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Corporate Social Responsibility and Competitive Strategies: The Moderating Role of Governance Performance and Firm's Performance[1]

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Research Paper

INTRODUCTION

In today's competitive landscape, corporate social responsibility (CSR) extends beyond reflecting a company's social and ethical obligations it also serves as a key driver of competitive advantage. Achieving a competitive edge in the modern market economy goes beyond delivering high-quality products and services. Companies must integrate elements such as social responsibility, ethical conduct, and corporate accountability into their competitive strategies. For businesses aiming to build trust within their social environment, embedding CSR into competitive policies and strategies is a vital approach.

Following high-profile corporate scandals like Enron and WorldCom linked to weak governance performance stakeholders have increasingly focused on companies' social behavior and ethical responsibilities. Consequently, corporate governance policies must be designed and implemented to encourage managers to pursue CSR initiatives while aligning competitive strategies with governance principles. A robust governance framework, including factors like board independence and an effective internal audit unit, can enhance the integration of CSR into

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competitive strategies. Managers seeking sustainable success should view CSR as a strategic tool that not only fosters intangible competitive advantages but also bolsters governance credibility and lays the groundwork for value creation.

This study highlights corporate governance as a critical factor and potential missing link in understanding the relationship between CSR and competitive strategies, building on prior empirical research. Its primary objective is to examine how CSR influences competitive strategies, with governance performance and firm performance measured through value creation indicators acting as moderating variables.

MATERIALS AND METHODS

This study is applied, descriptive, and relies on regression analysis. The statistical population consists of companies listed on the Tehran Stock Exchange (TSE) meeting the following criteria:

1. Companies must have been listed on the TSE by 2013 and remained active through the end of 2022.
2. For comparability, their fiscal year must end on March 20, with no changes to the fiscal year between 2013 and 2022.
3. Investment and financial intermediation firms (e.g., insurance, holdings, banks, leasing, and financial institutions) were excluded due to their distinct reporting structures.
4. Financial statements and board activity reports to annual general meetings must be available for 2013–2022.

A total of 166 companies (1,660 observations) met these conditions. Data were collected, organized, and refined using Excel, then analyzed with EViews 10 and SmartPLS 4 statistical software.

RESULTS AND DISCUSSION

For the **first hypothesis**, the t-statistic p-value for CSR participation is 0.000, below the 5% significance level. Thus, CSR significantly impacts the cost leadership strategy, and the hypothesis is supported.

For the **second hypothesis**, the t-statistic p-value for CSR participation is 0.022, also below the 5% threshold. This confirms CSR's influence on the differentiation strategy, supporting the hypothesis.

For the **third hypothesis**, the t-statistic p-value for the interaction terms "audit committee independence × CSR" and "internal audit efficiency × CSR" is 0.000, below 5%. This indicates that governance performance moderates CSR's effect on the cost leadership strategy.

For the **fourth hypothesis**, among governance performance components, only internal audit efficiency influences the relationship between CSR and differentiation strategy. The beta coefficient for "internal audit efficiency × CSR" is 0.217, suggesting that stronger internal audit performance enhances CSR's impact on differentiation.

For the **fifth hypothesis**, the p-value for both "economic value added × CSR" and "market value added × CSR" is 0.000, below 5%. This shows that firm performance, based on value creation indicators, strengthens CSR's effect on cost leadership.

For the **sixth hypothesis**, the p-value for "economic value added × CSR" and "market value added × CSR" is again 0.000, below 5%. Firm performance, measured by value creation, thus reinforces CSR's impact on differentiation.

CONCLUSION

Enhancing governance performance through corporate governance principles and improving firm performance via value creation indicators strengthens the link between CSR and competitive strategies, yielding benefits for companies. Given the significance of governance and CSR in competitive strategies, managers can generate societal value and legitimacy while securing a competitive edge.

The results of the first and second hypotheses underscore the importance of CSR information for investors' decisions and company valuation. Managers should align CSR activities with competitive strategies to enhance legitimacy, credibility, and financial stability within their industries. Based on the third and fourth hypotheses, the Securities and Exchange Organization should mandate governance performance reporting to aid investor decision-making and rank companies by governance transparency. Finally, per the fifth and sixth hypotheses, investors and creditors should consider value-based financial ratios and

creation indicators beyond traditional metrics when evaluating firms for investment or credit decisions.

Keywords: Corporate Social Responsibility, Cost Leadership Strategy, Differentiation Strategy, Governance Performance, Value Creation.

JEL Classification: M40, M41, M49.