Impact of Financial Strategies on Financial Operation of Iran Banks and Develop a Model to Prioritize the Financial Strategy Using Combined Techniques SWOT and AHP

Babak Jamshidi Navid[1], Mehrdad Ghanbari[2], Farshid Kheir Allahi [3], Masoud Barati[4]

ABSTRACT

Financial strategy is a framework organization which directed the financial decision making resulted from different conditions, dynamic competitors and collection of relative reactions. Financial strategy is one of key factors in organizations and increase shareholder wealth by identifying value drivers. Accordingly, this study aimed to analyze the impact of financial strategy on financial operation of banks and also presented a pattern to develop and prioritize such strategies. To do this purpose, data were collected relative to Iran banks from 2010-2011. Independent variable of this study was determined as financing strategy (combine deposits) and investment strategy (payment facilities) and variables like net interest margin and economic added value were accounted as financial operation criteria (dependent variables). Data were analyzed by Kruskal-Wallis test and using SPSS software. Results of present study indicated that financing strategy influenced significantly on economic added value, but did not influence on net interest margin. In contrast, impact of investment strategy on economic added value was rejected, but on net interest margin was confirmed. In second part, after using Delphi method, viewpoints of scholars in a private bank were collected and relative strategies in four fields of opportunities, threats, strengths and weaknesses were determined and after creating SWOT matrix, they were prioritized using AHP technique and presented a pattern to develop such strategies in an organization.

Introduction

Strategy was defined as a comprehensive image of long-term, objectives and short-term purposes and main policies and programs to achieve these purposes and explain present or future mission and present or future existence of organization. Financial strategy is a collection of dynamic and relative reactions which is implemented regarding mutual positions and activities of other organizations. Financial policy was defined as determination of certain values of financial variables such as determination of certain ratio for dividend distribution among shareholders, financial policy, systematic combination are included which are provided for strategy implementation and accounted as important process in implementation such as cash or production funding. Present theories have examined generally determination of financial policy and assisted mangers in financial decision making, but these theories are one dimensional and stable and final conclusion has been presented by assuming stability of other factors.

A financial strategy included analysis of different economic events and other environmental variables, definition and specification of impacts impacts of each variable on firm activity, considering alternative responses, comprehension of relative exchange and evaluation of likely different response of competitors. Based on created images for future, different decision have been made which have been about variables controlled by firm. So, financial managers should make multiple and simultaneous decisions in an environment with permanent changes. In a real world, financial manger should find a way to interact with different financial theories together and this is a role of financial strategy. Basis and mission of financial strategy is respond to unclear and unreasonable positions (Senobar, 1995). Currently, financial strategy has been regarded as one of key factors in organizations and increase shareholders wealth by identifying value drivers (Mehrani, 2001).

Theoretical basis and review of literature

Basis of financial strategy creation

Concept of strategy was stated first by Chinese Philosopher named as "Sun Tzu" which had written in a thesis called "war art" 400 years before Christ. This Philosopher defined this

Author's Address

[1,2] Islamic Azad university of Kermanshah branch, Kermanshah, Iran
[3] Razi Kermanshah University, Kermanshah, Iran
[4] Islamic Azad University, Kermanshah, Iran

strategy as art and technique of planning, combination of operation to achieve military purposes (Rasoulof, 2003). After World War II, Robert Mc Namara, vice president of Ford Company which was appointed as minister of America defense ministry, stated strategy concept in commerce. In the period after war, by increasing demand and trying to maintain market share, organizations had brought long-term programming based on future prediction. Fluctuation and instability of the economic, political and social environment and lack of proper prediction of environmental variables in an exact shape, made companies to adjust their behaviors regarding new positions. Here, "strategic management" was accounted as instrument that could provide basic decision making in accordance with internal conditions and environmental fluctuation (Mobini Dehkordi and Ashtiayani, 17, 2009).

In following this process, it is necessary for organization to find its real position and all parts of an organization play its appropriate role. As a result, strategic management approach was stated. Today, due to dynamic environment and complex organizations, existence of manager or central core of management have not been qualified lonely to organization development, but it is necessary that each of organization member takes control on his or her moment position according strategic path of organization. Thus, concept of strategic thinking was stated in middle of 1980 which means alignment of efforts in all aspects of the organization.

