

Investigation of the Influence of Advertisements on Increasing Financial Performance of Organizations

Mahdi Nassari¹, Ebrahim Albonaiemi², Leila Andervazh³

^{1,2,3} Department of Business Management, Persian Gulf International, Khorramshahr-Khalije Fars Branch, Islamic Azad University, Khorramshahr, Iran.

Received: May 9, 2015
Accepted: August 31, 2015

ABSTRACT

This study aims to investigate the influence of advertisements on Iranian organizations performance (especially financial performance)? It also tries to find out which dimension of advertisement can be more effective. This is an applied study. In terms of nature, it is a descriptive-analytical study. Statistical population of the research included all managers and employees of central organization of Mashhad Medical Sciences University. 100 questionnaires were distributed among sample members. Sample members were selected by means of simple random sampling method. We used Smart PLS software for investigation of relationships. The hypothesis was tested by means of structural equations modeling technique and least squares method. The results showed that environmental advertisement dimensions had positive and significant impacts on organizations financial performance except advertisement convincement to purchasing products.

KEYWORDS: environmental advertisements, financial attitude, commercial advertisements, consumerism approach

INTRODUCTION

Advertisement is an important instrument used by marketers which is used for promoting of customers' awareness of products. Products features should be contained in advertisements so that the advertisement is effective. It is obvious that financial performance of companies has a positive and linear relationship with positive organizational processes and actions. Financial performance is the ultimate target for most companies' especially private ones and is an important criterion for evaluation of activities and performance of organizations. A better performance in external environment will have a positive and significant impact on improvement and development of company's financial performance. Considering use of advertisement for increasing sales, it can be assumed that sales increase can lead to better financial performance and improved income. Moreover, ads cannot guarantee financial performance improvement on its own because if a purchaser finds out that the claimed feature is not contained in the product, this can harm company's reputation and threaten future performance. As advertised claims match real features of the product more clearly, request for that product will increase and this in part result in improved sales income and investment. Therefore, it is necessary to evaluate the influence of ad dimensions (including attitude towards ad, attitude towards advertised product, product purchase intention, relationship between product and need, convincement of ads to purchasing and validity of claimed features) on organizational performance so that the size and direction of dimensions impacts on organizational performance is specified. Therefore, this study aims to investigate the influence of ads dimensions (including attitude towards ad, attitude towards advertised product, product purchase intention, relationship between product and need, convincement of ads to purchasing and validity of claimed features) on financial performance of organizations.

THEORETICAL LITERATURE

Ads

In every organization, whether a production or a service one, the main factor for organizational survival is customer and if an organization fails to attract customers' loyalty and satisfaction, its long-term growth will not be guaranteed (Vazifehdost, Rahnama and Mousavian, 2014). In different references, many definitions have been presented for ads. In Arabic books, ads is equal to information. In Persian references, advertisement means conveying a message or piece of news to others, expressing goodness or badness of something or overstating something (Arbabi, 1971). For decades, the value of a company was evaluated based on its properties, tangible assets, factories and equipment. However, it has been unanimously accepted that real value of a company lies somewhere beyond i.e. in the company's potential customers' minds (Heidarzadeh et al, 2011). Advertisement in

*Corresponding Author: Leila Andervazh, Department of Business Management, Persian Gulf International, Khorramshahr-Khalije Fars Branch, Islamic Azad University, Khorramshahr, Iran.
Email: Leila.andervazh@gmail.com

Persian means conveying. Advertiser is one who sends a message (Zoragh, 1989). Advertisement is a knowledge, profession, activity and process which is used for informing and influencing addressees aimed at special targets like commercial targets, political targets, cultural targets, religious means and so on (Mohamamdi far, 1998). Commercial ads mean prediction and preparation of visual and audial messages which is sent to people in return for paying its cost to one or several ad agents. These messages conveyed some pieces of news about features of a product, a service or an idea and awareness of that message increased product sales or public welcoming from the service or idea (Niroumand et al, 2012). Advertisement is used for satisfying communicational needs of industries, organizations, products, brands and services. The first stage in preparation of an advertisement plan is specification of its targets. In terms of goal, advertisement is divided into three main categories:

