

## **Studying Opportunities and Threats Resulting from Sanctions on International Activities of Iranian Banks (Case Study: Bank Melli of Iran)**

**Seyed Javad Hashemi**

MA in Management, Central Tehran Branch, Islamic Azad University, Iran

**Mansoureh Aligholi\***

Department of Management, Central Tehran Branch, Islamic Azad University, Iran

\*Correspondance: man.aligholi@iauctb.ac.ir

### **Abstract**

*The aim of the present study is to examine the opportunities and threats resulting from sanctions imposed on international activities of Iranian Banks (case study: Bank Melli of Iran) and hence, the present study is an exploratory, survey study in terms of method and in terms of goal, it is an applied study. Statistical population of the present study consisted of all the experts of Bank Melli Iran in 2015. From this statistical population with reference to Cochran's formula for limited population, a number of 326 managers, deputies and experts were selected by using simple random sampling method, due to Homogeneity of the available units and completed the research questionnaire. Content validity of this questionnaire was tested by using face validity method and was confirmed by a number of expert and specialists and its reliability also was confirmed by using Cronbach's alpha test. In the end, data collected from research questionnaires were analyzed by using confirmatory factor analysis. Results indicated that research hypotheses are confirmed. Therefore, we can claim that currency, human resources, organizational resources and management opportunities are among the opportunities resulting from currency, organizational and international sanctions and threats and domestic macro threats, customers treats and banking risk are among the threats resulting from sanctions impose in international activities of Bank Melli Iran.*

**Keywords: Opportunities, threats, sanctions, international activities, Bank Melli Iran.**

## 1. Introduction

Political superpowers or the very International decision makers make use of various tools for displaying their power and change the policies of other governments toward their own ends. These tools in order of intensity are: political pressures, international pressures, sanction (economic, non-economic) and military operations (Sherkhani, 2008).

Sanction refers to any kind of activity which is imposed by one or more countries (sender) in the international arena against one or more countries (target) with the intention of punishing their governments by depriving them of a number of values or forcing them to perform or accept certain norms which are considered as important from the international point of view. In other words, sanction is a political tool which is one of the Instruments of foreign policy which is used toward forcing governments to change their behaviors (Sherkhani, 2008). For understanding the position and place of sanction among instruments of foreign policy, it should be considered that strategic instruments of this policy for achieving the goal of affecting the policy of governments in order of intensity are: diplomatic pressures, international demands and pressures, sanction and eventually military operations and on the other hand, there are two types of Boycott which are economic and non-economic boycotts (Sherkhani, 2008). Among the above mentioned instruments, economic sanction is only one step lower than military operation and maybe this is the reason why in political - economic texts it is referred to as a weapon and hence, it is of great importance. A weapon which is extensively used in spite of the fact that so many experts believe that it lacks efficiency. Here, a country or countries that is imposing a sanction and a country or countries that have been targeted should know this phenomenon very good and should be informed and aware of its positive and negative effects on economic indexes of both the involved parties in order to deal with it. In United States of America, as one of the most important and major imposers of sanction, so many studies have been conducted from political - economic point of view in this field, the results and findings of which are used in application and imposition of sanction known as Smart sanctions. William Comper and Antoine Lyonberg (1988), have analyzed the role of public support of sanction in which commercial restrictions are more effective. Daniel Derzenes (1999), based on three effective survey study has shown that domestic pressures are not a dominant motivation in sanction. He has shown that sanction is an Useful instrument of foreign policy for applying those successes for which United States expects to achieve a significant results (Haafbouer et al., 2007).

"Display of power" is one of the major forces behind imposition of sanctions. This motivation, especially regarding United States which repeatedly makes use of sanctions for proving its leadership in the world, is correct. In these cases, often, imposition of boycott is due to the reason that the cost resulting from non-confrontation seems to be higher than the costs of sanction (which is due to undermining the ability of United States both in terms of internal and external point of views. In recent years, United States have used economic sanctions increasingly as a tool for progressing and achieving its Foreign policy goals. In these years, United States of America have always claimed the efficiency of sanctions and on the contrary, Islamic Republic of Iran has always claimed its Inefficiency. In some cases also, "domestic policy goals", are strong motivations for imposition of sanctions and often these blockades have been successful in achieving public support for the imposing government with provoking a sense of patriotism