Status of financial strategies in organization and their parts

Financial strategy is one of functional strategies of organization. From most investor point of views, financial condition of organization as only certain determining factor of its competitive condition and financial factors resulted in changes in present strategies and implementation programs. To achieve successful implementation of organization strategies, required decision should be made regarding capital funding. At the time of financing decision making, it must be attempted to create best structure for capital condition and Dividend decisions caused that organization makes to provide required capital from external sources. What it plays a key role in capital budgeting decisions, is capital cost of company, because capital cost was used as discount of cash flow as a result of investment projects. Thus, rejection or acceptance of suggested investment projects are related to the most appropriate discount rate or same capital cost. However, company capital cost is followed by capital structure, its financial structure or financial leverage. So, it is expected that change in financing sources combination of capital structure (on capital cost and consequently in company value) are followed by rejection or acceptance of investment projects including effective positive and negative net current value. So, investment decisions, financing, dividend capital in circulation have close relationship together (Aarabi and Abedi, 2010).
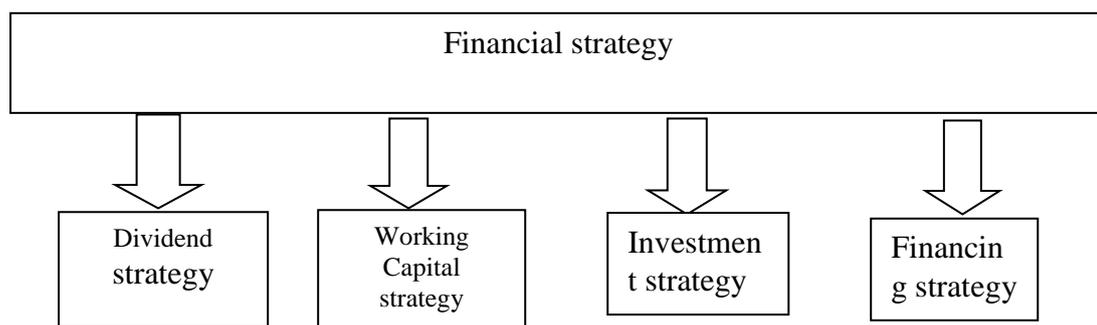
Researchers: source-financial strategy component

From most scholars point of views, financing strategy included investment, financing and dividend that some of them believed that capital in circulation should be added to them.

Importance of strategy in banks and financial institutions

In a financial system, banks are mediator between depositors and borrowers. In addition, they are responsible for economy, functioning of

payment and funds settlement and on the other hand, facilitates the implementation of central bank financial policies. Above roles indicated the importance of banks in economy of each country. Creating efficiency in financial sector of economy influences directly on economic growth and development. In addition to relations among financial institutions which should be stable and effective, internal structure of these institutions should be designed so that increase their efficiency (Millani, 2005). Financial institutions like other organizations and due to features such as future decisions and risk combined with its activity kind should take advantage of strategic management process to survive and grow so effectively that generate value maximum (Rahnamaye Roudpoushti and Eftekhari, 2010). Concerning financial strategies and main tasks of financial management in bank, different viewpoints are presented in financial literature. Important financial decisions in bank can be divided to 4 subcategory (Jahankhani, 1985).

1.   Relative decision to differences between rate of return investments and the interest rate paid on deposits.
2.   Relative decision to control of operational costs
3.   Relative decisions to bank liquidity
4.   Relative decisions to bank financial structure.

Review of literature

Table 1: summary of conducted studies regarding financial strategies in Iran and other countries

row	Name of researcher and study date	subject	result
1	Hasan Pour (2009)	Analysis of effect of capital strategies in circulation on stock returns	There are significant relationship between returns average and different strategies and bold strategy has the most returns in all industries.
2	Arabi and Abedi (2011)	Relationship between financing strategies, capital in circulation and dividend with organizational operation (case study: Eksir company)	Company operations that have more arrangement between business strategy and financial strategy are more than companies that have lower arrangement.
3	Arabi and Abedi (2010)	Arrangement relationship of business strategy with organization operation	Company operations that have more arrangement between business strategy and financial strategy are more than companies that have lower arrangement.
4	Arabi and Razmjouei (2011)	Relationship between financial strategy and company operation	Arrangement between subcategory of financial strategies with financial strategy improve company operation,
5	Ahmadian (2015)	Analysis of Asset-liability management of Iran banks	Reduction of sources and deposit increase of investment were dominant strategy of banks in study period. This strategy reduced liquidity risk and also increased interest paid to depositors.
6	Arab Mazar Yazdi et al (2013)	Relationship between combination of asset-liability and liquidity risk in Iran.	Relationship between two collection of variables
7	Pavlichik (2009)	Methodology for implementing financial strategic model in small and medium markets	Presentation of model to specify financial strategy
8	Demirgok and Homyzinga (1999)	Banks activity and financing strategy: impact on risk and returns	Powerful relationship between financial strategies of bank and non-interest earning and powerful relationship between non- deposits financing and risk changeability.

