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Organizational Independence Pattern of Central Bank of the Islamic Republic of Iran based on Organizational Health

Ali KARAMI¹,
Masoumali SALIMIAN²

¹Department of Government
Management, Chalous branch, Islamic
Azad University, Chalous, Iran. Email:
odi.1984@iauc.ac.ir. *Corresponding
author*

²Department of Government
Management, Chalous branch, Islamic
Azad University, Chalous, Iran. Email:
dr.salimian@iauc.ac.ir

Abstract: This research intends to introduce a pattern for independence of Central Bank of Islamic Republic of Iran based on organizational health. The research was conducted through a descriptive-survey method. The samples included 140 people of the elite Central Bank experts and managers. These samples were selected by means of a simple random sampling procedure. The pertaining data was gathered by valid researcher-made questionnaires used for assessing the variable for organizational independence and organizational health of the Central Bank. For data analysis, confirmatory factor analysis and structural model were used for synchronous relations of the components and one-sample average test was utilized for investigating the variables. The components of Central Bank independence, functional and legal independence, staff independence and financial independence are based on Mervin King's research (2012) and organizational health is based on Khodayari et al., (2017). Generally, in the main hypothesis, independence of the Central Bank along with organizational health had significant factor loads in the experts' viewpoint. The results indicate that the basic levels of organizational health including fundamental level, structural-cultural levels, and executive levels significantly influence the organizational independence of the Central Bank according to which a suitable model has been designed for the Central Bank's stasis in organizational decisions.

Keywords: *Central Bank Independence; Functional Independence; Legal Independence; Staff Independence; Financial Independence; Organizational Health.*

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Introduction

Considering the economic changes in recent decades, central bank's tasks have changed from a set of mechanical banking tasks to a sensitive and effective role in economy. Central bank's tasks consist of making monetary equilibrium that makes balance between money supply and demand leading to a logical stability for money value; foreign promotion and stabilization make requiring conditions for payment balance so that purchasing power of money or its equality value has a reasonable stability in international transactions so that its it is the final creditor and monetary creator (Mervin King, 2012).

According to the rules related to establishment of central banks in various countries, some tasks such as maintaining money value, keeping foreign and domestic balance, inflation control, maintaining price stability, and driving economic growth and stability of society have been mentioned as main objectives and responsibilities of this establishment (Bernanke, 2004).

On the other hand, it has been explained in organizational policy that organizational factors are effective in anticipating political behavior (Brouer et al., 2011). For instance, when managers determine resources, these resources will be under the effect of managers' independence and the imposed control over them. This concept has been supported by several authors indicating that organizational factors apply considerable effects on political behavior compared to other environmental and managerial factors (Fakoor et al., 2015).

Two important organizational factors that have been less studied in literature of political literature can effect on organizational policy; these two factors are independence and control. Although independence makes managers more flexible to show reaction, strategic control provides some concepts for sever control of top management to apply them. Self-autonomy, independence and authorities given to managers or groups in organizations will develop new ideas or recommendations to achieve these goals (Andersen & Fredens, (2013). According to researchers, organizational independence indicates freedom of an organization to do tasks or control the work. Organizational independence shows a non-centralized decision structure or an organizational field in which, managers can act without need to confirmation of top management or sometime without their permission (Andersen & Fredens, 2013; Danish & Usman, 2010; Fakoor et al., 2016). In other words, independence in organization enables middle managers making decisions without getting permission from top managers. Independence

affects indirectly on organizational performance or planning effectiveness through other organizational variables such as capabilities and recognizing organization health and appropriate adaptive organizational behavior.

According to some analyses of researchers, independence of central bank consists of 4 elements including institutional independence, functional independence, financial independence, and staff independence. In case of institutional independence, Central Bank is considered as a separate legal entity independent from government with its specific tasks and authorities. In terms of functional independence, it is assumed that central bank makes some decisions independently without the order of interference of government to do its tasks and members of decision-making associations in Central Bank, although are appointed by government, do not make decision or express idea as government agent. In case of financial independence, assets and commitments of central bank are separated from assets and commitments of government; in terms of staff independence, staffs of central bank are not subjected to public regulations related to governmental employment.

