



EFFECT OF INNOVATION, SOCIAL AND ECONOMIC RESPONSIBILITY ON FINANCIAL PERFORMANCE OF BANK

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ABSTRACT

The purpose of this study was to investigate the effect of innovation, social and economic dimensions of corporate social responsibility on financial performance of Fars Agricultural Bank Branches. The community of this research involves all the bosses, deputies, credit experts and auditors of the Agricultural Bank Branches of Fars Province. According to the Morgan Table Guide, about 275 branches were selected, which eventually returned 320 questionnaires. The data gathering tool was Sagarra et al. (2016), a standard questionnaire. In order to describe the data analysis and test hypothesis, we used intuitive statistics and Structural Equation Modeling Method, which was analyzed by the use of Laserl software. After analyzing information, all four research hypotheses were confirmed. The results of the research hypotheses test show that innovation has a positive effect on social dimension and economic dimension of social responsibility of the company, as well as the positive impact of social and economic dimensions of corporate social responsibility on financial performance of branches of Agricultural Bank of Fars Province was confirmed.

Keywords: Innovation, Social Responsibility, Economic Responsibility, Financial performance, Agricultural Bank

INTRODUCTION

Today, in the competitive market, the innovation is a decisive factor for the company's success (Bruni and Verona 2009; Garcia-Morales et al. 2008). Innovative firms are much better and faster with environmental changes (Maroville, 1992, Paul, 1998). The present research points out that innovation is a way of transferring knowledge to provide better solutions for new needs or current social needs, and implementing innovative decisions and ideas, Organizations and management researchers also focus more on the importance of social responsibility. This corporate social responsibility structure refers to the situations in which companies bring social, environmental, and economic concerns with their business operations, and their exposure to shareholders (European Commission, 2001, Perini, 2005). Therefore, corporate social responsibility requires companies to engage in voluntary activities that "need to be carried out for economic, social and environmental activities" (Ministry of Foreign Affairs, Development and Exchange of Canada, 2015). It should be noted that the need for "social innovation" may be required in the path to corporate social responsibility (Rexhepi et al., 2013).

Companies are involved in a large collection of social activities. The present research addresses two important aspects of corporate social responsibility: one that relates to achieving economic goals, and the other to achieving social goals. Although it is clear that the company is pursuing both economic and social goals, these two goals are completely different, requiring different

structures (Elkington, 2004). Differences between social and economic goals appear to be greater in SMEs, as they are constantly faced with the challenge of funding for technology and materials (Lewis et al., 2007). In this structure, it may be assumed that small and medium-sized enterprises are more focused on problems related to economic goals, and thereby slow down the adoption of social and environmental initiatives (Walker and Prius, 2008), which certainly leads to pressures that are hard to be overcome (Carroll & Shabana, 2010). Therefore, in this research, the researcher is trying to study the previous research and collecting information from reliable sources to examine the effect of corporate innovation, social and economic responsibility on the financial performance of branches of Agricultural Bank of Fars province and answer the following questions:

The major question: What is the effect of corporate innovation of socio-economic responsibility on the financial performance of the Agricultural Bank branches in Fars province?

Main Questions:

1. What effect does innovation have on social dimension of corporate social responsibility?
2. What is the effect of innovation on the economic dimension of corporate social responsibility?
3. What is the effect of social dimension of corporate social responsibility on financial performance?
4. What is the effect of economic dimension of corporate social responsibility on financial performance?

LITERATURE REVIEW

The theoretical framework of research

A research process that examines the relationship between innovation and the social dimension of corporate social responsibility states that social achievement requires an innovative approach to be sustainable. From this perspective, the capacity of the organization to innovate allows managers to share the organization's goal with the rest of the members. It should be noted that the social dimension of corporate social responsibility requires the development and implementation of several integrated programs by managers (Gaynor, 2002). By obtaining these processes or technologies, the members of the organization can be trusted and collaborative, because we allow them to identify and adjust the new achievements of society (Blakeley and Aparicho, 1990). Therefore, the first hypothesis can be presented as follows:

H1: Innovation has a positive impact on the social dimension of corporate social responsibility.

Organizational innovation capabilities give managers the opportunity to share the organization's goals with other members, and seek out specific opportunities and associate them with the organization's strategy. Another benefit of this approach is to have the power to evaluate these opportunities, as well as to improve the ability of managers to learn the economic and financial capabilities that comes to the help of the organization (Gaynor, 2002). In addition, innovation helps members of the organization to be flexible in discussing their goals so that financial and economic dimensions can not be tensioned (Bocquet et al., 2013, Rasoulzadeh et al. 2013). Therefore, it can be said:

H2: Innovation has a positive impact on the economic dimension of corporate social responsibility.