Hypotheses of the study

Financing strategy of banks influenced significantly on financial operation.

Financing strategy of banks influenced significantly on net interest margin.

Financing strategy of banks influenced significantly on economic value added.

Investment strategy of banks influenced significantly on financial operation.

Investment strategy of banks influenced significantly on net interest margin.

Investment strategy of banks influenced significantly on economic value added.

Questions of the study

1. How can develop financial strategies based on scientific model?

2. Which financial strategies have priority?

Methodology

This study is applied one. This study regarded as longitudinal study with retrospective kind, because past data were analyzed to identify probable relations and causes. This study is non-experimental descriptive-analytic study with casual-comparative kind. In pattern development section, the methodology is survey method and uses Delphi technique. In practice, this study examined first the impact of subcategories of financial operations of banks in Iran and then presented a pattern to develop and prioritize financial strategies of banks using case study.

Population, sampling method and sample size

Population of this study included all country banks. This study lacked sampling, but to arrange among studied data, piloting data were conducted:

At end of 31, 1393, bank had activity in country. Regarding time domain of study which included years 1389-1393, 6 banks which were launched during study period, were removed from population of this study. Data of a bank due to substance difference of its activity with other banks (activity on Interest Free Loan), were removed from population of this study. As a result, number of remained banks reached to 24 banks. In response to questions 3 and 4, population and sample of study is private bank due to using case study.

Methods and instruments of data collection

In this study, to present theoretical basis and review of literature, library method was used in the form of books, technical articles, dissertations and theses, digital library and searching internet database analysis. In hypotheses testing, to collect study data, document method (total available observations) and database of banking excellence institution and available database in central bank of Islamic republic of Iran were applied. On the other hand, in response to questions 1 and 2, study instruments included interview and weight form which determined by interviewing scholars point of view regarding strategy dimensions and then, by holding brainstorming sessions, strengths and weaknesses and threats and also organization opportunities were identified.

Specification of how to analyze and measure variables

Dependent variable

Net margin interest:

It is a criteria of net returns of bank profitable assets which includes stock exchange of investment, loads and leasing facilities (Dermine and Bissada, 2002).

$$\text{NIM} = \frac{net\ interest\ revenue}{earnings\ assets}$$

Net interest revenue= interest earning-interest cost

Earning assets: investment stock exchange, loans and leasing facilities

B: Economic value added:

From economics point of view, when a company earns economic interest that its accounting interest is more than its investment opportunity cost. Economic value added accounts as basic index to measure company operation and determine its value. Investors and scholars determined company value based on economic value added (Jahankhani and Sajadi, 1995).

To compute economic value added in bank, following equation is used (Thampy & Baheti, 2000):

$$EVA = Adjusted\ Net\ Profit - (Equity * Cost)$$ Which its components included:

Adjusted net profit to store devaluation demands, unexpected events, accounting Securities.

This computation method, however, instead of calculating the weighted average cost of capital, equity is used which is more proper and simpler for banks. Main reason also referred to fact that in banks, liability management created main part of business and deposits growth has happened generally in lower rate than shareholder opportunity cost. In fact, the bank's balance sheet liabilities was a part of commercial operations of banks and was not accounted liability.

Independent variable

Determining variable of financing strategy

Attraction of financial sources is highly necessary in bank management, because, each

bank should have required financial sources to implement operation. Banks applied several instruments to attract financial sources which included deposit attraction, taking loan from central bank securities distribution. Main part of bank liabilities related to attracted deposit kinds from depositors (Fallah Shams et al, 2014) . To determine financial strategy kind, first, sensitive liability ratio to total liabilities and equity was computed. Liabilities sensitive to interest rate are long-term and short-term investment deposits which changed its size by interest rate change. Afterward, by computing mean of mentioned variable and determining aggressive strategies (25% higher than mean), conservative strategy (higher or lower than mean, with distance lower than 25% SD) and defensive strategy (with 25% distance lower than mean), descriptive variables

were created (Hasan Pour, 1388 and Ahmadian, 2015).