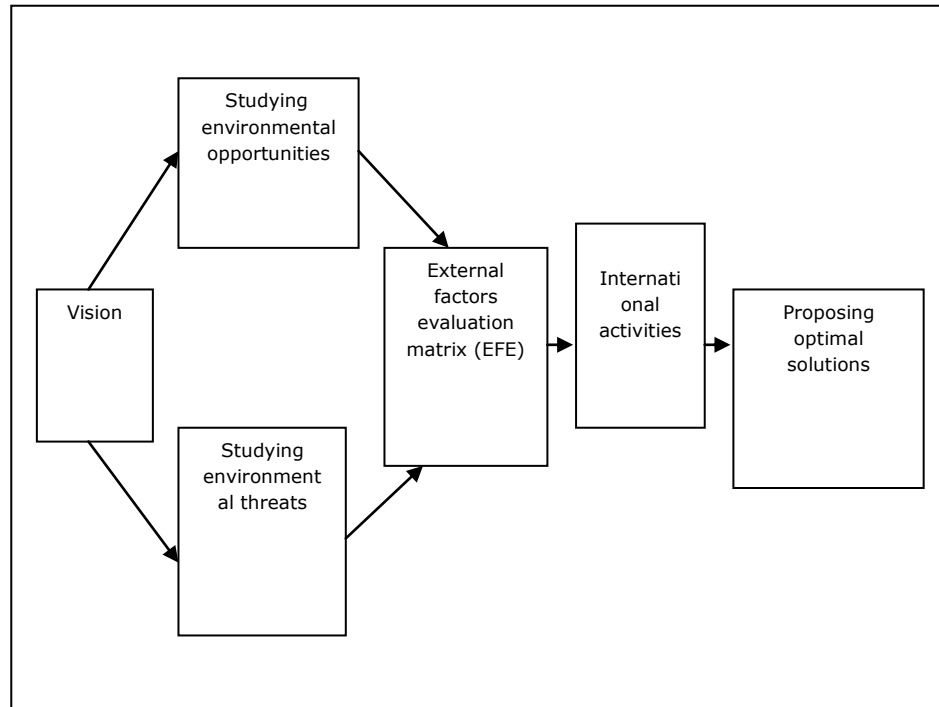
(United States sanction against Japan prior to World War II) with creating enthusiasm in people for revenge.

In 1992, United States understood that Iran's military progress can threaten its interests in Persian Gulf. This caused United States to adopt a policy for preventing Iran from achieving or producing weapons such as Ballistic missiles, nuclear weapons and chemical and biological weapons against Iran. To this end, in May of 1993, United States with application of a common policy for supporting its own interests in Persian Gulf imposed an economic sanction against Iran and Iraq.

Werben et al's (2011) studies have shown that economic sanction against Iran after September 11 have been effective on Iran's ability in exports and have affected the financial system of this country. Cordesman et al's (2013) study also has indicated that if sanctions are strong, they will more cause the target country not to surrender. Woo & Philips (2010) have also studied the effect of economic sanctions after 2008 and have found out that the effects of economic sanctions can hugely aid analysts in studying the reaction of Stock market shareholders in various periods, especially in the periods of financial crises. In Iran also a number of studies have been conducted on sanctions effects on economy.

Al Kajbaf and Ansariyan (2014) have conducted a study with the title of "effect of unilateral and multilateral sanctions on Iran from the perspective of Iranian citizens' right to health" in which indexed right to health and the effect of imposed sanctions on Iran have been studied on each of these indexes. Ghaffari Ashtiani et al (2014) have conducted a study with the title of (changes in consumer behavior following economic sanctions" and with adding the two variables of awareness of sanction and attitude toward sanction have tried to provide a more profound understanding of the current situation of Iran. In addition to this, due to importance of attitude and its strong effect, it has been tried to study the effect of its related factors such as perception of price and quality and perception of manufacturing ability of Iran on attitude toward Iran's product. Results of this study indicated that perception of price; quality and manufacturing ability of Iran have a positive effect on attitude toward Iranian products. Perceived behavioral control, attitude, subjective norms, awareness and attitude toward sanction also have a positive effect on consumers' intention for Iranian products.

Due to the fact that so far no studies have been conducted regarding the opportunities and threats resulting from sanctions and international activities in Bank Melli Iran, shows the need of the research population of our country for conducting such a research in this field. Considering the importance of studying opportunities and threats resulting from sanctions on international activities of Bank Melli Iran for higher performance and better delivery of services in a way we can claim that the concern of the research in the present study also is to examine the opportunities and threats resulting from sanctions on international activities of Bank Melli Iran. The present study seeks to examine opportunities and threats resulting from sanctions on international activities of Iranian Banks (Bank Melli Iran) which is conducted based on David's (1994) model.



**Figure (1):** Research conceptual model (model source: David, 1994)

Therefore, research hypotheses are presented as below:

1. Currency opportunities are among the opportunities resulting from sanctions on international activities on Bank Melli Iran.
2. Human resources opportunities are among the opportunities resulting from sanctions on international activities of Bank Melli Iran.
3. Organizational opportunities are among the opportunities resulting from sanctions on international activities of Bank Melli Iran.
4. Management opportunities are among the opportunities resulting from sanctions on international activities of Bank Melli Iran.
5. Currency threats are among the threats resulting from sanctions on international activities of Bank Melli Iran.
6. Organizational threats are among the threats resulting from sanctions on international activities of Bank Melli Iran.
7. International threats are among the threats resulting from sanctions on international activities of Bank Melli Iran.
8. Domestic macro threats are among the threats resulting from sanctions on international activities of Bank Melli Iran.
9. Customers' threats are among the threats resulting from sanctions on international activities of Bank Melli Iran.
10. Banking risk threats are among the threats resulting from sanctions on international activities of Bank Melli Iran.