- Informing advertisement
- Convincing advertisement
- Remembering advertisement

Of mass media, TV and radio have special values in broadcasting hypes and commercials and are more successful in attraction of customers and consumers. Therefore, they receive more attention by different industries and firms (Khojasteh, 2002). Addressees have many functions but what is important in terms of advertisement and advertisement media is that addressees are customers for advertised products and services.

a) Addressee as a market

McQuil defined addressee as a market: a mass of potential customers with a recognized social and economic background towards which medium or message is directed. A programmer requires to know to what level addressees value his or her message(s) and how much money they spend on it. In a communicational planning, an addressee should be considered as a medium and target for advertising a message (Vindal, 1997).

b) Addressee as a customer

In many communicational attempts, addressees are considered as customers of communication. They are the end users of a product or service (ibid, 1997). A communicator requires knowledge about his or her potential addressees for establishment of an effective and efficient relationship. Compunction is aimed at not only acquiring new customers and addressees but also maintain them to be converted to advisors of the product or service to others. An organization needs to change an addressees' viewpoint towards a product or service in order to attract addressees' attention (Hoseini, 1998).

Commercial advertisement approaches in Iran

Iran has had a challenging history after Islamic Revolution in dealing with commercial ads. It ranges from two completely opposite poles: complete negation and complete acceptance. From this viewpoint, the way of policy-making in commercial advertisement can be classified into three periods:

a) Negation of commercial advertisement

Negation of commercial advertisement era started by forbidding production and broadcasting any kind of commercial notice in order to fight western capitalistic culture in the primary years of Islamic Revolution. This approach banned commercial advertisement activities. This era is the age of recession of advertisement activities which continued to Iran-Iraq War.

b) informing approach, informing advertisement

when Imposed War started, gradually commercial banks prepared and broadcasted some commercial ads as a result of reduction in banks cash. They advertised in radio and TV. This new approach aimed to inform people and did not actually meant to stimulate consumption and gradually other public and cooperative companies introduced their products such that they could respond to consumers' logical needs with proper informing.

Informing approach was based on this definition of media that media are responsible for helping addressees with proper selection of products such that they find the best products and services with minimum cost. However, this was adversely influenced by restrictions resulted from economic recession, scarcity, inflation and black market.

c) Consumerism approach

After Imposed War ended and media and press developed, people formed international attitude towards TV and media. Development of commercial advertisement for increasing income via radio and TV was attractive. Therefore, establishment of industries and factories and economic development and production of different products and services were good incentives for widespread advertisement for products and services. On one hand, advertisement in this age introduced new products and services and on the other hand, it opened up more space for more activities of advertisement insiders. Therefore, development of demand for broadcasting commercial advertisement by producers and especially foreign products on one hand and economic problems of

media and press from the other hand facilitated new "consumerist" advertisement approach in media. This approach was followed in "reformists" age as a result of inclination to free economy.

d) Theoretical studies approach

- **Negativist approach (critical viewpoint)**

Negativistic approach to commercial advertisement includes critical, moral, cultural and socialists theories. These viewpoints state that advertising product consumption is a symbol of social power of commercial advertisement. In this perspective, consuming branded products is a symbol of power and instrument for an individual's differentiation and separation from other individuals. From a critical viewpoint, advertisement causes two important events within a society:

- a) individual and social identity is significantly in relation to displaying objects.
- b) advertisement has changed customers' daily lives and has caused a new culture.

Feminists in 1970s propounded a critical slogan towards advertisement. They referred to sexual role of women in advertisement. This slogan referred to cultural perceptions of the status of addressee in a composer's thought. They believed that a composer imposes his or her thoughts to a society by means of advertisement. According to this viewpoint, lifestyles and new cultural forms are born to advertisement system. In this system, products are linked to lifestyles and cultural styles and in other words, an ad sells a culture to sell a product.

In his famous book "advertisement as a communication", Gilian Dayer explains that measurement of influence of commercial advertisement on individuals from different aspects is of great importance. He believes that advertisement impacts is very obvious from one aspect because many children for example murmur poems used in ads continuously and all of us can remember situations in which we have been affected by an ad when buying a particular purchase (Dyer, 1982). Rajio Batra et al classified social issues regarding commercial ads in three groups. The first group is the content and nature of commercial ads.