To evaluate organizational health, 4 analysis levels with 12 factors are emphasized. The mentioned 4 levels include fundamental or infrastructural level that its components include leadership, subrogation planning, success, and health of employees. Culture level consists of mutual trust and respect, effective relationship and work-life balance. Structural-cultural level consists of developing skills and merits, transparent and coherent prospect and reward system; ultimately, the fourth level consists of flexibility, staffs' commitment, and teamwork. There have been extensive researches in field of organizational health. In this regard, "the comprehensive applied model of workplace health" was tested in Canadian National Quality Institute. Research findings indicated that an organization is healthy in general when staffs feel secure and have occupational health in the organization; also, work activity of staffs is healthy, accountable and responsible in such organization. Nevertheless, the mentioned organization is not healthy until its accountability culture is not promoted so that organization will promote when three components of occupational activity of accountability and responsibility are strengthened. Strengths of central bank's independence consist of some properties that are introduced in table 1:

Table 1. Properties of organizational independence based on organizational health

prospect make challenges in its strategies and procedures	decision-making performance in scope of monetary policy directly affect the employment processes
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the situation of accepting central bank's rules will be stronger in governmental institutes and the applied procedures will be simpler in determining and using bank's authorities	there will be a deeper perception of monetary policies
collecting and distributing bank resources that prevents from any financial pressure	managers will be more efficient within decision-making process
legal ethics and regulation will increase in organizational relationship	power and ability of bank will be stronger in relation with employing monetary policy and self-autonomy I decision making
intellectual balance and comfort will be increased in organization	wrong policies will be forgotten
personnel responsibility of managers is increased	the organizational creativity and innovation are increased in planning
making policies leading to foreign payment balance	the power and recognition of supervisors, analysts and critics of monetary policies in case of analysis, appraisal and evaluation of monetary policies
redefinition of mission of economic institutes, councils and headquarters in governmental associations	it leads to separation between monetary and financial policies
central bank's independence in limiting activity domain of unorganized monetary markets	it attracts tendency of this institute toward macroeconomic policies

Table 2. Effective steps in promoting Central Bank control and independency policy using organizational health

properties of independency environment	properties of healthy organization
independent organizational planning	having a clear prospect
independent organizational prioritization	holistic leadership
independent organizational creative communications	effective relationships
growth of quality of independent occupational services	excellence of specialized skills
recognizing organizational capabilities	trust and confidence ability,

	behaviorism, capability and self-awareness, culture of trust and strong values such as respect, justice and coherence
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Organizational health points to capabilities of an organization to achieve its goals based on an environment leading to improvement in performance of person and organization supporting and welfare of employees. In this organization, satisfaction and health (physical, intellectual and social) of employees is important for organizational health since it provides the field for improving organization performance (Breaux, et al., 2009). According to social viewpoint, the most interesting point in these organizations is having employees who do their work perfectly. The perfect performance will increase organization's efficiency leading to developed national economy (Chang, et al., 2009). Chang et al. (2009) conducted a study entitled the relationship between independency of central bank, financial freedom and economic growth in excellent organization and indicated a positive and significant relationship between mentioned variables within short and long terms. Functional sites in macroeconomic scope play a vital role based on the organizational health and macro income balance with government costs including commitment, responsibility, economic leadership and alignment in political relationships between central bank and government.

Brun & Dugas (2008) published a paper entitled "price reliability and central bank independence under the shade of regular, healthy and democratic successful organization" indicating that experimental evidences in two past decades of central bank independence within a dynamic organizational conditions showed a static price unexpectedly. Democratic disagreements, attention to financial and economic credits of central bank, suitable order and arrangement in making decisions about monetary and banking policies and benefiting from components of health organization and transparency in communications and macroeconomic transaction can be mentioned as some of important factors for growth and excellence of central bank.

Development and excellence of organization are formed based on the independence experience of central bank in developed countries such as Germany and Japan; in case of lack of control by governors on economic and financial interests of central bank, economic performance of central bank should be followed.

According to conducted studies, this study aimed at finding a pattern for organizational independence based on components of organization health.

Methodology

This was a descriptive-survey research with correlational type.

Statistical population and sample

Statistical population of study consisted of all experts, middle and top managers (279 members) of central bank of Iran. Research sample obtained to 140 members based on Jersey & Morgan Table using stratified sampling method.

Data collection instrument

To collect relevant data to organizational independence based on organization health, a valid questionnaire was used. The questionnaire consisted of 18 questions at 5-point Likert scale used to discover components of understanding organizational independence; the 92-item questionnaire of organization health consisted of 4 levels (fundamental, cultural, structural-cultural, and executive levels). To discover components related to organization health and independence, the researcher-made questionnaire was used and its validity and reliability values obtained to 0.79 and 0.83.