## 2. Research method

The present study in terms of goal is an applied study and in terms of type, it is a descriptive - correlation study and in terms of method, it is a survey study.

### 2.1. Variables:

Independent research variables are entrepreneurial orientation; flexibility in production, innovation capability; ability to adapt to market development; company size; management capabilities and Entry strategy and export performance was taken as dependent variable.

### 2.2. Research population and sample:

Statistical population of the present of the present study is consisted of all the experts of Bank Melli Iran that are a total number of 2169 experts.

For determining minimum necessary sample volume, Cochran's formula for limited population was used and minimum necessary sample volume was determined to be consisted of 326 experts. Due to homogeneity of the existing units in statistical population and also due to limited number of statistical sample members, simple random sampling method was used. In this method, members of statistical population have a certain and equal probability of being selected as a respondent.

Demographic characteristics of respondents are as following:

Table (1): Respondents' characteristics

Respondents characteristics		Frequency	Percentage
Gender	Male	299	91.7
	Female	27	8.3
Age	Less than 25 years	6	1.8
	25 to 30 yeas	23	7.1
	31 to 35 years	43	13.2
	36 to 40 years	80	24.5
	40 years and above	174	53.4
Marital status	Single	46	14.1
	Married	280	85.9
Education	Associate degree and lower	0	0
	Bachelor	242	74.2
	Master	80	24.5
	PhD and higher	4	1.2
Type of employment	Private	33	10.1
	semi-private	56	17.2
	Governmental	237	72.7
	Others	0	0
Service tenure	Less than 5 years	17	5.2

	6 to 10 years	24	7.4
	11 to 15 years	64	19.6
	16 to 20 years	110	33.7
	More than 20 years	111	34
Job position	Manager	40	12.3
	Deputy	84	25.8
	Employee	202	62

### 2.3. Data collection

Data collection was conducted by using questionnaires. 326 questionnaires were distributed among and collected back face to face from research population. Respondents were assured that their names would be treated confidentially and won't be disclosed in any way.

Measurement scale, validity and reliability:

In this study, for qualitative analysis of data and also gaining awareness about expert's attitude in Bank Melli Iran toward studying opportunities and threats resulting from sanctions on international activities of Iranian Banks, required data for study was collected by using questionnaire instrument. Research questionnaire items this study have 50 items. Considering the fact that this questionnaire is an standard one, therefore, in a way its validity is confirmed. However, for gaining more assurance in this regard, face validity method was used (confirmation by experts) and its reliability was tested by using Cronbach's alpha coefficient test which is equal to 0.7 which indicates that research questionnaire is reliable. Every item in research questionnaire contains five options (including totally disagree, disagree, neutral, agree and totally agree) and respondents can selected one of these options (Azar and Momeni, 2008).

### 3. Research findings

Descriptive statistics of research variables are as following:

**Table (2):** Descriptive statistics of research variables

	Variable	Quantity	Min.	Max.	Average	Standard deviation	Variance
Opportunities	Currency	326	1.14	5.00	3.59	0.64	0.41
	Human resources	326	1.00	5.00	3.52	0.71	0.50
	Organizational	326	1.00	4.86	2.90	0.69	0.48
	Management	326	1.75	5.00	3.84	0.61	0.37
	Domestic macro	326	1.08	3.85	2.36	0.56	0.32
Threats	Currency	326	1.00	3.60	2.03	0.48	0.24
	Customers	326	1.00	4.00	2.72	0.55	0.30
	International	326	1.00	4.00	2.90	0.57	0.33
	Bank risk	326	1.00	5.00	2.89	0.79	0.62