They discussed contents of advertisement messages from four aspects: ethics, deception, taste and children (Michael, 1985). Making new culture is the most radical form of advertisement theories in theories which are related to cultural studies.

- **Positivist approach (affirmative)**

In positivist approach to advertisement, however, advertisement is regarded as desirable methods of "culturology" of recognition of dominant attitudes in a culture. In this approach, advertisement reflects values which govern a society. From this perspective, advertisement has a psychological function which produces self-confidence and provides necessary "social stimulation" for joining a culture and lifestyle of the smart set. Supporters of this theory call this process "democratization". The main supporters of commercial ads can be found in studies which consider advertisement functions from market economy perspective. These studies are in rational manner and form the foundation of university studies and commercial companies along with negativist cultural studies which are regarded as macro-level studies.

Another part of positivistic studies deal with American theorists which deal with mutual relationship between media and ads. This perspective which has also many followers in Iran investigates the function of advertisement in economic status of media, assuming that media will be able to increase their financial power and eventually increase quality of their contents and programs via advertisements. An investigation of critical theories reveals that how economic powerful agents control media contents in order to exert their latent dictatorship to media space. In general, it can be said that whether in positivist or in negativistic theories, there is a relationship between culture, media and advertisement. In Iran, however, little attention has been paid to commercial ads and its relationship with culture (Rasouli, 2011).

Research hypotheses

H1: attitude towards advertisement has a positive and significant influence on organizational financial performance.

H2: attitude towards product has a positive and significant influence on organizational financial performance.

H3: product purchase intention has a positive and significant influence on organizational financial performance.

H4: a product's relationship with customer need has a positive and significant influence on organizational financial performance.

H5: convincement of advertisement to purchasing products has a positive and significant influence on organizational financial performance.

H6: validity of advertisement claims has a positive and significant influence on organizational financial performance.

