

eISSN: 2981-1554

Original Article (Quantified)

# Providing a comprehensive risk management model considering the role of environmental uncertainty and legal transparency in the banking industry

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## Receive:

04 January 2025

## Revise:

14 March 2025

## Accept:

26 May 2025

## Abstract

This study was conducted with the aim of identifying and analyzing the variables affecting the risk management model in the banking industry and examining the role of environmental uncertainty and legal transparency. The research method is applicable in terms of its purpose, quantitative in terms of implementation method, and descriptive-correlational in terms of nature and method. A standard questionnaire based on a 5-point Likert scale was used to collect research data. The content validity of the tool was confirmed by experts and specialists, and Cronbach's alpha and composite reliability were used to measure the reliability of the tool. By distributing the questionnaire, the validity of the tool was measured with three methods: construct validity (external model), convergent validity (AVE), and divergent validity. The AVE value for all variables should be greater than 0.5. SPSS and PLS software were used to analyze the data. The results showed that strong supervisory management as the main driving factor has the greatest impact on other variables, and other dimensions including accountability and responsibility, credit risk monitoring, business environment control, transparency of macro banking facilities, and protection of the bank's image are at a linked level and have a complex interaction with each other. The findings show that these variables play a key role in improving risk management performance and reducing the negative effects of environmental uncertainty and lack of legal transparency.

## Keywords:

Risk management, environmental uncertainty, legal transparency, accountability, responsibility

Please cite this article as (APA): Vaziri, M. H., Mohammad Bagheri, M., Raeispour Rajabali, A., Zayanderoody, M. and Mollaei, H. R. (2025). Providing a comprehensive risk management model considering the role of environmental uncertainty and legal transparency in the banking industry. *Journal of New Approaches in Management and Marketing*, 4(1), 289-309.



<https://doi.org/10.22034/jnamm.2025.465112.1054>



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## **Extended Abstract**

### **Introduction**

The increasing expansion of business activities has made financial relations, processes, and methods of organizational and people's financial management more complex. Thus, the continuity of the activities of companies and economic enterprises must be sought in having sufficient financial resources (Khanboubi & Boulmakoul, 2020). Without access to financial resources, many activities cannot be implemented and, as a result, the achievement of goals is impossible (Vaziri et al., 2025).

In the meantime, in order to achieve the goals of the program (development), various strategies such as export development policy, import substitution policy, and the like have been considered; but it is obvious that the trend of changes in interest rate indices, exchange rates, and bank facility interest rates show the basis of the economic growth and development of society, and that the goals of the programs and development achievement patterns will be realized in practice according to the predicted plan (Syadali et al, 2023).

The occurrence of financial crises in the late seventies, early eighties, and late nineties created a huge wave of changes in the international arena (shahrzadi et al., 2022). These crises increased the awareness of banks and regulators to monitor more types of risks in financial and banking institutions. With the globalization of the economy and the intensification of competition between banks, the profit margin of traditional banking activities has decreased and increased risk in banks. Risk management, as a factor that plays an effective role in gaining competitive advantage, should be given serious attention in these and other financial and credit institutions (Rezaei et al., 2025). One of the factors that disrupt the risk management process in an organization is environmental uncertainty, which confronts the company with an unpredictable environment characterized by rapid changes in technology, extreme diversity in customer demand, and severe fluctuations (Huynh & Phan, 2024). Unpredictable changes and actions in the environment may change the nature of competition by creating new opportunities or threats for the company (Dai & Zhang, 2023). The most important feature of the current era of environmental uncertainty is complexity, globalization, and increasing competition, which affect the success of any organization. Environmental uncertainty is defined as the rate of variability in the external environment of organizations, which includes major customers, competitors, government regulations, and labor unions (Lu et al., 2023). High environmental uncertainty increases the risk of accurate estimation of future profits by shareholders and makes it a complex issue for them. If management does not take appropriate action to reduce this volatility, the information asymmetry between management and shareholders becomes more acute (Racicot et al., 2023). Environmental uncertainty creates serious limitations for the company and affects the risk control strategy and managers' decisions in the company (Harb et al., 2023). Another effective factor in controlling risk and uncertainty in the environment is the existence of transparency in relevant laws. In this regard, the main research question is posed as follows: What is the comprehensive risk management model considering the role of environmental uncertainty and legal transparency in the banking industry?

### **Theoretical foundations**

#### **Maintaining the health of the economic system and creating strategic opportunities for the banking system**

Maintaining the health of the economic system is one of the most important macro-goals of financial and banking policymaking in any country. Banks, as the main pillars of the financial system, play a vital role in economic stability and sustainable development. By utilizing

comprehensive risk management and efficient supervisory systems, banks can prevent credit, currency, and liquidity crises and contribute to financial balance in the economy. The “risk-based” approach in banking management not only focuses on reducing threats, but is also effective in identifying and exploiting strategic opportunities. Such opportunities include the development of digital services, the design of new financial products, the expansion of electronic banking, and entry into new investment markets, which, while increasing bank profitability, dynamize the national economy (Asteriou et al., 2021).