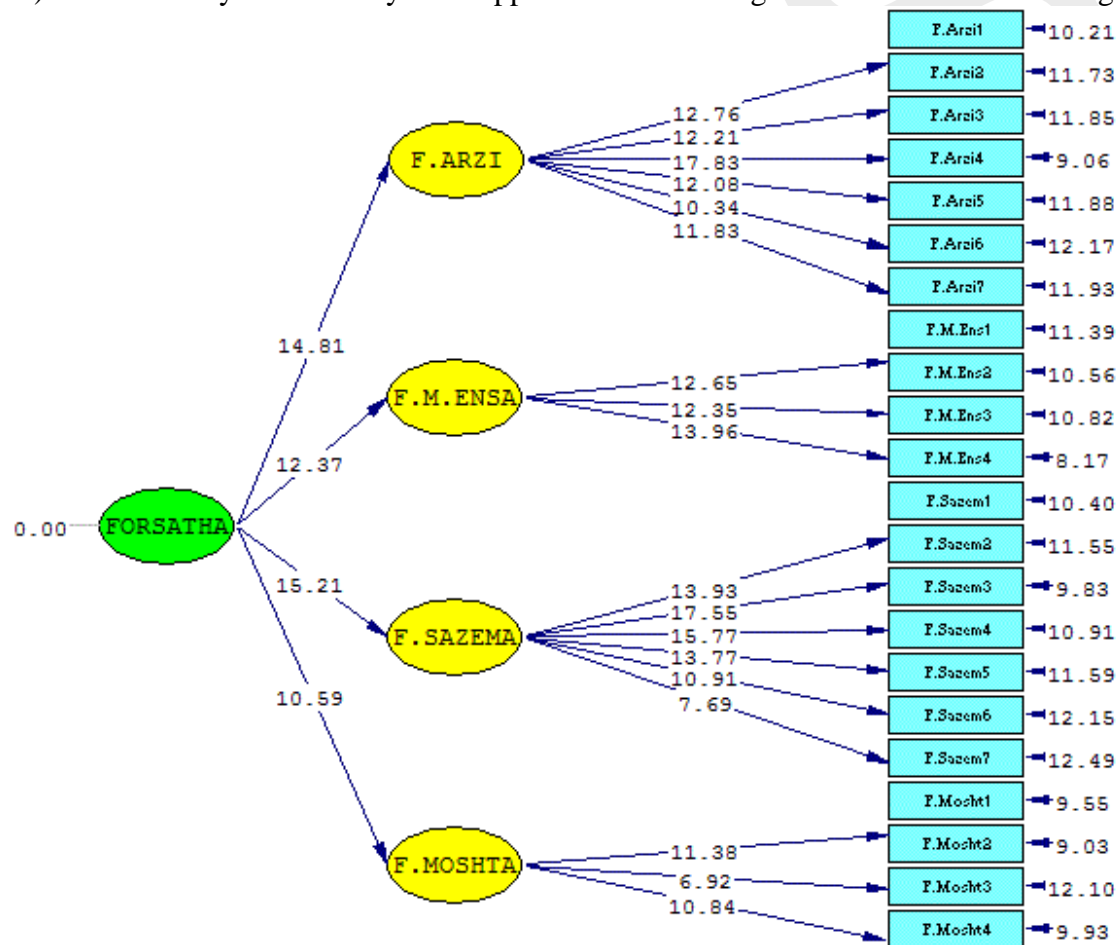


	Organizationa l	326	1.12	4.41	2.78	0.61	0.37
--	--------------------	-----	------	------	------	------	------

Based on the above table, the highest average value is related to the variable of customers with the value of 3.84 and the lowest value is related to the variable of currency which is equal to 2.03. In addition, highest and lowest dispersion are related to the variables of bank risk threat and currency threat, respectively.

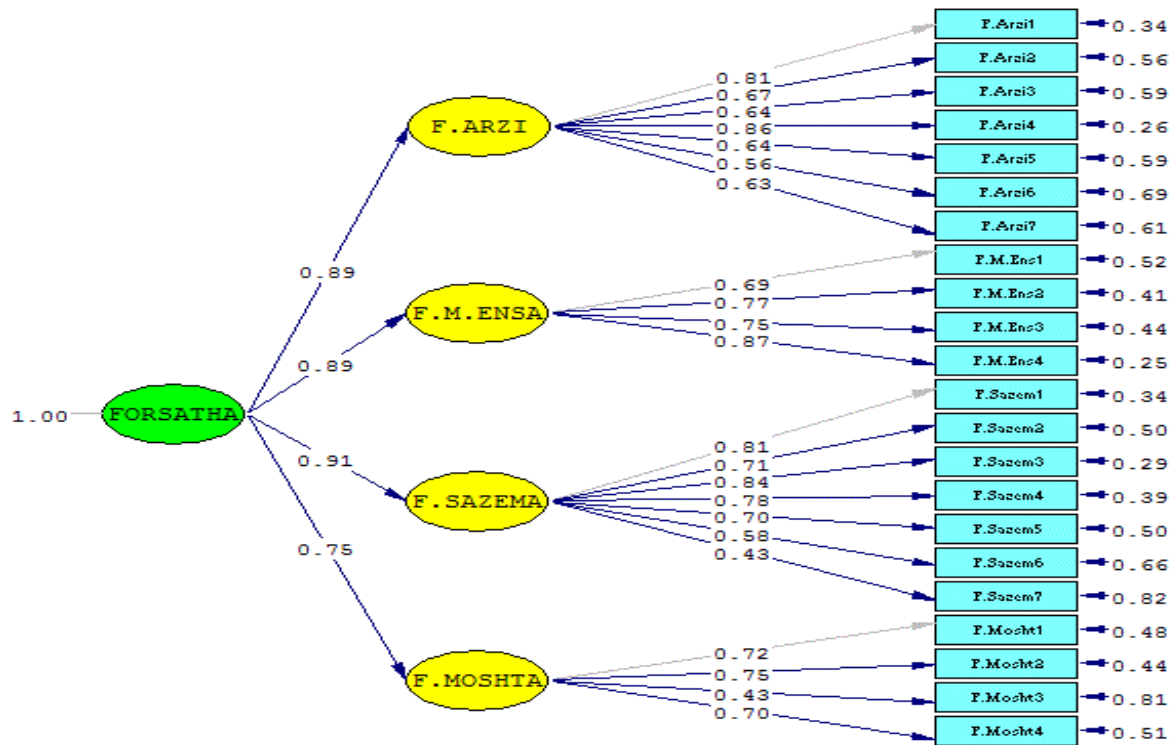
For conducting inferential statistics, after confirming that research variables have a normal distribution by using Kolmogorov-Smirnov test, confirmatory factor analysis is conducted for threats and opportunities resulting from sanctions by using Structural Equations modeling. The summary of the results of these analyses are as following:

