



Corporate Performance in the face of Abnormal Social Responsibility and the role of Internal Corporate Governance Quality

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1. Introduction

This research investigates the effect of internal corporate governance quality on the relationship between abnormal social responsibility and company performance. The main goal is to answer whether the quality of corporate governance can weaken or eliminate the negative effect of abnormal social responsibility on company performance. Previous research indicates that investing in social responsibility can be financially beneficial for companies, especially in the long term, because it improves operational performance, increases sales and profits, and reduces operational risks. These benefits are achieved through product differentiation and enhanced customer awareness. Additionally, companies with high levels of social responsibility exhibit higher employee productivity, loyalty, and commitment. Social responsibility can enhance company value, but over- or under-investment in

social responsibility can harm company performance. Corporate governance refers to a set of mechanisms through which a company is guided and controlled. This system ensures that companies are accountable to stakeholders and conduct business in a socially responsible manner. In the presence of a high-quality corporate governance system, managers make optimal investments, reducing deviations from optimal investment decisions by minimizing information asymmetry and agency problems. Therefore, high-quality corporate governance can mitigate abnormal investments in social responsibility and align the interests of all stakeholders. Based on these principles, this research proposes two hypotheses: H1: abnormal social responsibility has a negative and significant effect on company performance, and H2: the quality of internal corporate governance has a moderating effect on the relationship between abnormal social responsibility and company performance.

2. Methods

This applied research used multivariate regression analysis to examine the relationship between abnormal social responsibility, internal corporate governance quality, and company performance. The research methodology is retrospective. Since it seeks to evaluate the relationship between two or more variables, it is descriptive-correlational in nature. Information was collected from academic literature, the Kodal website, the Rahvard database, and annual board of directors' reports. The collected data were classified using Excel and analyzed with Stata and EViews software. The statistical population comprises companies listed on the Tehran Stock Exchange, with data collected from 2013 to 2022. Finally, 105 companies were selected to test the hypotheses.

3. Results

The results indicate that abnormal social responsibility has a negative and significant effect on company performance. The results show that the quality of corporate governance has a positive and significant effect on company performance. Furthermore, the findings confirm that the quality of corporate governance mitigates the negative effect of abnormal social responsibility on company performance.

4. Discussion and Conclusion

The findings suggest that the quality of corporate governance plays a critical role in reducing agency problems and improving managerial decision-making. It also mitigates the negative effect of abnormal social responsibility on company performance. While social responsibility enhances reputation, workforce quality, risk reduction, customer loyalty, and innovation, agency problems and managerial opportunism can lead to abnormal social responsibility. Consequently, abnormal social responsibility prioritizes managers' short-term personal interests over shareholder value, impairing company performance. Corporate governance mechanisms minimize deviations from optimal investments by addressing information asymmetry and agency issues. Therefore, the quality of corporate governance improves company performance by mitigating abnormal investments in social responsibility.

Keywords: Company performance, abnormal social responsibility, internal corporate governance quality.