Data analysis method

Central orientation and distribution indexes were used for descriptive data analysis. At inferential analysis step, Kolmogorov-Smirnov test was used to examine normal distribution of data, explanatory factor and confirmatory factor analyses were used in this research. Moreover, Excell, SPSS and AMOS Software were employed according to the subject. In this research, organizational independence classified to 4 parts of functional independence, staff independence, financial and legal independence. The purpose of financial independence is a situation in which, Central Bank can make decisions about monetary policies such as money price, credit and volume controls directly without the interference of government based on the information about the future of monetary policies of country; staff independence means limiting government's power in appointing important members of central bank, certain duration for tenure of higher authorities in monetary policy and head of central bank, and certain rules and regulations to settle disputes between central bank and government.

Before any analysis for collected data and statistical deduction, validity and reliability of measurement instrument should be examined.

Reliability of questionnaire was measured by Cronbach's alpha test and test results showed required accuracy and reliability of questionnaires. There are various methods to assess validity. Since research variables have been formed of several dimensions (components), explanatory factor analysis was used. When performing factory analysis, it should be examined whether the existing data can be used for analysis or not. In other words, whether the considered data are suitable for factor analysis or not? For this purpose, KMO index and Bartlett Test were used. Accordingly, these two tests are suitable for factor analysis when KMO index is above 0.6 close to 1 and sig of Bartlett Test is lower than 0.05. Results of these tests are presented in following tables.

Table 3. KMO and Bartlett tests for questionnaires' questions

KMO test	0.892	
Bartlett Test	χ^2	4112.575
	df	300
	Sig	0.000

According to table 3, KMO value obtained to 0.892 (above 0.6), sample members (number of respondents) are adequate for factor analysis. Moreover, Sig value of Bartlett Test obtained lower than 0.05 indicating suitable factor analyses to identify structure of factor model; hence, the assumption of identified correlation matrix is rejected.

Explanatory components of research were considered as variables including functional independence, legal independence, staff independence and financial independence and normality of data was tested using Kolmogorov-Smirnov test.

Table 4. Kolmogorov-Smirnov test related to components of organizational independence and organizational health

Variable	K-S test value	Number	Sig level
functional independence	1.263	140	0.087
staff independence	1.277	140	0.079
financial independence	1.221	140	0.138
legal independence	1.115	140	0.219
executive level	1.229	140	0.089
fundamental level	1.162	140	0.142
cultural level	1.102	140	0.22
structural-cultural level	1.282	140	0.077

According to significance level of Kolmogorov-Smirnov test (>0.05), data have been distributed normally. Therefore, parametric tests are used to investigate opinions of respondents.

Table 4 indicates that score of respondents in average 5 questions that is determined as 365 answers in one column is equal to 3.55 that is above 3.

Table 5. Descriptive statistics related to research variables (organizational independence and organizational health)

	Number	Mean	Standard Deviation
functional independence	140	3.55	1.43
staff independence	140	3.68	1.09
financial independence	140	3.73	1.332
legal independence	140	3.59	1.05
fundamental level	140	3.37	1.22
cultural level	140	3.65	0.149
structural-cultural level	140	3.49	0.908
executive level	140	3.76	1.009

Table 6 indicates t test value, df, mean difference, and significance level (<0.05) that its result is significant mean difference between respondents and value 3 (average of 5-point Likert).

Table 6. Mean test value relate to research variables (organizational independence and organizational health)

	test value	df	mean difference	sig level
functional independence	34.23	139	0.55	0.0001
staff independence	46.58	139	0.58	0.00001
financial independence	48.85	139	0.73	0.0001
legal independence	39.22	139	0.59	0.0001
fundamental level	3.34	139	0.37	0.0001
cultural level	65.01	139	0.62	0.00001
structural-cultural level	7.014	139	0.49	0.0001
executive level	22.39	139	0.59	0.00010

According to t test values related to comparison between mean score of explanatory variables and significance level <0.05, explanatory variables have been optimal in opinion of experts. In this research, important sub-indexes extracted from Delphi method were evaluated and presented in following table.