Determining variables of investment strategy:
Loan is most important operation of commercial banks, development of appropriate policy of loan is highly important to achieve more earning and reduce more risk (Fallah Shams et al, 2014). Thus, to determine investment strategy kind, first, facilities ratio to total assets was computed. Then, by computing mean of mentioned variable and determining aggressive strategies (25% higher than mean), conservative strategy (higher or lower than mean, with distance lower than 25% SD) and defensive strategy (with 25% distance lower than mean), descriptive variables were created.

Normality tests of variables:

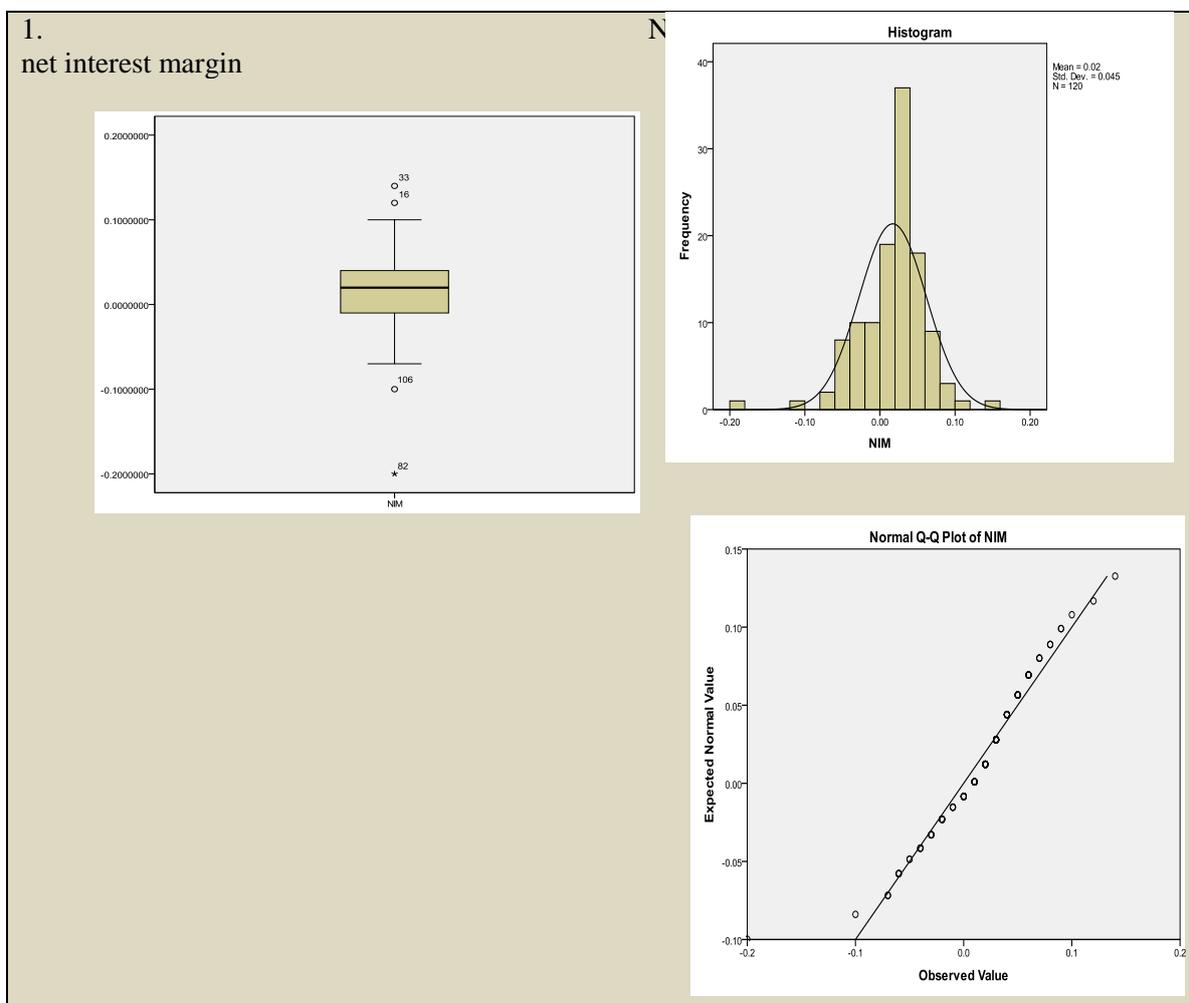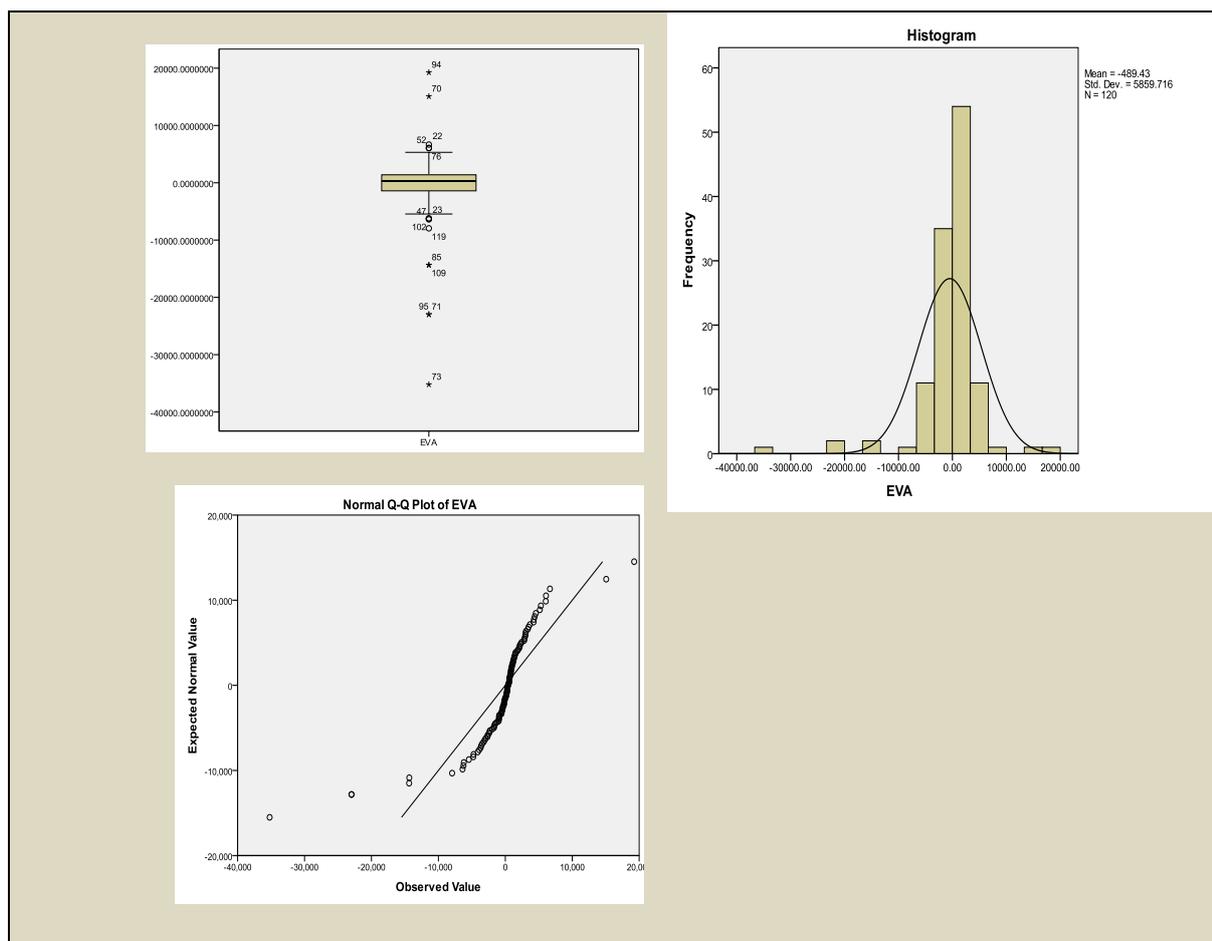**Normality test of variables by diagrams**

Figure 1: histogram diagrams, plot box and Q-Q relative plot to net interest margin variable

Economic value added:

Figure 2: Histogram diagrams, plot box and Q-Q relative plot to economic value added

Kolmogorov-Smirnov test

In this part, Kolmogorov-Smirnov test was used to determine data normality. Assumptions of this test included:

H0: mentioned variable included normal distribution.

H1: mentioned variable included abnormal distribution.

