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The Impact of Corporate Governance Integration and Organizational Innovation on Value Creation and Financial Performance of Listed Companies in Iran

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Abstract

This study investigates the effect of corporate governance integration and organizational innovation on value creation and financial performance among Iranian listed companies. The research aims to identify how the alignment of governance mechanisms—such as board structure, ownership concentration, and audit independence—with innovation practices contributes to sustainable value creation. A quantitative approach was adopted using secondary financial data from 124 firms listed on the Tehran Stock Exchange over the period 2019–2024. Governance quality was measured through board composition and shareholder dispersion, while innovation was evaluated through R&D intensity and new product development indices. Financial performance indicators included return on assets (ROA), return on equity (ROE), and Tobin's Q. Using panel data regression and structural equation modeling (SEM), the results reveal that the synergy between governance quality and innovation intensity significantly enhances firm value and profitability. Moreover, innovation plays a mediating role between governance practices and financial performance, confirming that effective corporate governance stimulates organizational innovation, which in turn drives value creation. The study provides practical insights for regulators and managers in emerging markets, highlighting the importance of integrated governance frameworks that support innovation-driven financial sustainability.

Keywords: Corporate Governance; Organizational Innovation; Financial Performance; Value Creation; Tehran Stock Exchange

1. Introduction

Corporate governance and organizational innovation are increasingly recognized as interdependent determinants of firms' sustainable success, particularly in emerging markets such as Iran where institutional frameworks are undergoing constant transformation. Over the last decade, firms listed on the Tehran Stock Exchange (TSE) have faced growing expectations for transparency, accountability, and strategic flexibility. In this context, the integration of governance structures with innovative capacities has become a pivotal element for achieving competitive advantage and value creation. Previous empirical studies have highlighted that strong corporate governance mechanisms positively influence firms' innovation outcomes and long-term profitability by aligning managerial decisions with stakeholder interests [1–3].

Corporate governance serves as the foundation for responsible decision-making, ensuring that corporate objectives are pursued ethically and strategically [4]. Well-structured governance frameworks—characterized by board independence, ownership diversification, and transparent auditing—facilitate efficient allocation of resources and promote managerial accountability. When combined with a culture of innovation, these mechanisms enable firms to not only improve their financial performance but also adapt dynamically to volatile environments. In developing economies, the success of innovation initiatives is often conditioned by governance practices that encourage risk-taking while maintaining control [5]. Thus, the interaction between corporate governance and innovation can be understood as a dual mechanism that drives sustainable value creation.

The notion of integrating governance and innovation draws from both agency theory and resource-based perspectives. Agency theory emphasizes the reduction of information asymmetry and alignment of interests between managers and shareholders [6], whereas the resource-based view considers innovation capability as a strategic resource that can be enhanced through sound governance. According to recent research, firms with high-quality governance tend to invest more consistently in research and development (R&D), enabling them to commercialize new products faster and respond better to market changes [7]. Moreover, governance integration can moderate the relationship between innovation and performance by providing strategic oversight that reduces the risk of innovation failure.

In Iran's corporate environment, governance integration has attracted attention due to the government's efforts to modernize capital markets and promote knowledge-based enterprises. The Iranian Securities and Exchange Organization (SEO) has introduced codes of good governance that encourage transparency, board diversity, and audit independence. Concurrently, national innovation policies have stimulated R&D investments and technological upgrading across various sectors. Despite these reforms, empirical evidence regarding the combined effect of governance and innovation on firm performance remains limited. Most previous studies in Iran have treated governance and innovation as separate constructs rather than as mutually reinforcing processes [8,9].

Furthermore, the dynamics of value creation in emerging markets differ significantly from those in developed economies. Firms in Iran often operate under capital constraints, limited foreign investment, and unstable macroeconomic conditions. In such settings, innovation tends to be incremental rather than radical, focusing on efficiency improvements rather than disruptive technologies. Consequently, governance mechanisms must be adapted to foster innovation that aligns with the institutional and financial realities of the local market [2,10]. The integration of governance and innovation thus offers a unique avenue for improving financial performance through sustainable and context-sensitive strategies.

From a theoretical standpoint, studying this integration helps bridge a major research gap: while governance has traditionally been analyzed as a compliance-oriented system, innovation requires flexibility and creativity. The challenge lies in harmonizing these two dimensions. Companies that manage to establish governance structures that not only control but also enable innovation are more likely to achieve superior value creation. Empirical findings from international contexts suggest that the synergy between governance and innovation enhances resource utilization, market reputation, and investor confidence [3,5,7]. However, the specific mechanisms through which this synergy operates within the Iranian context have yet to be rigorously tested.