Table 7. Results of measurement model

Variable	Sign in model	Factor load	t coefficient	P-value
fundamental level holistic leadership	Q1	0.78	13.21	0.01
	Q2	0.67	17.05	0.01
	Q3	0.72	21.18	0.01
fundamental level occupational success	Q4	0.67	18.78	0.01
	Q5	0.69	21.05	0.01
	Q6	0.63	12.28	0.01
executive level flexibility	Q12	0.91	15.79	0.01
	Q13	0.87	12.23	0.01
	Q14	0.79	14.02	0.01
executive level occupational commitment	Q18	0.72	11.37	0.01
	Q19	0.76	15.12	0.01
	Q20	0.83	17.82	0.01
structural-cultural level certain system	Q24	0.61	12.00	0.01
	Q25	0.79	13.92	0.01
	Q26	0.84	13.24	0.01
structural-cultural level developing skills	Q28	0.78	11.24	0.01
	Q29	0.65	10.73	0.01
	Q30	0.83	16.67	0.01

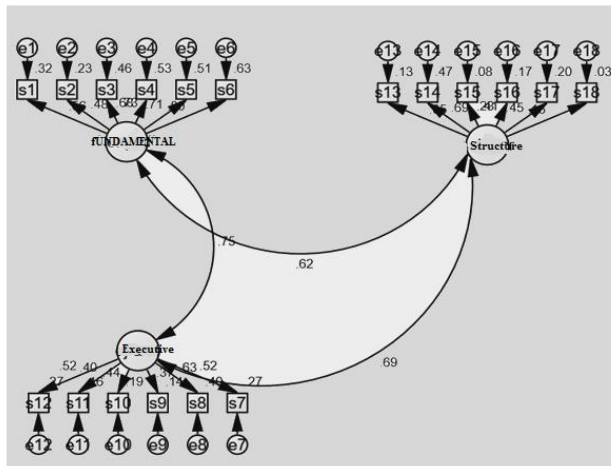


Table 8. Fit Indexes for measurement model

Index	Optimal level	Reported amount
RMR	close to 0	0.097
SRMR	close to 0	0.110
GFI	0.9 and above	0.91
NFI	0.9 and above	0.917
NNFI	0.9 and above	0.969
IFI	0.9 and above	0.94
CFI	0.9 and above	0.95
RMSEA	<0.08	0.07

Since fit indexes in table 11 indicates goodness fit of research data and factor structure and theoretical base of research, questions are in line with theoretical structures.

Structural model (path analysis model)

Passing steps of measurement model confirmation and instrument validity calculations, the next step tests the relationships between research variables. For this purpose, the considered model was implemented in IMOS Software that can be seen in model 4. Properties of fitted model adequacy are presented in table 3. As goodness indexes in table indicate, data of this research are matched with factor structure and theoretical base of study indicating validity of research findings and structural model. To examine adequacy of sample size, power coefficient was used in order to estimate required parameters. Results obtained from sample size adequacy indicate that model coefficient has been calculated considering sample size equal to 1 showing that this value is complete and power coefficient is efficient since there are various choices of created matrix and error type 1 is not above 0.05; hence, the assumption of rejecting null hypothesis and results are reliable.

Table 9. Fit Indexes for structural model

Index	Optimal level	Reported amount
RMR	close to 0	0.12
SRMR	close to 0	0.09
GFI	0.9 and above	0.91
NFI	0.9 and above	0.93
NNFI	0.9 and above	0.92
IFI	0.9 and above	0.91
CFI	lower than 0.08	0.08

Table 10. Path coefficients of total effects of variables and significance of estimated parameters

studied path in model	path coefficient	t value
fundamental level → organizational independence	0.88	5.32
executive level → organizational independence	0.47	3.27
structural-cultural level → organizational independence	0.56	4.83
organization health → organizational independence	0.42	2.08

According to table 10, effect of fundamental level on organizational independence of central bank estimated to 0.88 that is above 1.96 (t value=5.32); hence, the more strengthened fundamental level in organization health (holistic leadership and job success) for manages and employees of central bank, the more strengthened organizational independence will be in a linear equation. Effect of executive level on organizational independence of central bank estimated to 0.47 that is above 1.96 (t value=5.32); hence, the more strengthened executive level in organization health (flexibility and occupational commitment) for manages and employees of central bank, the more strengthened organizational independence will be in a linear equation. Effect of structural-cultural level on organizational independence of central bank estimated to 0.56 that is above 1.96 (t value=4.83); hence, the more strengthened structural-cultural level in organization health (developing skills and merits and certain organizational system) for manages and employees of central bank, the more strengthened organizational independence will be in a linear equation. Effect of organizational health estimated to 0.42 that is above 1.96 (t value=5.32); hence, the more strengthened organizational health, the more strengthened organizational independence will be in a linear equation.

