced ensuring, identifying of advantages and strategy formulation as important proceedings of corporate banking implementation. He entitled planning and having strategy alongside preparation. There is not a long term planning about corporate banking implementation in Melli Bank up to now as a result there are not codified strategies about this subject.

Fourth hypothesis results showed that the condition of top managers support, the head branches performance and the relations of branches managers with bank branches don't provide needed conditions for corporate banking implementation. These results are in line with Amadeh and Jafarpour (2009) research results. They confirmed existence of cultural-social, legal and management barriers in electronic banking development. In other words, Melli Bank top managers don't have enough flexibility for corporate banking implementation and the branches managers don't support their corporate customers well enough. Actually Melli Bank managers don't have adequate authority to implement new changes in structure and processes to create new methods, since it is a state bank. As a matter of fact, traditional view of Melli Bank managers prevents corporate banking implementation. In traditional view, the customers should get along with bank services and there is no need to attract them and attend their needs. The different view of Melli Bank managers and customers about concept of value creating confirms the imperfect perception of customers by related managers.

Fifth hypothesis results shows that staff training situation, their awareness of the laws, regulations and executive processes of corporate banking and also the commitment of staff, don't have appropriate condition to implement corporate banking in Melli Bank. The staff factor and human resources in theory and literature of corporate banking implementation has always been emphasized. Staff are able to change financial capital and other types of capital. Obviously, if three important tools, leadership, motivation and good communications between banking system staff and regulation of banking system have been applied properly, then it can cause tendency to do duties among staff, conflict reduction, understanding, mutual trust, order and harmony and better work. Kiyakajoori and Nobati (2008) suggested that one of challenges in implementing new methods of banking is lack of public training and cultural and social context. The

necessary trainings about corporate banking significance and handling the affairs of corporate customers are not transferred to staff. Also the corporate banking processes are not explained well for them. Finally, Melli Bank staffs don't have adequate commitment about providing special services for corporate customers and also their work evaluation conditions don't persuade them for this work.

Sixth hypothesis results demonstrated that knowledge, expertise, experience and the ability of staff don't provide necessary situation for corporate banking implementation. Some items which are considered as necessary proficiency for corporate banking implementation from literatures includes: market segmentation, customer share increase, target business selection, catching large and transparent corporations, recognition of variable and complex needs of each business. Therefore, there is no readiness for corporate banking implementation without this knowledge and proficiency. Tyler and Stanley (1999) investigated the expectations of large corporations from corporate banking operation in England. He showed that high level of knowledge is one of the customers' expectations. Market segmentation for corporate banking and plan for customer share increase are not done in Melli Bank. Also adequate knowledge to recognize changing needs of corporate customers is not also acquired.

Seventh hypothesis investigation demonstrated that core values, key norms and current work principles of Melli Bank don't facilitate corporate banking implementation. There are two essential challenges about shared values, cultural infrastructure for corporate banking implementation. First, with tendency toward new banking methods, many old methods should put in new framework and necessary trainings should be provided for staff to match with them. Second challenge is related to implanting banking tools and methods with people's culture, spirit and knowledge who are working with traditional methods for many years and they aren't willing to abandon them (Kiyakajoori and Nobati, 2008). Actually, the culture of proving special service for corporate customers should be introduced as a norm and value among managers and line and staff sections. The perpetual attention to customer should be defined as value. Tyler and Stanley (1999) referred to factors which should be changed to value and norm among bank staff and this needs appropriate culture. These factors were introduced as operational factors which include trust, real partnership, honest and complete communication.

The results of seven hypotheses demonstrated that no factor is in appropriate situation for corporate banking implementation. Two factors of strategy and system are just in a moderate situation. Investigated factors were

ranked in order to determine which area should be the starting point to improve the situation. So, the staff factor has the least rank while system has the highest rank. Therefore, the first priority is training and staff motivation for corporate banking implementation. The situation of structure, working processes and style should be improved after these two factors. Skills and expertise of staff is in third rank for improvement. Style has the fourth and shared values have the next position. Finally, with the moderate situation of system and strategy factors they can be improved after other factor improvement.

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