A) Confirmatory Factor analysis of oppotunities resulting from threats is a following:



Chi-Square=488.98, df=205, P-value=0.00000, RMSEA=0.065

Figure (2): Measurement model of oppotunities resulting from sanctions in significance mode Considering that the obtained t-values are all larger than 1.96, hence, model's parameters are all significant and factor loadings and model's coefficients estimation is as following:



Chi-Square=488.98, df=205, P-value=0.00000, RMSEA=0.065

**Figure (3):** Measurement model of opportunities resulting from sanctions in standard estimation mode

For testing mode’s goodness of fit, statistical indicators mentioned in following table were used.

**Table (3):** Goodness of fit indicators of measurement model of opportunities resulting from sanctions

Indicators of fit	Appropriate values	Ideal values	Research values	Fitness results
$\chi^2/df$	$\leq 3$	$\leq 2$	2.38	Perfect fit
RMSEA	$\leq 0.1$	$\leq 0.08$	0.065	Perfect fit
NFI	$\geq 0.9$	$\geq 0.95$	0.95	Perfect fit
NNFI	$\geq 0.9$	$\geq 0.95$	0.96	Perfect fit
CFI	$\geq 0.9$	$\geq 0.95$	0.96	Perfect fit
IFI	$\geq 0.9$	$\geq 0.95$	0.96	Perfect fit
AGFI	$\geq 0.8$	$\geq 0.95$	0.80	Good fitness



In general, considering the fact that factor loading value are high and that they are significant together with the fact the model's goodness of fit is desirable, validity of reliability of the measurement model of opportunities resulting from sanctions can be concluded.

B) Confirmatory factor analysis of threats resulting from sanctions is as following:

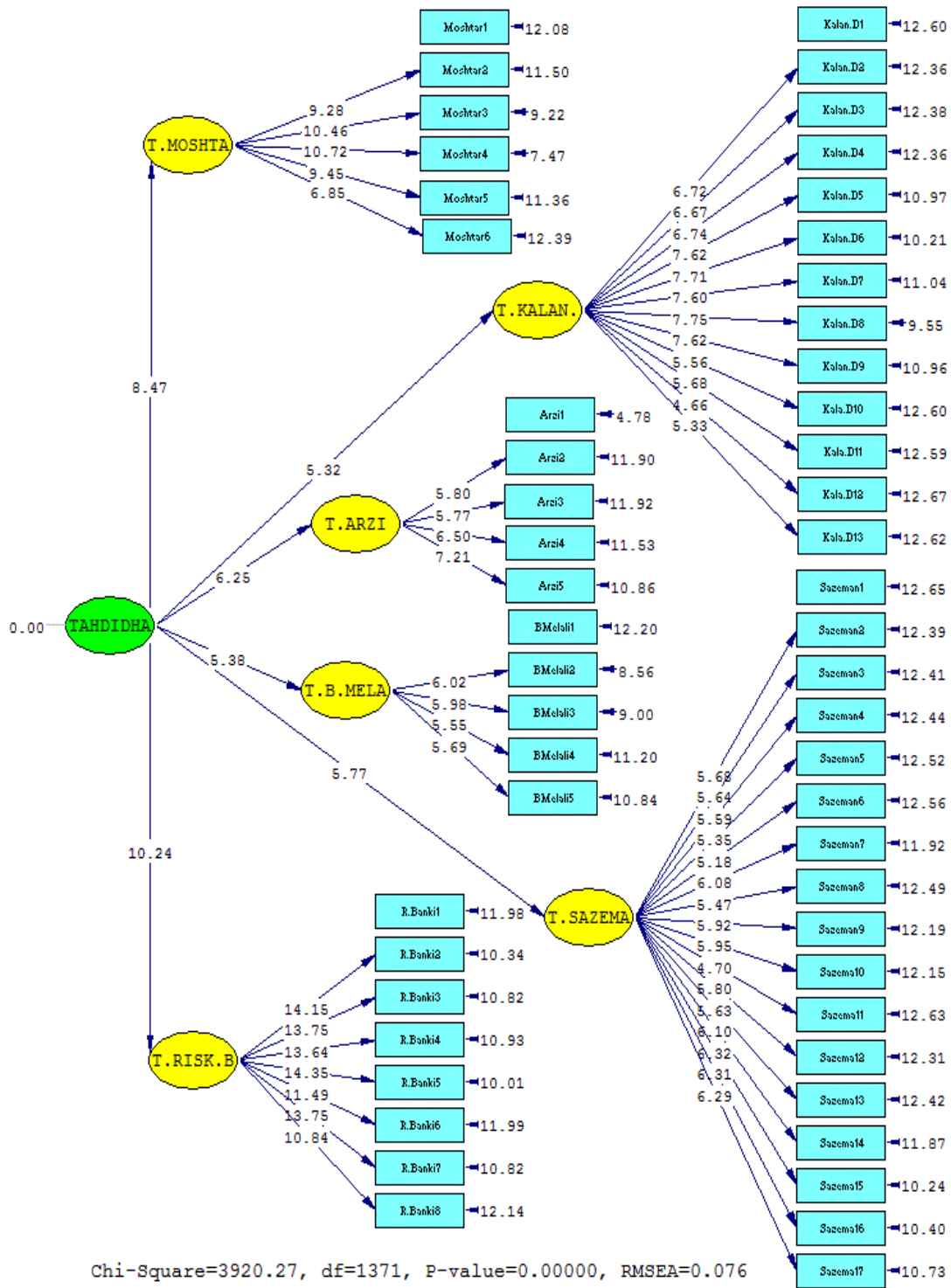


Figure (4): Measurement model of threats resulting from sanctions in significance mode

As we can see in the following figure, all significance values of the present model are larger than 1.96, hence, all factor loading and model path coefficients are significant. On this basis, path coefficients and factor loadings are obtained as following.

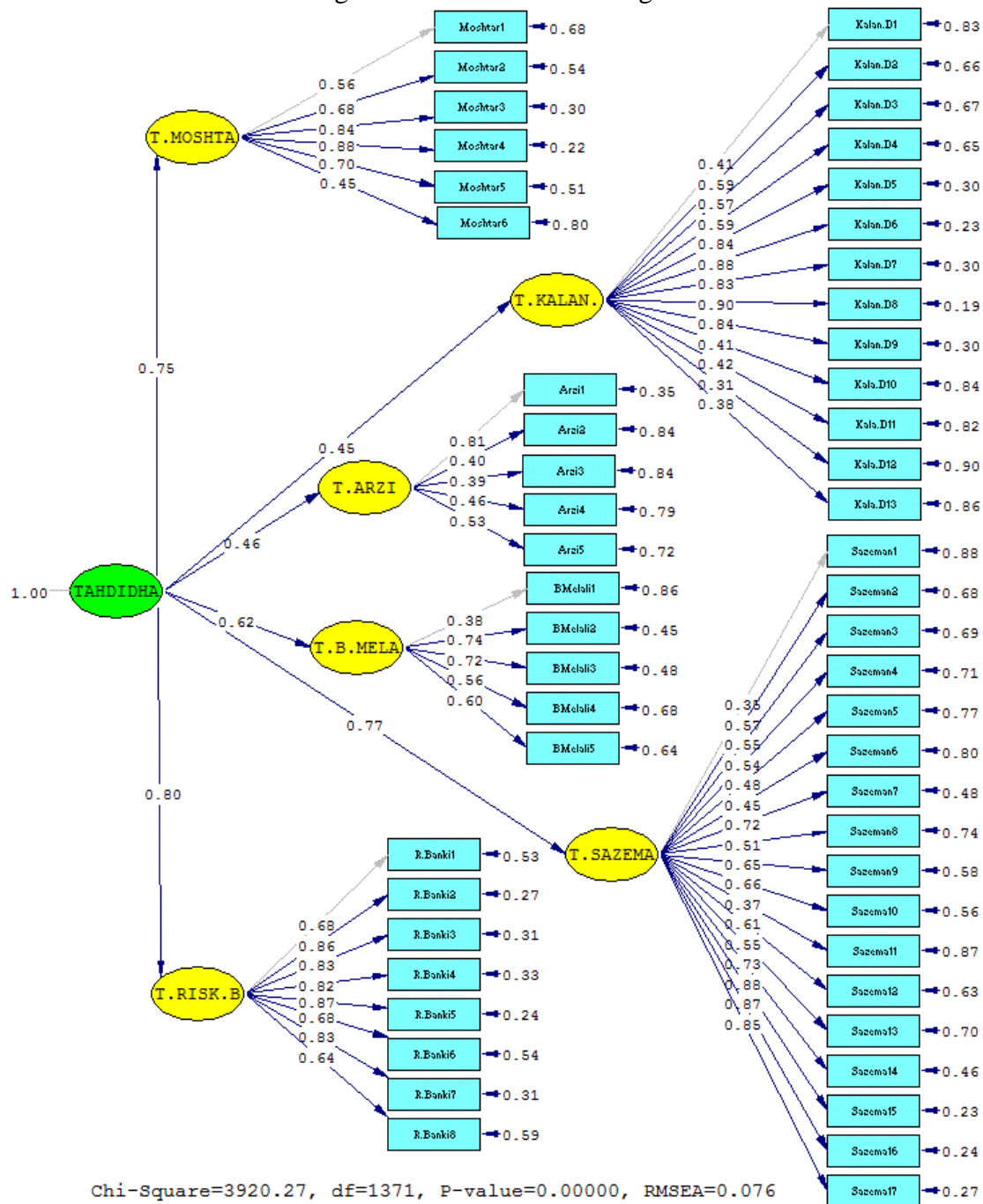


Figure (5): Measurement model of threats resulting from sanctions in standard estimation mode

Factor loading of all the items have values larger than 0.3 and therefore, it can be said that all of these items have a good power for explaining first order latent variable (dimensions) and these dimensions also have the necessary power for explaining threats resulting from sanctions. For studying model's goodness of fit, indicators presented in the following table are used.