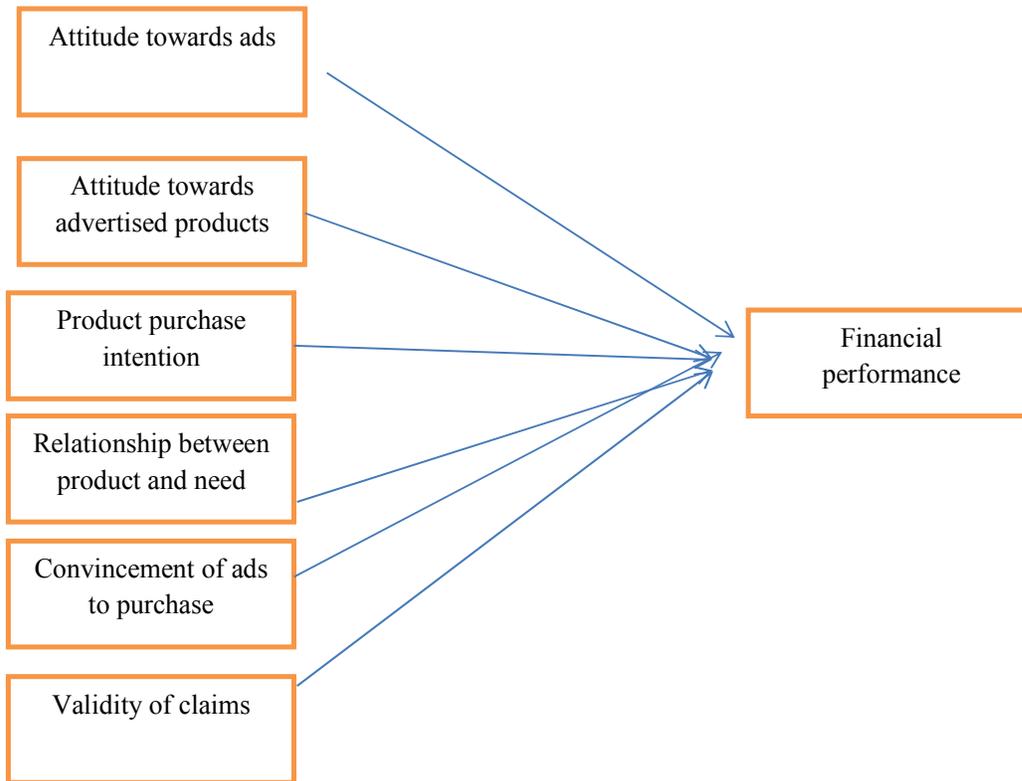


Figure 1. Conceptual model

RESEARCH METHODOLOGY

This is an applied study in terms of goal. In terms of data gathering, it is a descriptive study. Furthermore, in terms of data analysis, it is a correlation study implemented by structural equations modeling technique. Statistical population of the research included all managers and employees of Central Department of Sports and Youths in Khorasan Razavi Province. 100 questionnaires were distributed and 93 complete questionnaires were returned and used for analysis. Questionnaire was used as data gathering instrument. Five-point Likert scale from "completely disagree" to "completely agree" was used as measurement scale. Reliability should be evaluated for constructs in a research which makes use of least partial squares method. Reliability of constructs was evaluated by means of Cronbach's alpha coefficient and combinational coefficient. Acceptable value for these two coefficients was at least 0.7.

Table 1. Cronbach's alpha

variable	Cronbach's alpha	Compound coefficient
Attitude towards ads	0.7493	0.8557
Attitude towards advertised product	0.8781	0.9248
Product purchase intention	0.8285	0.8973
Relationship between product and customer need	0.8651	0.9082
Convincement of purchase	0.9001	0.9306
Validity of ad claim	0.7623	0.8920
Corporate financial performance	0.7314	0.8811

As it can be seen in table 1, Cronbach's alpha and compound coefficient values for all constructs are higher than 0.7 which means an appropriate level of reliability. We calculated both discriminant and convergent validity. Average variance extracted (AVE) was used for calculating convergent validity.

Table 2. constructs validity

AVE	construct
0.6642	AD
0.8040	CU
0.7445	EN
0.7122	FP
0.7703	PI
0.8053	PR
0.7875	RE

As it can be seen in table 2, AVE for all variables is greater than 0.6 which shows an appropriate level for convergent validity. In order to investigate discriminant validity of the constructs we used Chen's test in which square root of AVE for every construct should be greater than correlation coefficient between that construct and other constructs. The results of Chen's test have been presented in table 3.

Table 3. correlation matrix and square root of AVE (Chen's test)

RE	PR	PI	FP	EN	CU	AD	
						0.8150	AD
					0.8966	0.3177	CU
				0.8628	0.6118	0.3409	EN
			0.8439	0.6153	0.6277	0.4893	FP
		0.8777	0.6581	0.5973	0.6162	0.4569	PI
	0.8974	0.3599	0.5322	0.4404	0.4217	0.2846	PR
0.8874	0.3625	0.5029	0.5944	0.3844	0.4937	0.2207	RE

As it can be seen in table 3, square root of AVE for all constructs is greater than its correlation coefficient with other constructs and this shows an appropriate level for discriminant validity of constructs. Demographic information of respondents have been presented in table 4.

Table 4. demographic information of respondents

variable	dimensions	Freq.	Frequ. percentage
gender	man	93	82.3
	woman	20	17.7
education	Associate's degree	3	2.65
	Bachelor degree	63	55.75
	Master degree	43	38.05
experience		4	3.55
	Below five	24	21.24
	Between 5 to 10	49	43.36
	Between 10 to 15	27	23.89
	Above 15	13	11.53

Research hypotheses test

Considering the fact that the model of this research measures relationships between latent variables simultaneously, we used structural equations modeling technique for analyzing data and testing the hypotheses. Because sample size was small, we used PLS technique for testing the conceptual model because it is a variance-oriented path modeling technique and allows for simultaneous investigation of theories. Contrary to covariance-oriented methods, this method is applicable to small-size samples and also for cases with non-normal distribution. Calculations for data analysis and testing the hypotheses were conducted by Smart PLS software. The results of testing research hypotheses have been presented in figure 2.