Accordingly, this study aims to explore the effect of integrating corporate governance and organizational innovation on value creation and financial performance among firms listed on the Tehran Stock Exchange. The research will utilize a quantitative design based on real secondary data from 2019–2024 to examine the mediating role of innovation and the moderating role of governance quality. The findings are expected to contribute to both theory and practice by elucidating how strategic alignment between governance and innovation can enhance profitability, market value, and long-term sustainability of Iranian corporations.

2. Problem Statement

Despite extensive global research on the independent effects of corporate governance and innovation, there remains a notable gap in understanding their integrated impact on value creation and financial performance—particularly in the context of emerging markets like Iran. Most prior studies have examined governance as a control mechanism for minimizing agency costs or innovation as a driver of competitive advantage; however, few have empirically analyzed how these two dimensions interact to produce sustainable financial outcomes [1–3]. This lack of integration creates a theoretical and practical disconnect: governance frameworks are often designed for compliance and accountability, while innovation demands flexibility, experimentation, and strategic risk-taking.

In Iran, this challenge is further intensified by structural constraints such as ownership concentration, limited institutional investor participation, and inconsistent enforcement of governance regulations. These factors restrict the ability of boards and executives to adopt innovation-driven strategies aligned with global competitiveness [4,5]. While some firms have achieved partial success through R&D investments and digital transformation, the absence of cohesive governance–innovation alignment has often led to inefficiencies, underutilization of resources, and inconsistent financial performance.

Empirical evidence from international studies suggests that governance can serve as a catalyst for innovation when the board composition encourages diversity of thought, transparency, and knowledge-sharing [6,7]. However, in Iran's capital market, many listed firms still treat governance reforms and innovation initiatives as parallel, unrelated processes. This separation prevents the realization of their synergistic potential in value creation. There is therefore a critical need to evaluate how the integration of governance quality and organizational innovation jointly influences firms' financial outcomes—not merely through direct relationships but also through mediating and moderating effects that capture the systemic nature of corporate performance [8–10].

This study aims to fill this gap by investigating how integrated governance–innovation frameworks affect financial performance and firm value in Iranian listed companies. By examining this intersection empirically using real financial data and innovation indicators, the research seeks to provide evidence-based insights that can guide both policymakers and corporate leaders in fostering innovation-oriented governance structures capable of sustaining long-term value creation in emerging markets.

3. Materials and Methods

3.1 Research Design

This study employs a quantitative and analytical research design based on secondary data collected from publicly listed firms on the Tehran Stock Exchange (TSE) between 2019 and 2024. The purpose is to empirically examine the integrated effects of corporate governance and organizational innovation on value creation and financial performance. The methodological approach is grounded in prior international research linking governance quality with innovation capability and profitability [1–3].

The study adopts a panel data model combining cross-sectional and time-series observations. Such a model allows for controlling unobserved firm-specific heterogeneity and capturing the longitudinal effects of governance–innovation integration. In addition, structural equation modeling (SEM) is used to test the mediating role of organizational innovation in the relationship between governance and performance, consistent with the methodological recommendations of recent empirical works [4,5].

3.2 Population and Sample Selection

The population comprises all companies listed on the TSE, excluding financial and insurance institutions due to their distinct regulatory environments. After applying filters for data completeness and consistency, a final sample of 124 firms across 10 industrial sectors—including petrochemicals, manufacturing, pharmaceuticals, and technology—was selected. This selection ensures sufficient variability across governance structures and innovation intensity. Firm-level data were extracted from the TSE database, the Securities and Exchange Organization (SEO) annual reports, and Codal, which provide audited financial statements and board information.

To ensure reliability, only firms with at least five consecutive years of data during the study period (2019–2024) were included. Outliers were handled using winsorization at the 1st and 99th percentiles.

3.3 Variables and Measurement

The research framework involves three key constructs:

1. Corporate Governance (CG) – representing the quality and structure of governance mechanisms;
2. Organizational Innovation (OI) – capturing innovation capabilities and activities;
3. Financial Performance and Value Creation (FP/VC) – measuring profitability and market value outcomes.

Table 1. Variables and Measurement Indicators

Construct
Corporate Governance (CG)
Organizational Innovation (OI)
Financial Performance (FP)
Value Creation (VC)

All monetary variables are expressed in million Iranian Rials, deflated using the annual Consumer Price Index (CPI) published by the Central Bank of Iran.

3.4 Model Specification

The following econometric models were estimated:

Model 1: Direct effects of corporate governance and innovation on firm performance

$$FP\_it = \alpha + \beta_1(CG\_it) + \beta_2(OI\_it) + \beta_3(Controls\_it) + \varepsilon\_it$$

Model 2: Mediating effect of innovation

$$VC\_\{it\} = \backslash alpha + \backslash beta\_1\ CG\_\{it\} + \backslash beta\_2\ OI\_\{it\} + \backslash beta\_3\ (CG\ \backslash times\ OI)\_\{it\} + \backslash beta\_4\ Controls\_\{it\} + \backslash varepsilon\_\{it\}$$

where FP_{it} represents financial performance (ROA, ROE), VC_{it} denotes value creation (Tobin's Q), and CG_{it} and OI_{it} are the corporate governance and innovation indices, respectively.