**Table (4):** The goodness of fit for indicators

Indicators of fit	Appropriate values	Ideal values	Research values	Result of fit
$\chi^2/df$	$\leq 3$	$\leq 2$	2.86	Good fit
RMSEA	$\leq 0.1$	$\leq 0.08$	0.076	Perfect fit
NFI	$\geq 0.9$	$\geq 0.95$	0.93	Good fit
NNFI	$\geq 0.9$	$\geq 0.95$	0.93	Good fit
CFI	$\geq 0.9$	$\geq 0.95$	0.94	Good fit
IFI	$\geq 0.9$	$\geq 0.95$	0.94	Good fit
AGFI	$\geq 0.8$	$\geq 0.95$	0.84	Good fit

In general, considering that the value of factor loadings and significance of them is high together with desirable goodness of fit of the model, validity and reliability of the measurement model of threats resulting from sanctions can be concluded. Now research hypotheses are tested, the results of which are as following:

**Table (5):** Summary of research hypotheses testing

Hypothesis	Factor loading (significance)	Result
H1	0.89***(14.81)	confirmed
H2	0.89***(12.37)	confirmed
H3	0.91***(15.21)	confirmed
H4	0.75***(10.59)	confirmed
H5	0.46***(6.25)	confirmed
H6	0.77***(5.77)	confirmed
H7	0.62***(5.39)	confirmed

H8	0.45***(5.32)	confirmed
H9	0.76***(8.47)	confirmed
H10	0.80***(10.24)	confirmed

C) For prioritizing threats and opportunities resulting from sanctions on international activities of Bank Melli Iran

For prioritizing threats and opportunities resulting from sanctions, Friedman’s test was used and the results are presented in the following table:

**Table (6):** Results of Friedman’s test for prioritizing opportunities resulting from sanctions

Variables	Average rating	Priority
Currency	2.79	2
Human resources	2.64	3
Organizational	1.29	4
Management	3.28	1
$\chi^2 = 446.395$ d.f = 3 Sig = 0.000		

**Table (7):** Results of Friedman’s test for prioritizing threats resulting from sanctions

Variables	Average rating	Priority
Domestic macro	2.69	6
currency	4.21	2
Customers	3.82	5
International	4.42	1
Bank risk	4.13	3
Organizational	4.07	4
$\chi^2 = 467.201$ d.f = 4 Sig = 0.000		

In addition to showing that prioritizing threats and opportunities (significance level smaller than 0.05) is significant, these results indicated that among opportunities resulting from sanctions, the opportunity of “management” has the highest priority and after that opportunities of “currency”, “human resources” and “organizational” have 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> priorities, respectively. Among threats resulting from sanctions also, “international” threat has the highest priority and after that, “currency”, “bank risk”, “organizational”, “customers” and “domestic macro” dimensions have 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> priority, respectively.

#### 4. Conclusion and recommendations

Considering the obtained results from research data analysis, the following executive recommendation can be presented:

The bank is recommended to reduce its dependency with regards to intellectual capital and to reduce the gap between domestic knowledge and capabilities to international standards. Also, by making necessary investment with regards to improving national money value they should try to make national money value more stable in order to prevent economic anomalies. In addition, with taking measures toward improving political image of the country, they should try to reduce the inclination of large and small countries from joining the group of countries that have imposed sanction in Iran. Since, it appears that the first output of sanctions in economic disorder in country, therefore, it is recommend reducing the culture of people being consumers by making necessary investments. In addition to this, obtaining license from Central Bank should be considered for performing activities and trainings should be increased for the bank's employees in working in foreign currency department as well as the level of promotions.

## **5. Research recommendations**

### **5.1. Executive recommendations**

Considering the results of the research data analysis, the following executive recommendations can be presented;

- Considering the resulting obtained from 1<sup>st</sup> hypothesis (indicating to confirmation of the effect of human resources factor as one of the opportunities resulting from sanctions on international activities of Bank Melli Iran), it is recommended to try to reduce bank's dependency regarding intellectual capital and to reduce the gap between domestic knowledge and capabilities and international standards by making use of improving human resources efficiency of the bank branches.
- Considering the results obtained from 2<sup>nd</sup> hypothesis (indicating to confirmation of the effect of organizational factor as one of the opportunities resulting from sanctions on international activities of Bank Melli Iran), it is recommended the bank to focus on managers' potential capabilities and to turn these capabilities into competencies, in order for managers to work toward improving relationship with different countries by using their executive and operational power.
- Considering the results obtained from 3<sup>rd</sup> research hypothesis (indicating to confirmation of the effect of currency factor as one of the opportunities resulting from sanctions on international activities of Bank Melli Iran), it is recommend to try to made national money value more stable by making necessary investments in improving national money value, in order to prevent economic anomalies.
- Considering the results obtained from 4<sup>th</sup> hypothesis (indicating to conformation of the effect of management factor as one of the opportunities resulting from sanctions on international activities of Bank Melli of Iran), it is recommended to take necessary measure for improving the ability and of manager of Bank Melli and to empower them in various fields, specially the field of risk managment considering the special position of mangers as key decision makers.
- Considering the results obtained from 5<sup>th</sup> hypothesis (indicating to conformation of the effect of domestic macro factor as one of the threats resulting from sanctions on international activities of Bank Melli Iran), it can be said that since it appears that the first outcome of sanctions would be economic disorder in the country, therefore, it is recommend to make necessary investments toward reducing the culture of consumption in people.

