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Research Paper

Supply Chain Finance and Financial Development Impact on Profitability of Listed Real Estate Firms in Tehran Stock Exchange and Iran Farabourse[1]

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Introduction

The aim of this research is to investigate the impact of Supply Chain Finance (SCF) and financial development on the profitability of properties firms registered on the Tehran Stock Exchange and Iran Farabourse (2009-2016). Supply Chain Finance (SCF) leads to the optimization of a company's working capital, and financial development is a factor that improves the distribution of resources. These independent variables investigate the effect of micro and macro factors.

In today's highly competitive and changing business environment, where optimizing all of an organization's resources is prominent, efficient supply chain creation seems necessary. An efficient supply chain means creating coordination in business sectors using strategic thinking and in a systematic way, as well as using the tactics used in these sectors to improve the long-term performance of each company and the entire supply chain. The supply chain in any company is an important part of the company's marketing policies and approaches. As a result, the supply chain meets the requirements of the market, and in this regard, supports the main strategies of the organization. Business strategies in any organization include programs to meet the current needs of customers, as well as their future needs and customer needs that determine the optimal combination of responsiveness and chain efficiency. The more efficient the supply chain is in satisfying customer needs, the more market shares it will achieve, and ultimately the higher its profitability.

Supply chain financing is an effective way to reduce financing costs and improve financial efficiency and effectiveness and has been considered by researchers over the years. In other words, supply chain financing, reduces the cost of capital, increases cash flow, enhances the financial relationship between supply chain participants, and enhances supply chain performance by increasing the payment period for the buyer and allowing the supplier access to appropriate financial resources. A shorter cash conversion cycle means that the company's cash recovery time is shorter so that the company can have more working capital to pay for expenses or invest, which will ultimately be profitable. The cash conversion cycle has been introduced as a measure of supply chain financing.

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Financial development can be seen in the overall development of the financing efficiency of the participants. Increasing the amount of financing will give companies more benefits to gain capital, and companies will make more profit through more investment. Domestic credit to the private sector (%GDP) is one of the indicators for measuring financial development.

MATERIALS AND METHOD

In this study, we use a regression analysis method to investigate the effect of independent variables on the dependent ones.

The cash conversion cycle is a variable that can be used to test supply chain financing. Also, domestic credit to the private sector (%GDP) is a suitable variable for estimating the financial development of an economy. For examining the effect of these two factors on the profitability of companies, these variables can be considered as independent variables of research. Given that the company's profitability is related to financial leverage and company size, these two variables were selected as control variables.

To investigate the relationships described in the model, multivariate linear regression and regression analysis has been used. The method of calculating the variables and the mathematical form of the regression model is as follows:

$$FP_{i.t} = \beta_0 + \beta_1 CCC_{i.t} + \beta_2 FD_t + \beta_3 LEV_{i.t} + \beta_4 SIZE_{i.t} + \epsilon_{i.t}$$

The study's sample is real estate companies listed on the Tehran Stock Exchange and Iran Farabourse, which reported financial information regularly and in a relatively uniform format between 2009-2016. Overall, 15 companies have been studied.

RESULTS AND DISCUSSION

The results show that the cash conversion cycle, as representative of SFC, indirectly affects the profitability of real estate firms. Also, the proportion of awarded credits to the private sector to Gross Domestic Production (GDP), as representative of financial development, has an indirect effect on the dependent variable.

CONCLUSION

Real estates have a crucial role in the economy as a whole and the life of households specifically. Indeed, housing is one of the main issues in developing countries. The results show that the cash conversion cycle has a negative and significant effect on the profitability of real estate companies. It is also clear that important industries such as the construction and housing industry are also affected by macroeconomic factors.

Businesses provide their required capital through the financial system, and if they have access to cheap, easy, and efficient sources, they will gain a comparative advantage and ultimately more profit. The results indicate a negative and significant effect of Domestic credit to the private sector (%GDP) on the profitability of real estate companies.

Key Words: Supply Chain Finance (SCF), Financial Development (FD), Cash Conversion Cycle (CCC), Domestic Credit to GDP

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