Effect of Internal Control Indices on Innovation of Employees at Melli Bank in Zanjan, Iran

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Abstract

The development of internal control systems for optimal management of employees' activities is an effective factor in promoting innovations at banks. The internal control system is a process which is used by organization to achieve its goals and plays an important role in ensuring the success of organization in achieving goals. However, this study aimed to investigate the effect of internal control indices on promotion of innovation among employees at Melli Bank in Zanjan. This was descriptive-analytic study. The field studies and library were used to collect data. The population consisted of all employees at Melli Bank in Zanjan. Using Cochran formula and stratified random sampling method, 215 employees were selected as sample. A researcher-made standard questionnaire was used for collecting the data. Using SPSS software, the descriptive statistics, linear regression test, and normal distribution test (skewness coefficient) were used for analyzing the data. However, the findings showed that the mean of internal control index was 3.38 and the mean of innovation index was 4.39; the sample believed that the importance of internal control was more than innovation. Also, the linear regression test showed that the correlation coefficient between self-control and innovation was 0.225; since the significance value was less than 5%, it can be said that there was a direct and significant correlation between self-control and innovation (error level= 5%).Considering the findings, it was concluded that the participatory management, formulation of delegation principles, and ethical-training courses were necessary to improve the performance of banks.

Keywords: Internal Control, Melli Bank, Employee activity, Innovation

Introduction

In governmental agencies, especially banks, each part requires features to achieve effectiveness and efficiency. The managers mostly consider the internal controls traditionally and have little confidence in their role and importance in organization. Like other parts of organization, however, the internal control should work effectively in line with goals of organization and ensure the information users (Rengifo et al., 2014: 1).

In terms of activity and effectiveness of organization, the most important assets of an organization are intelligent and knowledgeable employees who create new organizational processes, new technologies, and new servicesandlead organization to achieve sustainable competitive advantages. The innovative efforts in organization are the result of investing in process of learning and upgrading human resource management and knowledge management.

The innovative management of knowledge and innovative use of information technology may help organizations to provide employees with opportunity to rely on their own experiences in solving organizational issues(MirEsma'ili, 2007: 93).

Today, there is a tight competition between banks and financial and credit institutions, including Melli Bank, inIran. However, the competition and participation in this field require countless factors; the most important factor is innovative activity of employees. The innovation in activities depends on several factors; the internal control is the most prominent one. Basically, the employees get their knowledge and identity by doing their jobs and engaging in company's social environment (Ardichvili et al, 2009: 227). The knowledge exists in organizations in different forms and different places. However, the individualsare those who must learn new ways of doing things (Grant, 1996: 24).

The emphasis in organizational transformation management systemismostly on human resources.In particular, this is true if the human resources are associated with knowledge-based innovation and creativity. The KM system promotes learning through improving the ability to collect, organize, and disseminate information and knowledge (Belbaly, 2008: 30). The human resource, with its knowledge and expertise, is a valuable resource at organizations. The organizations which effectively manage and use knowledge and expertise of individuals are able

to create more value and achieve a better competitive advantage (Boroumand&Ranjbari, 2009: 19).

In such a situation, the organizations that promote their performance in important organizational fields such as innovationmay survive (Farsijani&Neyestani, 2010). In fact, the organizations rely on innovation to increase their productivity and improve their economic situation. The innovation is a complex activity which uses new knowledge. This new knowledge is obtained by external factors orhuman resource development activities within organization (Fosfuri&Tribo, 2008: 99).

According to above, the innovation is important in organizations and the internal control of organizations plays a critical role in innovative activities of human resource. In this regard, considering the importance of internal control in management of companies and financial institutions to achieve long-term goals, the role of this important process atMelli Bank of Iran was examined. Basically, the financial and credit institutions which deal with a huge number of customersshould consistently align their activities and services with needs of their customers. In this way, the institutions may be able to continue to attract new customers and retain previous customers. However, the role of a complementary and sustainable approach such as internal control should also be taken into account. These controls by senior managersmay enable the organizations to compete in innovative ways.

In financial and credit institutions such as Melli Bank of Iran, the internal controlmay be an important and preventative factor in preventing many issues and problems and implementing future plans of company. In today's competitive world, therefore, the internal control which ultimately leads to innovation in activities and creativity of staff is necessary for maintenance ofcurrent position and development of Melli Bank. However, the question is: what are the key indices affecting internal controls to innovate employees' activities at Melli Bank inZanjan?

Methodology

This was applied descriptive-analytic causal (correlation) survey study. The population consisted of all employees at Melli Bank in Zanjan in 2013-2014. Using Cochran formula and stratified random sampling method, 215 employees were selected as sample. The research variables

included effective internal control index (self-control, continuous feedback from managers, quantitative and qualitative standards and criteria, using professional ethics in control, and delegating in accordance with responsibility of individuals) as independent variable and innovation index as dependent variable.