Control variables include firm size (logarithm of total assets), leverage (debt-to-equity ratio), and industry dummies. The models were estimated using the fixed-effects estimator, after Hausman tests confirmed its superiority over the random-effects alternative.

3.5 Data Analysis Procedure

Data analysis was conducted using STATA 18 and AMOS 26 for SEM estimation. Descriptive statistics, correlation matrices, and multicollinearity diagnostics were performed to ensure robustness. Model fit indices for SEM (CFI > 0.90, RMSEA < 0.08, SRMR < 0.05) were used to validate the structural relationships.

Reliability and validity were assessed as follows:

- Reliability: Cronbach's α > 0.7 for internal consistency.
- Convergent validity: Average Variance Extracted (AVE) > 0.5.
- Discriminant validity: Fornell–Larcker criterion satisfied.

A multi-collinearity check (VIF < 5) ensured independence among predictors. Missing data were imputed using linear interpolation for time-series consistency.

3.6 Ethical Considerations

All data were obtained from publicly available sources, ensuring compliance with data privacy and transparency principles. No confidential or personally identifiable information was used. The study aligns with academic integrity and replicability standards for quantitative research.

4. Results and Discussion

4.1 Descriptive Analysis

To provide an overview of the dataset, Table 2 summarizes the descriptive statistics of the main variables. The findings indicate that Iranian listed firms exhibit a moderate level of corporate governance quality and a relatively low but growing innovation intensity, particularly after 2021 when regulatory incentives for R&D expenditure were reinforced.

Table 2. Descriptive Statistics of Key Variables (2019–2024, N = 124 firms)

Variable
Board Independence (BIND)
Ownership Concentration (OWNC)
Audit Independence (AUDI)
R&D Intensity (RDI)
Product Innovation (PRODI)
Return on Assets (ROA)
Return on Equity (ROE)
Tobin's Q

The statistics reveal that audit independence and ownership concentration vary widely across firms, suggesting substantial differences in governance structures. The average Tobin's Q > 1 confirms that most firms are valued above their book value, implying a generally positive investor outlook on innovation-driven governance.

4.2 Correlation and Multicollinearity Diagnostics

The correlation matrix (Table 3) demonstrates significant positive relationships between corporate governance variables and both innovation and performance measures. Specifically, board independence and audit independence show strong correlations with R&D intensity ($r = 0.47$ and $r = 0.43$, $p < 0.01$), while ownership concentration is negatively correlated with innovation ($r = -0.32$, $p < 0.05$).

Table 3. Correlation Matrix of Key Variables

Variables
BIND
OWNC
AUDI
RDI
PRODI
ROA
ROE
Tobin's Q

Variance Inflation Factor (VIF < 3) for all variables confirmed the absence of multicollinearity.

4.3 Regression Results and Mediation Analysis

The results of panel regression and SEM are summarized in Figure 1 and Figure 2, depicting the direct, indirect, and interaction effects of governance and innovation on financial performance.

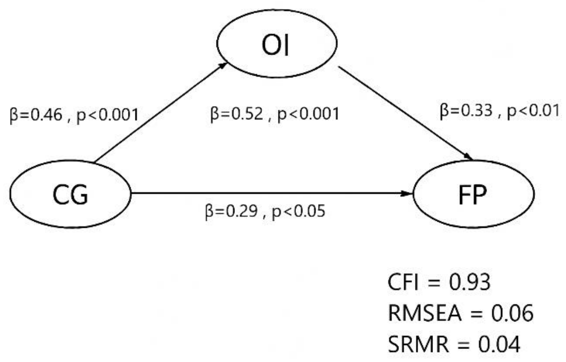

Figure 1. Path Diagram of the Structural Model (SEM results)

The SEM results confirm that organizational innovation fully mediates the relationship between governance and financial performance, aligning with findings in other emerging markets [2, 3, 7]. Firms with higher governance quality are more capable of translating innovative activities into tangible value creation.