Branco and Rodrigues (2006) claimed that the social dimension of corporate social responsibility also leads to internal interests. Investing in socially responsible activities, therefore, has internal interests that open the organization's access to new resources and abilities. It turns out that not only the social dimension of corporate social responsibility benefits directly to the company by raising morale and creativity and reducing absenteeism and quitting, but also by increasing the cost of recruiting and training the new workforce. (Branco and Rodrigues, 2006). Smith (2005) believes that corporate social responsibility activities in the form of a commitment to environmental protection in the long run, raise the value of the owners of capital (customers). It can therefore be argued that

H3: The social responsibility dimension of the company has a positive impact on financial performance.

The role of innovative activities in achieving social goals and explaining why these goals are important, are reflected in previous research. Studies show that the social economic responsibility of a company can increase the productivity of the organization. As Orelski et al (2003) have pointed out corporate social responsibility increases the satisfaction of the owners of the capital (customers) and ultimately improves financial performance. Luo and Butacharia (2006) have suggested that corporate social responsibility increases the market value, which helps managers gain competitive advantage and more profit. Butacharia and Sen (2004) have shown that there is a positive relationship between corporate social responsibility and customer support, which urges companies to invest more in corporate social responsibility, thereby increasing financial performance. Finally, we can state the following hypothesis:

H4: The economic dimension of corporate social responsibility has a positive impact on financial performance

Review of previous Literature

Sepasi and Hassanzadeh (2016) carried out a research entitled Effect of Economic Dimension of Corporate Social Responsibility on Sustainability of Profit. To test the research hypotheses, the required information was collected through a survey method from a sample of 71 companies that were selected by systematic elimination from the statistical population of 142 listed companies in Tehran Stock Exchange. The overall results of the research showed that there is a significant relationship between the economic dimension of corporate social responsibility and earnings sustainability. This means that increase and stability in profitability can be facilitated by the economic aspect of corporate social responsibility. Hajiha et al. (2014) investigated the relationship between corporate social responsibility and equity costs in listed companies in Tehran Stock Exchange. Findings of the research show that social responsibility has a reverse and significant relationship with the cost of equity. Thus, managers, with increased disclosure in the field of social performance, reduce the expected return on investment (equity costs) of investors, and bring less financing costs to the company. In other words, the company's corporate responsibility information is information content of investors.

Fatema et al. (2016) conducted a research entitled Impact of Corporate Social Responsibility on Customers' Responses, in the Indian Banking Industry. The results of the research show that the social responsibility of the organization has a positive impact on the intention to use the customer service, as well as the impact through the mediator of knowledge was confirmed. Also, the results indicate the positive impact of the company's ability to use the customer service. Sarvas and Tamayo (2013) investigated the impact of social responsibility on company value. The results of



the research show that the company's corporate social responsibility is higher in companies that increase customer awareness or public awareness through advertising by the company, and there is a weak or negative relationship for companies in which customers and or the general public are not well aware. Also, the results of the research showed that the awareness has a negative effect on social responsibility and company value for companies with a low reputation in the community.

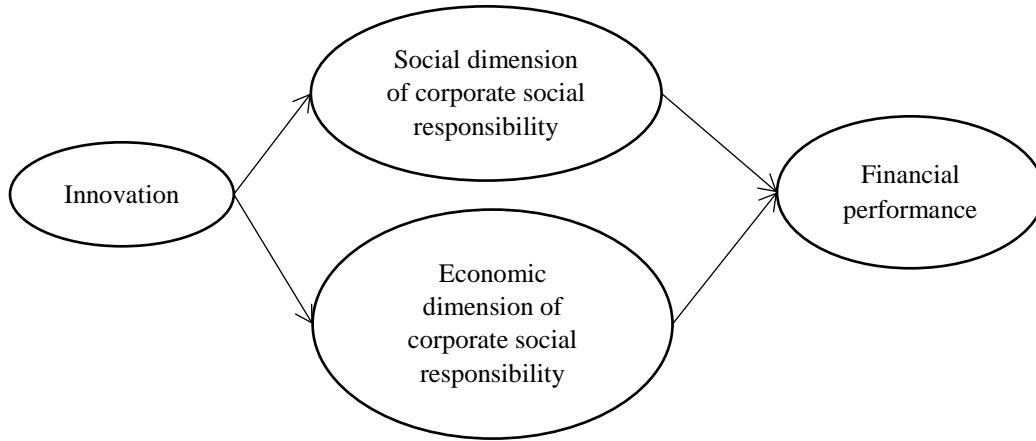


Figure1: Research Modeling (Sagarra et al, 2016)

METHODOLOGY

In this research, in terms of purpose and in terms of collecting information, the survey is of a causal descriptive nature, and among correlation methods uses covariance analysis because of the use of structural equations.