- Considering the results obtained from 6<sup>th</sup> hypothesis (indicating on conformation of the effect of currency factor as one of the threats resulting from sanctions on intentional activities of Bank Melli Iran), it is recommended to design and implement a comprehensive monitoring system to create more accurate supervision in all fields specially currency saving in bank.
- Considering the result from 7<sup>th</sup> hypothesis (indicating to conformation of the effect of customers' factor as one of the threats resulting from sanctions on international activities of Bank Melli Iran), it is recommended to take necessary measures for retaining current customers and also to create strategies for obtaining new customers as well as a higher share of domestic and international markets as well and to provide necessary executive guarantees to implement these strategies.
- Considering the results obtained from 8<sup>th</sup> hypothesis (indicating to conformation of the effect of international factor as one of the threats resulting from sanctions on international activities of Bank Melli Iran), Bank Melli is recommended to try to reduce the inclination of small and big countries to join the group of countries imposing sanction on Iran by taking necessary measures toward improving political image of Iran.
- Considering the results obtained from 9<sup>th</sup> research hypothesis (indicating to confirmation of the effect of bank risk factor as one of the threats resulting from sanctions on international activities of Bank Melli of Iran), Bank Melli is recommended to take necessary operating measure toward improving accountability toward currency decisions of the Bank together with reducing the level of bank risk.
- Considering the results of 10<sup>th</sup> research hypothesis (indicating to confirmation of the effect of organizational factor as one of the threats resulting from sanctions on International activities of Bank Melli Iran), Bank Melli is recommended to perform bank's international activities after obtaining license from Central Bank and to place priority on Central Bank's regulations in signing contracts, meeting with banks and Foreign brokers.

## **5.2. Recommendations for Future research**

Although the author has spent so much of effort in conducting the research process; however, unfortunately this field is so much extensive. Among other recommendations we can refer to the following:

- It is recommended to conduct a study regarding organizational weaknesses and shortcoming in dealing with sanctions on international activities of Bank Melli Iran.
- It is recommended to conduct a study about formulating international strategies for Bank Melli Iran.
- It is recommended to conduct a study about Pathology of Bank Melli Iran situation during the time period of international sanctions.
- It is recommend to conduct a similar study in Bank Melli in other provinces of Iran and to compare the results with the present study.
- It is recommend to conduct a study with a similar title by using qualitative methods such as interview and to compare the findings.



## References

- Azar, A. & Momeni, M. (2008). Statistics and its application in management, 2<sup>nd</sup> edition, Samt publications.
- Al-kajbaf, H. & Ansarian, M. (2014). Effect of unilateral and multilateral sanctions on Iran from the perspective of right to health of citizens of Iran. *Journal of Medical Law*, 8 (29), Summer 2014.
- Cordesman, H. (2013). 'U.S. and Iranian Strategic Competition', Center for Strategic International Studies (CSIS). Chapter 5. PP. 14-15.
- Daniel Doorsnez ,V.(1999). The Change Masters: Innovations for Productivity in the American Corporation. Historical Research Reference in Entrepreneurship, University of Illinois.
- David, J. (1994). Taming and promoting charisma to change organizations. *Leadership Quarterly*, 10, 307–330.
- Ghaffari Ashtiani, P.; Mozafari, A. & Ale Mojtaba, Z. (2014). Changes in consumer's behavior following economic sanction, *Journal of marketing management*, 1(4) 24, Autumn 2014, 1-17.
- Hufbauer, G., Schott, J., Elliott, K., Oegg, B., 2007. *Economic Sanctions Reconsidered*, 3rd edition, Institute for International Economics, Washington DC.
- Phillips, P. C. B., Y. Wu and J. Yu (2011), "Explosive Behavior in the 1990s Nasdaq: When Did Exuberance Escalate Asset Values?" *International Economic Review* 52: 201–26.
- Sherkhani, R. (2008). Studying and explaining the effect of economic sanctions on oil import and export performance of Iran, Master thesis, Shahid Beheshti University.
- Verbon A, Juffermans N, Van Deventer SJ, Speelman P, Van Deutekom H, Van Der Poll T.(2011). Serum concentrations of cytokines in patients with active tuberculosis (TB) and after treatment. *Clin Exp Immunol*
- William Camper, R., and Antuan W. Loenberg. (1988). Toward a Theory of Organizational Creativity. *Academy of Management Review*, Vol. 18, No. 2. 293-321.