The standard questionnaires such as Tanjni (2011), British Industrial Association (2010), James and Pennyadz (2012), Pyragogo and Sochell (2010), and a researcher made questionnaire were used for collecting the data; this questionnaire consisted of 36 questions to test and evaluate research hypotheses.

Using Cronbach's alpha coefficient, the reliability of questionnaire was determined to be higher than 0.7; this was acceptable.Using SPSS software, the descriptive statistics, linear regression test, and normal distribution test (skewness coefficient) were used for analyzing the data.

Findings

The results of descriptive statistics for internal control indices indicated that the calculated standard deviation was 0.813; this was acceptable.Also, the mean of self-control, continuous feedback, standards and standards, professional ethics, and delegation was 4.407,4.349, 3.996, 3.580, and 3.554, respectively; since these were higher than theoretical mean (3), it was concluded that the level of internal control indices in Melli Bank of Zanjanwas moderate to high.

Table 1: Descriptive indices for internal controls

Indices	Sample size	Number of question	Range of questions	Mode	Median	Mean	Standard deviation
Self-control	215	6	1-6	5	5	4.407	0.684
Continuous feedback	215	5	1-5	4	4	3.996	0.846
Criteria and Standards	215	5	1-5	4	4	3.580	0.822

Ethics	215	6	1-6	5	5	4.349	0.696
Delegation	215	3	1-3	4	4	3.554	1.017
Total	215	25		4	4	3.978	0.813

However, the standard deviation of effectiveness was 0.934; this was also acceptable. In general, the profitability index (mean= 3.38) had a good level among employees. It was concluded that, however, the effectiveness of Melli Bank of Zanjan is more than moderate level.

Table 2: Descriptive indices for effectiveness

Indices	Sample size	Number of question	Range of questions	Mode	Median	Mean	Standard deviation
Innovation	215	4	1-4	3	3	3.38	0.934

After determining the status of indices in descriptive statistics, the inferential tests may be used to explain the correlationbetween independent and dependent variables.Using Kolmogorov-Smirnov test, therefore, the distribution normality of sample was investigated to ensure the data normality at error level of 5%.

The data distribution is normal: H0

The data distribution is not normal: H1

In this study, this test was conducted and the results are shown in table below. According to table 3, the significance level of variables is higher than 0.05; therefore, the null hypothesis is confirmed and the data distribution is normal.Due to this normality, the parametric statistical models are used.

Table 3: Kolmogorov-Smirnov test for each variable

	Self-control	Continuous feedback	Criteria and standards	Professional ethics	Delegation	Internal control	Innovation
Significance	0.064	0.057	0.108	0.091	0.077	0.096	0.068
Result	Normal	Normal	Normal	Normal	Normal	Normal	Normal
Decision	H0 is confirmed	H0 is confirmed	H0 is confirmed	H0 is confirmed	H0 is confirmed	H0 is confirmed	H0 is confirmed

After it was determined that the distribution of samples is normal, the linear regression test was used to explain the correlations between variables. It was shown that there was a positive and significant correlation coefficient (= 0.225) between self-control and innovation;this means that the self-control impacts positively on innovation of employees atMelli Bank of Zanjan.

Table 4: Pearson correlation coefficient between dependent and independent variables

Variables		Number	Correlation coefficient	Sig value	Test result
Independent	Dependent				
Self-control	Innovation	215	0.225	0.001	The correlation is significant

Conclusion

Principally, the employees' innovation and creativity is evoked in healthy and ideal competitive environment. The theoretical research have shown that the bank employees will be creative if they will be encouraged by their superiors and clients. In fact, their behavior and performance should be considered as the most important priority in innovation; this is possible through expansion of internal controls by managers.

Also, the findings showed that there are several indices for internal control that each organization may use them based on its goals, mission, and type of activity. The internal control indices include self-control, continuous feedback from managers, determination of quantitative and qualitative standards and criteria, using professional ethics in control (by controllers), delegation in line with responsibilities of individuals, and etc. Also, the indices of effectiveness include innovation and creativity, efficiency, high motivation to promote performance, development of employees, and etc. In any case, the institution uses indices to increase the level of effectiveness and efficiency of its organization and achieve success.

In addition to theoretical findings which emphasized on using internal control for development of innovation and creativity among employees, the inferential findings showed that the correlation coefficient (= 0.225) betweenself-control and innovation was positive and significant; this means that the self-control impacted positively on innovation of employees atMelli Bank of Zanjan. However, the mean of internal control and innovation was 3.98 and 3.38, respectively; this means that according to subjects, the internal control in banks is more important than innovation and creativity of employees in banks. In the shadow of internal control and fair treatment, other activities of bank are managed and the bank will succeed in achieving its goals.

Considering theoretical and analytical findings of this research, the banks will be successful in promoting creativity and innovation among employees if they developinternal control and create a healthy competitive environment for employees. In fact, it can be said that the economic and administrative justice is one of the main factors behind the success of banks in achieving long-term goals.

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