Society and statistical sample

The statistical population used in this study includes professional auditors working in the organization and auditing companies located in Tehran province. The criteria for auditors professionalism include knowledge, the number of audited companies and their personality traits and work. According to these features about 200 professional auditors are approved. And, the statistical population of the study will be based on this number. According to the target society, the researcher has used a regional sampling method that is a cluster sampling method. Regional surveys are used when research is conducted in statistical societies in certain geographic areas such as sections, urban collections or specific boundaries in one location. Regional sampling is a form of cluster sampling in a region. Sampling of the needs of consumers before launching a store, in a particular part of the city, may require regional sampling. District sampling is less costly than other random sampling schemes and does not rely on a demographic framework. The Morgan table has selected about 275 branches and then in each branch, the questionnaire has been placed at the discretion of the chairman (vice chairman) and experts of credit and auditing auditors who are in the process of running the bank, in total, about 320 returned questionnaires were usable and their. Analysis was conducted.

Validity and reliability of research

Regarding the fact that the questionnaire used was the standard questionnaire (Cegarra et al., 2016) is used by researchers in this research, the questionnaire has a proper content validity. In

this research, Cronbach's alpha coefficient was used to measure the validity of the questionnaire. SPSS software has been used to calculate Cronbach's alpha coefficient. The Cronbach's alpha for this questionnaire is 0.900 which indicates that this questionnaire has a fairly good reliability. The Cronbach's alpha for the dimensions of the research questionnaire is shown in the table below.

Table1: Cronbach's Alpha coefficients

| Variables | No. of questions | α -value |
|---|------------------|-----------------|
| Social dimension of social responsibility | 1-10 | 0.84 |
| economic dimension of social responsibility | 11-17 | 0.81 |
| Innovation dimension of social responsibility | 18-22 | 0.70 |
| Financial performance | 23-26 | 0.74 |

Method of data analysis

In this research, a structural equation modeling has been used to study the relationship between the components of the model. The researcher has also used structural equation modeling for confirmatory factor analysis. Using the software (Liserl) for analyzing hypotheses, a structural model that describes possible causal relationships between variables is used.

RESEARCH FINDINGS

Test of the First Hypothesis: Innovation has a positive impact on the social dimension of corporate social responsibility

In this hypothesis, the effect of innovation on the social dimension of social responsibility has been studied, the value of the T statistics is 6.02 and is not within the unacceptable range (1.96, 1.96-). Therefore, innovation has a significant effect on the social dimension of social responsibility, and the value of this effect is 0.47 with 0.07 error. In other words, 47% of the changes social dimension of social responsibility is justified on the basis of their innovation.

Test of the Second Hypothesis: Innovation has a positive impact on the economic dimension of corporate social responsibility

In this hypothesis, the effect of innovation on the economic dimension of social responsibility has been studied: The value of the T-statistic is 4.98 and is not within the unacceptable range (1.96, 1.96-). Therefore, innovation has a significant effect on the economic dimension of social responsibility, and the value of this effect is 0.44 with a 0.08 error. In other words, 44% of the changes in the economic dimension of social responsibility are justified on the basis of their innovation.



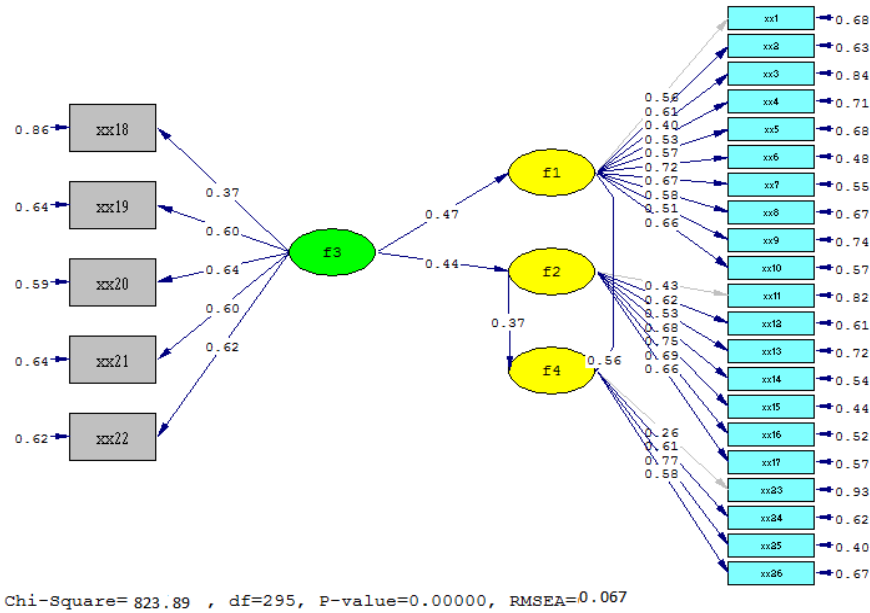


Figure 2: The relationship between the latent variables of the study based on their path coefficient