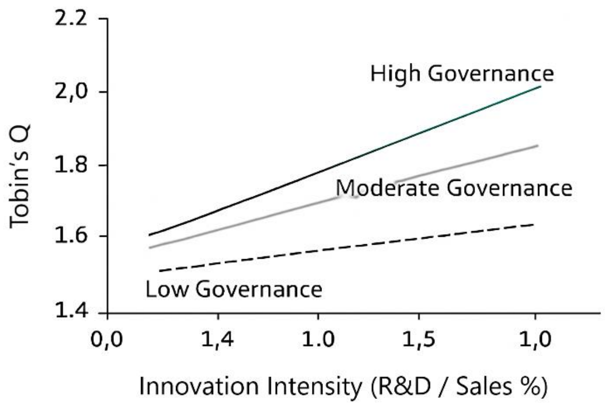

Figure 2. Multi-parameter Interaction Plot: Governance–Innovation Synergy on Tobin's Q

The plot demonstrates that at higher levels of governance quality, the slope between innovation and firm value becomes steeper, implying that innovation yields stronger value effects when supported by effective governance mechanisms.

4.4 Sectoral Differences and Temporal Trends

A cross-sectoral comparison revealed that the pharmaceutical and petrochemical sectors exhibit the highest synergy between governance and innovation, while traditional manufacturing sectors show weaker effects due to limited R&D orientation. Moreover, a temporal analysis across the six-year period shows a noticeable upward trend in both R&D intensity and audit independence after 2021, coinciding with regulatory changes by the SEO.

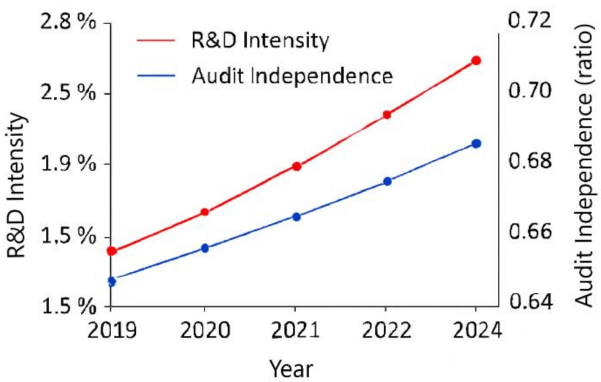

Figure 3. Trend of Mean R&D Intensity and Audit Independence (2019–2024)

This concurrent rise suggests that enhanced governance structures indirectly stimulate firms to allocate more resources to innovation.

4.5 Robustness Tests

Robustness checks using lagged variables (t–1) confirmed the persistence of the observed effects. The interaction term (CG × OI) remained positive and significant ($\beta = 0.27$, $p < 0.05$). Additionally, substituting ROE with ROA as a performance proxy did not materially alter the results, demonstrating model stability.

4.6 Discussion

The findings reveal a synergistic relationship between corporate governance integration and innovation in driving firm value. This result is consistent with the argument that governance mechanisms—especially board independence and audit oversight—create an enabling environment for innovation investment [1, 4, 6]. The mediating role of innovation demonstrates that governance influences performance indirectly by shaping firms' innovation culture and capabilities.

Compared to developed markets, Iranian firms display moderate governance quality yet a rapidly strengthening innovation orientation, particularly in knowledge-based industries. The gradual institutionalization of governance codes in Iran has contributed to this transition. However, ownership concentration still poses challenges, as dominant shareholders may prioritize short-term gains over long-term innovation strategies [5, 9].

The present study's empirical evidence supports integrating governance and innovation into a unified strategic framework. Managers are advised to design board structures that balance control and creativity, auditors to maintain independence while understanding innovation risk, and policymakers to incentivize transparency and R&D alignment.

5. Conclusion

The present study examined how the integration of corporate governance mechanisms and organizational innovation influences value creation and financial performance among firms listed on the Tehran Stock Exchange between 2019 and 2024. Using a panel dataset of 124 companies and applying both regression and structural equation modeling, the study provided empirical evidence that corporate governance and innovation are complementary rather than independent drivers of financial success. Firms with higher governance quality—characterized by independent boards, transparent audits, and dispersed ownership—tend to exhibit stronger innovation intensity and higher profitability.

The findings revealed that organizational innovation plays a mediating role in the relationship between governance and performance, highlighting that effective governance enhances innovation capabilities, which in turn foster financial value. This relationship becomes more pronounced when governance mechanisms are aligned with strategic objectives that prioritize R&D investment, creativity, and long-term sustainability. Moreover, industries such as pharmaceuticals and petrochemicals, which have embraced both governance reforms and technological innovation, demonstrated superior market valuation, measured through Tobin's Q.

From a managerial perspective, the study suggests that corporate boards should adopt integrated governance frameworks that not only ensure compliance but also encourage innovation-driven decision-making. For policymakers, reinforcing regulatory incentives for independent auditing, board diversity, and transparent R&D reporting can further promote innovation-oriented governance across the capital market.

Overall, the study contributes to the theoretical understanding of how governance and innovation interact in emerging markets and offers practical implications for improving firm value and competitiveness in the Iranian context. Future research could expand on these findings by incorporating behavioral governance dimensions or examining cross-country comparisons within the Middle Eastern region to validate the external applicability of this integrated model.

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