

Identifying the Factors Affecting Network Governance in the Country's Banking System

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Abstract

Purpose: This study aims to identify and prioritize the factors influencing the establishment of network governance in the banking system, with the goal of addressing inefficiencies arising from traditional hierarchical structures within this system.

Methodology: This applied research employs a descriptive-analytical survey method with a quantitative approach for data collection. The statistical population consists of all employees and managers of Bank Sepah nationwide. Based on Morgan's table, the sample size was estimated at 384 individuals and selected using simple random sampling. The data collection instrument was a researcher-developed questionnaire comprising 8 main factors (economic, managerial, legal, infrastructural, structural, technological, behavioral, and mechanistic) and 31 indicators. Data were analyzed using Structural Equation Modeling (SEM) and factor loading analysis.

Findings: The results indicated that all eight identified factors have a significant effect on network governance at the 95% confidence level. Furthermore, all 31 indicators exhibited high effect coefficients, and the validity of the factors was confirmed through factor loading analysis. The effect coefficients for each factor are as follows, respectively: behavioral (0.365), mechanistic (0.204), infrastructural (0.200), managerial and structural (0.150), technological (0.096), economic (0.088), and legal (0.021).

Conclusion: Based on the obtained coefficients, behavioral factors exert the greatest impact, while legal factors have the least impact on network governance in the banking system. Overall, all eight factors are recognized as determining variables in designing and implementing network governance in the country's banking sector, and special attention to behavioral and mechanistic components is essential for the success of this model.

Value: The novelty of this research lies in presenting a local quantitative model of multidimensional factors affecting network governance within the context of Iran's banking system. By numerically prioritizing these factors, it fills the existing research gap regarding the application of network governance in financial institutions and provides an operational framework for banking managers and policymakers to optimally allocate resources and reform structures.

Keywords: *Effective factors, Governance, Network governance, Banking system*

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Extended Abstract

Introduction: The weakness of governments in service provision and the increasing complexities of governance have made the necessity for novel paradigms in the governance field clear. One such paradigm is network governance—a type of governance that is not limited to government functions alone and can extend beyond governments. This form of governance emerged in response to the failure of hierarchical and focused structures, and traces its roots back to the 1950s. In network governance, efforts are made to reduce hierarchical governance in political and administrative systems, replacing it with a network-based approach. In this model, public policies, unlike in the past, are not formulated solely by governments; instead, they are developed through communication networks among citizens, the private sector, and policymakers. Hierarchical governance, in contrast, is a traditional form of governance in which affairs are conducted hierarchically rather than cooperatively.

Purpose: The problem addressed in this research is the weakness of the governance system in the banking sector, which motivated the researcher to conduct this study. The existing governance system can lead to several issues in terms of efficiency and high levels of customer dissatisfaction. This problem is particularly evident in the case study of Bank Sepah, where numerous inefficiencies in management and customer service have become a concern for the bank's managers and policymakers. Accordingly, the main objective of this research is to identify the factors influencing network governance in Iran's banking system.

Methodology: This research is applied in terms of its objective, analytical and quantitative in terms of data collection, and employs a survey-based methodology. The statistical population includes all employees and managers of Bank Sepah across the country. Given that the population size is approximately 40,000 individuals, Morgan's table was used to determine the sample size. Accordingly, the sample size was estimated at 384 individuals, who were selected through simple random sampling. Selected participants were required to have at least a bachelor's degree and familiarity with the concepts of network governance; to this end, brief explanations were provided to them. The data collection tool was a researcher-developed questionnaire designed to formulate a network governance model for the banking system. The model comprises several components and indicators, which are introduced in Table 1 of this study.

Findings: The findings indicate that the influence coefficient for each factor is at a high level. The behavioral factor, with a value of 0.365, has the highest coefficient among all factors. Following the behavioral factor, mechanistic factors rank second with a coefficient of 0.204, followed by infrastructural factors with a coefficient of 0.2. Managerial and structural factors are nearly equal, with coefficients of 0.151 and 0.153, respectively. The technological factor has a coefficient of 0.096, and economic factors have a coefficient of 0.088. Finally, the weakest factor among the identified variables is the legal/regulatory factor, with a value of 0.021. A summary of the results is presented in Table 2.



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Table 2. Regression coefficients of the influencing factors

Factor	Network governance in banking system	P value
Economic factors	0.088	0.002
Behavioral factors	0.365	0.000
Infrastructural factors	0.200	0.001
Structural factors	0.153	0.002
Technological factors	0.096	0.003
Legal/Regulatory factors	0.021	0.001
Managerial factors	0.151	0.000
Mechanism factors	0.204	0.000

The results of confirmatory factor load analysis indicate that all indicators have high influence coefficients, meaning that all are influential in the research and have significant and strong relationships with their respective main factors. Accordingly, all indicators can be confirmed based on the results presented in Table 3 of the paper. It is noteworthy that the minimum acceptable coefficient for each construct is 0.4; however, the coefficients in Table 3 for all constructs exceed 0.8, reflecting a highly desirable condition.

The overall predictive power of the research model was assessed using R-squared and adjusted R-squared values, which are presented in Table 4.

Table 4. Assessment of the predictive power of independent variables

Dependent variable	Rsquared	Adjusted Rsquared
Network governance in banking system	0.871	0.868

As shown in Table 4, both the R-squared and adjusted R-squared values exceed 0.8, indicating a high predictive power of the eight influencing factors on network governance. Therefore, it can be concluded that the research variables demonstrate a high level of influence, and the eight identified factors possess strong predictive capacity.

Conclusion: The factors identified in this research are capable of determining network governance and its implications. Managerial factors, grounded in management knowledge, organization, cooperation, and coordination, can be defined and exert influence on network governance. Economic factors are primarily limited to budget allocation, while rules and regulations include indicators for facilitating regulation, deregulation, and incorporating network aspects into documents and high-level policies. Structural factors encompass support from governance institutions and bank-customer interactions, which can reinforce governance effectiveness. On the other hand, behavioral factors include vision change, culture-building, and benchmarking. Therefore, it is necessary to prioritize behavioral reinforcement and culture-building toward network governance. Mechanistic factors—such as empowerment, outsourcing, and capacity-building—can further support the implementation of network governance in the banking system.

Value: The novelty of this research lies in presenting a local quantitative model of multidimensional factors affecting network governance within the context of Iran's banking system. By quantitatively prioritizing these factors, it fills the existing



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research gap regarding the application of network governance in financial institutions and provides an operational framework for banking managers and policymakers to optimally allocate resources and reform structures. As no similar research has been conducted in this field, this study offers a foundational contribution to understanding and implementing network governance in Iran's banking sector.

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