To test hypothesis, SPSS software was used. In following table, test results are summarized:

Table 2: Kolmogorov-Smirnov test for net interest margin variable

Specification	Frequency	Kolmogorov-Smirnov value	Significant level
NIM	120	2/271	0.78

Table 3: Kolmogorov-Smirnov test for economic value added

Specificat	Frequency	Kolmogorov-	Significant
EVA	120	5/249	0.0

Concerning obtained results of test that test statistic frequency was for variable EVA more than 0.05, thus, zero hypothesis was rejected and non-normality of mentioned variable was confirmed0 in contrast to normality of net interest margin was confirmed. Above presented diagrams were approved this point.

-non-parametric test methods

Due to abnormality of data, this section of study applied non-parametric statistics. Non-parametric methods (free population-distribution) are known, because application of them is not dependent on specific hypothesis about population distribution. One of non-parametric tests which are in accordance with hypotheses of study, is Kruskal-Wallis H test. When finding differences among three independent group concerning a ranking variable is regarded, this test which is known as H test, is applied to test equality of means of different societies. Mentioned test based on sum of observation ranks and similar to AOVA analysis, with this difference that it does not require normality of

data. Statistics of this test is shown with H and computed as follows:

$$H_{0:}\, \mu_{ij} = \mu_{imi} = \mu_{imo} = \mu_{in} \qquad \chi^2_{\dot{k}\cdot w} = H = \frac{12}{N(N+1)} \sum_{i=1}^{k} \frac{R_i^r}{n_i} - 3(N+1)$$

In above equation, K population frequency and N number of member of sum of all societies. Then, above statistic is tested by Chi-square distribution with free degree K-1; if statistic of test is larger than chi-square test, zero hypothesis is not rejected (Saghafi and Jamalian Pour, 2011). In contrast to opposite hypothesis, zero hypothesis of this test emphasizes on lack of difference among groups.

$$H_{1:}\, \mu_{i\#}\, \mu_i$$

Testing hypotheses
1.   Financing strategy of banks influenced significantly on financial operation.
1.1.   Financing strategy of banks influenced significantly on net interest margin.
1.2.   Financing strategy of banks influenced significantly on economic value added.

Table 4: summary of descriptive statistics of first and second hypotheses of study

	mean	SD	minimum	maximum	Chi-square	sig
NIM	15.4	30.9	-108	48	4.35	0.114
EVA	-9465	8746.1	-36312	2622	9.727	0.008

Concerning the fact that significance level net interest margin variable is larger than 0.05, zero hypothesis is confirmed and opposite hypothesis is rejected and in other word, selected financial strategy did not affected on net interest margin. But, concerning economic value added, the significance level is lower than 0.05 which means rejection of zero hypothesis and confirm

of opposite hypothesis. In fact, financing strategy affected on economic value added.
2.   Capital strategy of banks influenced significantly on financial operation.
2.1.   Capital strategy of banks influenced significantly on net interest margin.
2.2.   Capital strategy of banks influenced significantly on economic value added

Table 5: summary of descriptive statistics of third and fourth hypotheses

	mean	SD	minimum	maximum	Chi-square	sig
NIM	15.4	30.9	-108	48	7.25	0.026
EVA	-9465	8746.1	-36312	2622	2.895	0.235

Above tables measured impact of three capital strategies on dependent variables. Concerning the fact that net interest margin variable is lower than 0.05, zero hypothesis is rejected and opposite hypothesis is confirmed and in other words, selected capital strategy influenced on net interest margin. But, concerning economic value

added, significance level is higher than 0.05 which means confirm of zero hypothesis and rejection of opposite hypothesis. In fact, selected capital did not influenced on economic value added.
Development and prioritize of strategies: Creating SWOT matrix

Table 6: SWOT matrix of main variables

Groups of SWOT	O	T	S	W	Significance level
opportunity	1	2	1	3	0.349
thread	0.5	1	2	3	0.299
Strength	1	0.5	1	4	0.264
Weakness	0.333	0.333	0.25	1	0.088
=0.08compatibility rate					

Table 7: SWOT matrix of relative components of opportunity

Opportunity	OP1	OP2	OP3	OP4	OP5	OP6	OP7	Significance level
OP1	1/0	2/0	1/0	3/0	3/0	6/0	2/0	0/218
OP2	0/50	1/0	3/0	3/0	6/0	4/0	4/0	0/134
OP3	1/00	0/33	1/0	1/0	2/0	2/0	3/0	0/17
OP4	0/33	0/33	1/00	1/0	3/0	2/0	3/0	0/083
OP5	0/33	1/00	0/50	1/00	1/0	3/0	2/0	0/13
OP6	0/17	0/25	0/50	0/50	0/33	1/0	1/0	0/172
OP7	0/50	0/25	0/33	0/33	0/50	1/00	1/0	0/092
compatibility rate :0.07								