Table 11. Subindexes of extracted factors

Financial independence	legal and staff independence	functional independence
certain prospect	strengthening responsibility political intelligence	proper choice of decision makers in money and credit council
innovation in capital market planning	rule-based behavior	effectiveness of decision making in currency field
creating balance in capital market	legal-financial literacy	accelerating monetary policies being aware of capital market situation

The above options were extracted based on given scores in selecting the best indexes of extracted factors.

Certain prospect in planning, innovation in planning, and having clear goals to cope with economic and currency problems and controlling inflation with comprehensive planning are done by economic and bank elites.

If strategic responsibility and intelligence including searching, processing, expanding and protecting information in political behavior guarantee the process of transferring these information to right person at right time regarding strategic intelligence and monetary policies, it shows quality, effectiveness and acceleration in performance indicating the space in which, decisions are made. In this case, it is indicated if there have been various suggestions at the time of decision-making that have led to flexibility and increased independence in practice. Regular planning appraisal, rules balance, and power of executive authorities in field of decision-making can be named as some of methods regarding strategic intelligence.

Findings

Results of data analysis and inferential statistics in accordance with questions have been reported in this section.

Response to question 1: there is a relationship between organization health components and organizational independence of Central Bank.

To answer the question, Pearson correlation coefficient was used after estimating some assumptions such as normal distribution of samples and interpretation level of scores. Summary of results is reported in table 12.

Table 12. Estimating correlations between organizational health dimensions and organizational independence in sample group

Variable		Organizational independence	
		r	Sig.
organizational health dimensions	fundamental level	0.3819	0.0001
	structural-cultural level	0.5130	0.001
	executive level	0.5913	0.0001

Data of table 12 indicate positive and significant correlation between three levels of organizational health and organizational independence. In this case, increase in score of organizational health levels leads to increase in score of organizational independence and vice versa.

Question 2: Are organizational health components are similarly effective in anticipating organizational independence.

To analyze this hypothesis, stepwise regression was used after estimating some assumptions such as normal distribution of samples and interpretation level of scores. Summary of results is reported in table 13.

Table 13. Determination coefficient of stepwise regression models for effect of organizational health components on organizational independence (140 members)

models	independent variables (organizational health dimensions)	organizational independence	
		determination coefficient	Sig.Model
regression models	1-structural-cultural level	0.3916	0.001
	1- Structural-cultural level 2- Fundamental level	0.4168	0.001
	1- Structural-cultural level 2- Fundamental level 3- Executive level	0.4365	0.001

Data of table 13 indicate that reported determination coefficient of the first input variable of organizational health dimensions is structural-cultural level with determination coefficient of 0.3496. The second input variable related to organizational health was fundamental level with larger determination coefficient of 0.3916. Third variable related to organizational health dimensions was executive level with increase amounts of 0.4168 and 0.4365. Final model consisted of variables of structural-cultural level, fundamental level, and executive level with increased determination coefficient of 0.4365.

Discussion and Conclusion

Considering the existing trends, the general movement toward organizational independence of Central Bank based on organizational health is beneficial. However, it should be noted that properties of economic-centered organizations such as banks, exogenous large incomes, and different social economic and political rituals makes these differences important in case of independence of Central Bank. Considering organizational structures and conditions, the issue of independence of Central Bank cannot be addressed with a limited approach, but it is possible to make Central Bank independent making suitable organizational policies including making decision and choosing competent managers, succession

planning, holistic leadership, balance between occupational life, work and commitment in staff and institutional independence, selecting economic and banking elites in macro decision-making and paying attention to regular planning for experts in field of economy, banking, financial management and monetary policies, setting suitable rules for economic market and holding regular sessions for elites in money and credit council, paying attention to independent identity of this council so that members of this council have not been selected as members because of their governmental positions in order to provide enough time for council, decreasing governmental members of council (those members who are direct members of government cabinet) replacing them with specialized agents, correcting economic structure such as reducing budget dependence to oil incomes (as effective base in monetary and financial policies), and assigning governmental banks to private sector. Therefore, Central Bank independence is required for decisions made by banking elites in order to anticipate equilibrium between market supply and demand for foreign currency and macro monetary policies based on organizational health.

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