### **Accountability, Responsibility, and Trust in the Banking System**

Trust in the banking system is one of the most fundamental components of financial stability and the effective functioning of money markets. When customers and stakeholders believe in the honesty, transparency, and accountability of banks, they are more willing to deposit, use financial services, and cooperate with the banking system. Therefore, accountability and responsibility are essential elements in the formation and maintenance of public trust (Malahim et al., 2023).

Accountability refers to the commitment of managers and employees to explain and defend their decisions, policies, and performance to stakeholders. In the banking system, accountability not only increases the transparency of financial information, but also improves public oversight and reduces the likelihood of opportunistic behavior. The higher the level of accountability in the banking structure, the lower the probability of corruption, inefficiency, and risky decisions, which strengthens institutional trust among customers and investors (natufe et al., 2023).

### **Research Background**

Rezaei et al. (2025) studied “Identifying Uncertainty and Risk and Increasing Flexibility in Capital Budgeting Decisions with an Investment Discretionary Approach”. This research was applicable-developmental in terms of its purpose and qualitative in terms of the nature of the data. The results showed that 6 constitutive themes and 14 basic themes were identified, which include political and international factors, legal and regulatory, financial and budgetary, technology and information, organizational structure and culture, and economic factors.

Huynh & Phan (2024) studied “Bank Uncertainty and Risk in an Emerging Market: The Moderating Role of Business Models”. This study was conducted by analyzing a panel of Vietnamese commercial banks between 2007 and 2019. The results showed that higher levels of banking uncertainty can increase banking risk, but the diversity of bank income has a moderating role and can reduce adverse effects.

### **Research Method**

This study is applicable in terms of purpose and descriptive-correlational in terms of method. The statistical population of this study includes managers and experts of Bank Mellat branches in the southeast of the country, including Kerman, Sistan and Baluchestan, Yazd and Hormozgan provinces, and their total number is estimated to be about 1,125 people. For structural analysis, 400 questionnaires were distributed among the statistical population and 373 valid questionnaires were collected, which were used as the basis for statistical analysis. The findings from the Cronbach's alpha test and composite reliability to measure the reliability of the research instrument are reported in Table 2. To examine the validity of the instrument, content validity (expert opinion poll) was used and its validity was confirmed. Then, by distributing the questionnaire, the validity of the instrument was measured with three methods: construct validity (external model), convergent validity (AVE), and divergent

validity. The AVE value for all research variables must be greater than 0.5. In order to test the research hypotheses, structural equation modeling was used in the context of smart pls2 statistical software.

### **Research findings**

Research findings showed that “strong supervisory management” has the greatest impact on other dimensions of banking risk management, including “accountability and responsibility” and “protecting the bank’s image and relationships with stakeholders.” “Accountability and responsibility” plays an important mediating role in transferring the effects of supervisory management to “control of the business environment”, “care of credit risks”, and “building trust in the banking system”. The results of the structural equation model confirmed that the relationships between the dimensions of banking risk management are meaningful and effective. These findings emphasize the importance of establishing strong supervision and legal transparency in reducing the adverse effects of environmental uncertainty and strengthening the stability of the economic system.

### **Conclusion and Discussion**

The results show that strong supervisory management in the banking system plays a key role in promoting the accountability and responsibility of managers and employees. This finding is consistent with the studies of Shabir et al. (2023), which show that the power of the CEO and the board of directors can reduce the adverse effects of economic and geopolitical uncertainty. The results of Huynh & Phan (2024) also indicate that banks with strong managerial supervision are more resilient in the face of environmental fluctuations and have the ability to manage credit risk and more sustainable performance.

The findings also show that organizational accountability and responsibility have a direct impact on controlling the business environment and managing credit risks. Banks that document and clarify their decision-making processes can better manage the business environment and prevent risky decisions from occurring. This is consistent with the studies of Syadali et al. (2023) and Rezaei et al. (2025), which show that accountability and responsibility increase decision-making flexibility and reduce risk in conditions of environmental uncertainty. In addition, Charles et al. (2016) and OECD (2021) have emphasized that transparency and accountability of banks are the basis for building investor confidence and maintaining financial stability.

The results of the study show that protecting the image, reputation, and relationships of the bank with stakeholders has a direct impact on public trust and the health of the economic system. Banks with high and positive reputation are able to direct financial resources to productive sectors and prevent financial crises. The findings of Asteriou et al. (2021) and Bhatt et al. (2023) also confirm that public trust and a positive image of the bank are the key to economic stability and growth.

Controlling the business environment and taking care of credit risks also play a vital role in reducing legal ambiguity and increasing transparency. Banks with a transparent legal environment can make faster and more effective decisions and reduce credit and operational risks. These findings are consistent with the studies of Chen et al. (2023) and Markaz Malmiri et al. (2022), which have introduced the transparency of laws and regulations as the main factor in reducing banking risks. Rezaei et al. (2025) also showed that transparent rules and management structure enhance decision-making flexibility and risk control and empower banks in facing high-risk environments.