Table 8: SWOT matrix of relative components of threads

Threads	T1	T2	T3	T4	T5	Significance level
T1	1/00	3/00	1/00	1/00	7/00	0/209
T2	0/33	1/00	2/00	1/00	5/00	0/216
T3	1/00	0/50	1/00	1/00	9/00	0/127
T4	1/00	1/00	1/00	1/00	9/00	0/204
T5	0/14	0/20	0/11	0/11	1/00	0/067
compatibility rate :						

Table 9: SWOT matrix of relative components of strength

Strength	s1	s2	s3	s4	s5	Significance level
S1	1	1	2	1	8	0/28
S2	1/0	1	9	3	6	0/426
S3	0/5	0/11	1	1	1	0/089
S4	1/0	0/3	1/0	1	2	0/144
S5	0/13	0/17	1/0	0/5	1	0/061
compatibility rate : 0.09						

Table 10: SWOT matrix of relative components of weakness

| Weaknesses	w1	w2	w3	w4	w5	w6	w7	w8	Significance level
w1	1	5	1	2	3	1	1	1	0/089
w2	0/20	1	2	1	1	2	2	6	0/227
w3	1/00	0/50	1	1	3	1	1	1	0/084
w4	0/50	1/00	1/00	1	1	1	1	1	0/109
w5	0/33	1/00	0/33	1/00	1	1	1	9	0/218
w6	1/00	0/50	1/00	1/00	1/00	1	1	1	0/101
w7	1/00	0/50	1/00	1/00	1/00	1/00	1	1	0/101
w8	1/00	0/17	1/00	1/00	0/11	1/00	1/00	1	0/07
compatibility rate : 0.08									

Table 11: Matrix of priority determination

Groups of SWOT	Priority of group	SWOT factors	priority of the group	Total priority of factors
Opportunity	0/212	1O: weakness of stock exchange in financing of economic markets and surplus of demand in facility sector	0/218	0/046216
		2O: possibility of using external financing in future months	0/134	0/028408
		3O: return of money transformation activity to bank network	0/17	0/03604
		4O: increasing wage remuneration due to opening documentary letter of credit	0/083	0/017596
		5O: reducing legal deposit rate by central bank in future months	0/13	0/02756
		6O: capital requirement of central bank to enter new banks	0/172	0/036464
		7O: difficulty of attraction of public confidence to a financial institution	0/092	0/019504
Threads	0/268	1T: lower economic growth rate of country	0/209	0/056012
		2T: competition among financial institution and banks	0/216	0/057888
		3T: lack of government task role playing to banks	0/127	0/034036
		4T:reducing oil price and negative impact on economic growth and stagflation occurrence	0/204	0/054672
		5T: creating alternative products such as metal and gold stock	0/067	0/017956
Strength	0/216	1S: appropriate capital basis	0/252	0/054432
		2S:presence in stock exchange	0/284	0/061344
		3S: liquidity stability	0/095	0/02052
		4S: higher capacity of currency exchange	0/238	0/051408
		5S: appropriate infrastructure of electronic banking system	0/131	0/028296
Weaknesses	0/134	1W: non-profitability of some activity of bank firm	0/147	0/019698
		2W: non-economic condition of some activity of bank branches	0/13	0/01742
		3W: inappropriate capital structure	0/164	0/021976
		4W: lower effective rate of facility	0/117	0/015678
		5W: higher cost of money	0/161	0/021574
		6W: lower efficiency rate	0/065	0/00871
		7W: higher Personnel costs	0/117	0/015678
		8W: high assets without returns	0/099	0/013266

Following above table, the highest priority related to s2, t2, t1, t4 and s1.