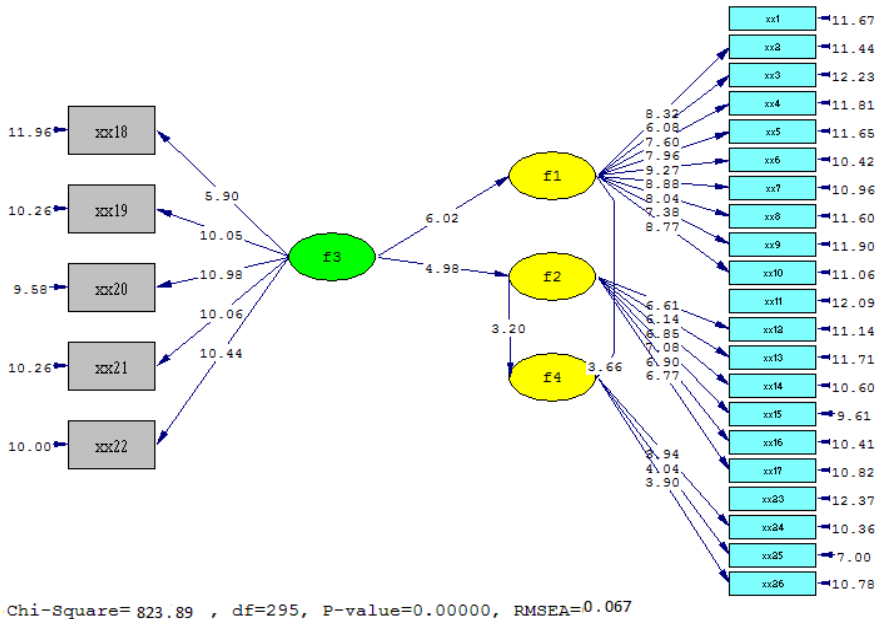


Figure 3: The relationships between the latent variables of the study based on their T-values

Test of Hypothesis 3: The social dimension of corporate social responsibility has a positive impact on financial performance.

In this hypothesis, the effect of social dimension of corporate social responsibility on financial performance has been studied; the value of T statistics is equal and is not within the unacceptable range (1.96, 1.96). Therefore, the social dimension of corporate social responsibility has a significant effect on financial performance and the value of this effect with a 0.1 error is 0.23. In other words, 23% of the financial performance changes are justified based on their social dimension of corporate social responsibility.

Test of the fourth hypothesis: The economic dimension of corporate social responsibility has a positive impact on financial performance

In this hypothesis, the impact of the economic dimension of social responsibility on financial performance has been studied; the value of the T-statistic is 3.2 and is not within the unacceptable range of 1.96, 1.96-. Therefore, the economic dimension of the corporate social responsibility has a significant effect on financial performance and the value of this effect with a 0.08 error is 0.37. In other words, 37% of financial performance changes are justified based on their economic dimension of corporate social responsibility.

CONCLUSION

In this study, we showed the effect of innovation, social and economic dimensions of corporate social responsibility on financial performance. Today in the global marketplace, with strong competition, companies bring their marketing activities to social excellence or sustainable pursuit by using competitive advantage. The theoretical framework presented in this study will be helpful in understanding and identifying the factors affecting the financial performance of the Agricultural Bank.

-Based on the results of the first and second assumptions, innovation is an important stimulus to social and economic activity, and companies may re-design their current social goals, while contemplating other economic goals. To meet these goals, the following solutions will be provided:

1. To adapt the company to up-to-date activities to support the environment
2. Organizational familiarity with new innovations
3. Teaching and guiding the staff towards creativity and innovation
4. Redesigning organizational structure (avoiding hierarchical and centralized organizational structures with vertical complexity).

Managers and officials of the Agricultural Bank Branches should inform the owners of the capital of the positive results of applying the social and economic dimension of social responsibility of the bank:

- To promote the humanitarian activities of the bank, such as employing people with disabilities and people who can be excluded from the community.
- Attention to standards related to occupational hazards, health and staffing levels
- Improve entrepreneurship
- An effort to improve the quality of life of employees
- The system of justice and equality to benefit all employees from existing opportunities
- Incredible participation in community social activities
- Quality of service to customers
- Respect the customer's rights in all possible circumstances
- Handling customer complaints

In order to improve financial performance, the agricultural bank must act in such a way as to engage customers in their social activities, and this mediator will have a good face and will have a positive attitude to customers, and thus can improve the financial performance of the bank. The though this is very important, it requires a long and accurate planning.



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