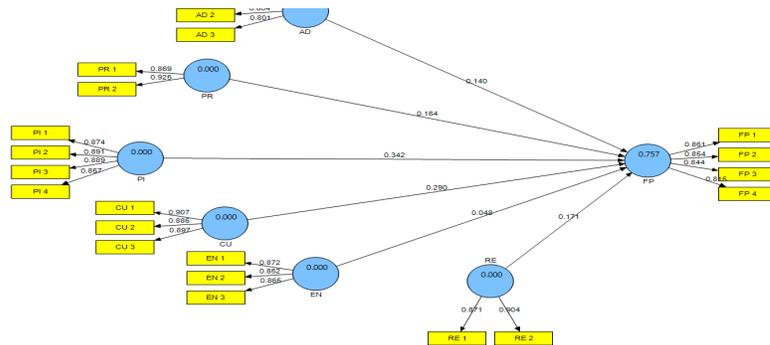


Figure 2. pathcoefficients between main variables

The results of data analysis and hypotheses test have been presented in table 5.

Table 5.the results of research data analysis

hypotheses	Path coefficient	statisticT	Hypothesis test
Attitude towards ads→financial performance	0.140	2.188	supported
Attitude towards product→financial performance	0.164	2.601	supported
Product purchase intention→financial performance	0.342	3.927	supported
Relationship between product and customer need→financial performance	0.290	3.236	supported
Convincement of ads to purchase→financial performance	0.048	0.583	rejected
Ad claim validity-→	0.171	2.174	supported

The first hypothesis evaluates the influence of attitude towards advertisement on financial performance. Considering the results of table 5, it can be said that path coefficient for this hypothesis is equal to 0.140 and t statistic is equal to 2.188.therefore, attitude towards advertisement has a positive and significant influence on financial performance in 95% certainty level.

The second hypothesis evaluates the influence of attitude towards advertised product on financial performance. Considering the results of table 5, it can be said that path coefficient for this hypothesis is equal to 0.164 and t statistic is equal to 2.601.therefore, attitude towards advertised product has a positive and significant influence on financial performance in 95% certainty level.

The third hypothesis evaluates the influence of product purchase intention on financial performance. Considering the results of table 5, it can be said that path coefficient for this hypothesis is equal to 0.342 and t statistic is equal to 3.927.therefore, product purchase intention has a positive and significant influence on financial performance in 95% certainty level.

The fourth hypothesis evaluates the influence of product relationship with customer need on financial performance. Considering the results of table 5, it can be said that path coefficient for this hypothesis is equal to 0.290 and t statistic is equal to 3.236.therefore, product relationship with customer need has a positive and significant influence on financial performance in 95% certainty level.

The fifth hypothesis evaluates the influence of convincement of ads to product purchase on financial performance. Considering the results of table 5, it can be said that path coefficient for this hypothesis is equal to 0.048 and t statistic is equal to 0.538.therefore, convincement of advertisement to product purchase does not have a positive and significant influence on financial performance in 95% certainty level. Therefore, the fifth hypothesis is not rejected.

The sixth hypothesis evaluates the influence of ad claim validity on financial performance. Considering the results of table 5, it can be said that path coefficient for this hypothesis is equal to 0.171 and t statistic is equal to 2.174.therefore, ad claim validity has a positive and significant influence on financial performance in 95% certainty level.

Conclusion

This study aimed to investigate the influence of environmental advertisement on financial performance of companies. Advertisement dimensions used in this study were attitude towards advertisement, attitude towards advertised product, product purchase intention, relationship between product and customer need, convincement of advertisement to purchase and validity of ad claim. The results showed that the following hypotheses were supported: attitude towards advertisement has a positive and significant influence on financial performance; attitude towards advertised product has a positive and significant on financial performance; product purchase intention has a positive and significant influence on financial performance; relationship between product and customer need has a positive and significant relationship with financial performance; and validity of ad claim has a positive and significant influence on financial performance. However, the results showed that convincement of advertisement to purchasing a product does not have a positive and significant influence on financial performance and this hypothesis is rejected. The summary of the results lead to the following recommendations:

- Managers should have a proper understanding of environmental advertisement and its impacts on financial performance. The results of this research contribute to better understanding of managers from influence of advertisement on financial performance and help them with better decision-making.
- Considering the present business environment, managers should try to find solutions for improving financial performance. The results of this research shows managers the important factors in advertisement for improvement of financial performance.
- Considering the fact that the impact size of all dimensions of advertisement on financial performance was specified, managers can allocate resources for improving financial performance and avoid allocation of resources to unnecessary items.

- Considering the fact that financial performance receives a lot of attention by managers, managers can improve their financial performance by paying special attention to dimensions of environmental advertisement.

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