11.2. Presentation of pattern to develop and prioritize financial strategies
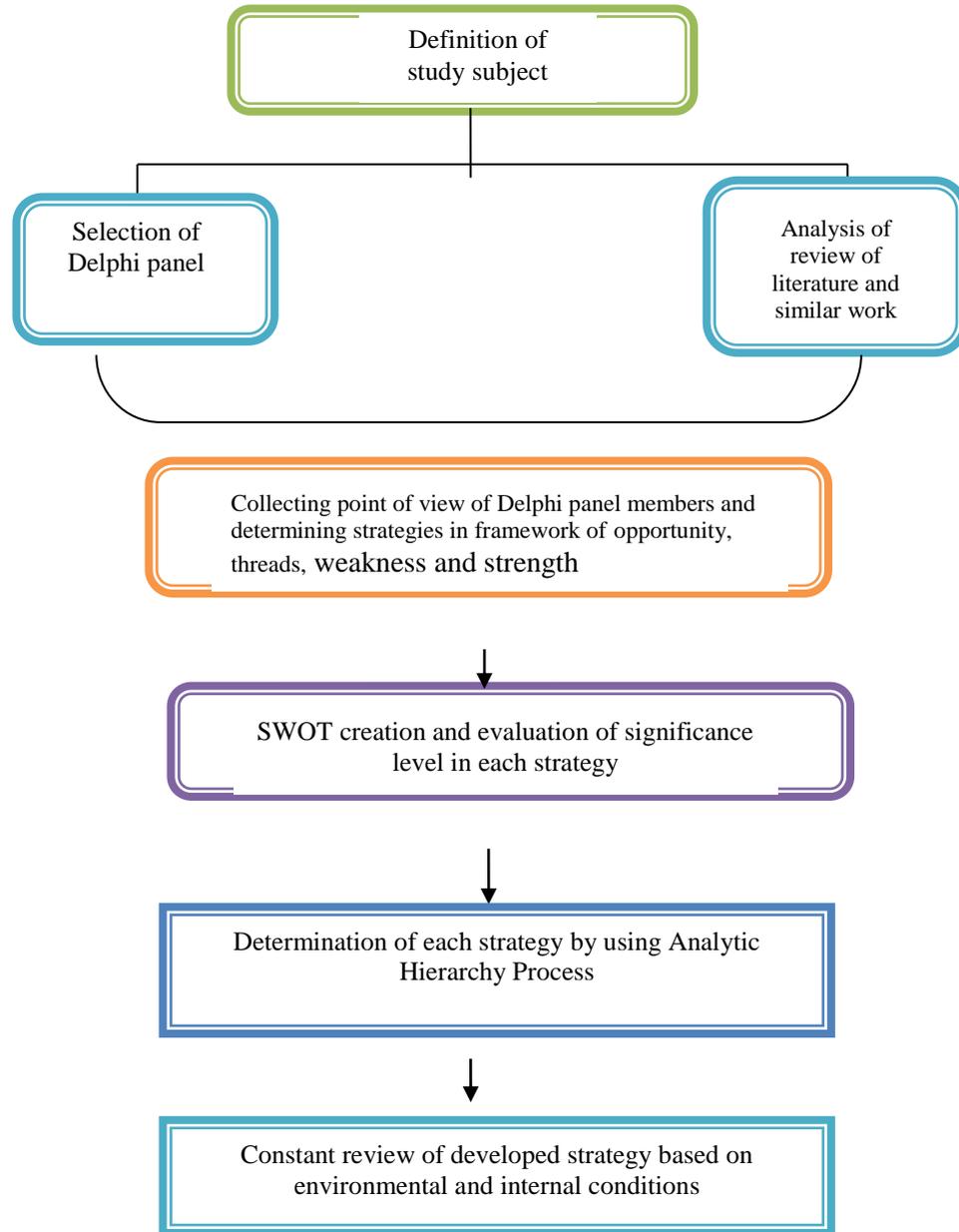
Conclusion

This study conducted to analyze the impact of financial strategies on financial operation of banks and present a pattern to develop and prioritize these strategies. Based on study findings, impact of financing strategy on economic value added was confirmed, but its impact on net interest margin was not approved. Among effective strategies on economic value added, aggressive had the most impact and defensive strategy had least strategy on economic value added. One the other hand, impact of capital strategy on net interest margin was confirmed and its impact on economic value added was rejected. Among effective strategies on net interest margin, the most impact related to defensive strategy and the least impact related to aggressive strategy. In this section, a pattern was developed to create strategy by using Delphi method and collecting scholar point of views and prioritized by applying Analytic Hierarchy Process and as a result, presented a pattern to develop and prioritize strategies. Findings of this study can be accounted to create strategic thinking and increasing attention to financial strategies in banks.

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