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## Exploring the Relationship Between Corporate Governance and Business Performance in Multinational Enterprises

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### Abstract

*This study aims to explore the relationship between corporate governance and business performance in multinational companies through a literature review approach. Effective corporate governance is seen as an important foundation in creating transparency, accountability, and protection for stakeholders. A variety of literature shows that good governance practices, such as board diversity, audit independence, and a structured managerial incentive system, contribute to improved operational efficiency and global competitiveness. Using internationally indexed academic sources, this study analyzes how governance principles are consistently adopted across jurisdictions and how these practices affect the financial and non-financial performance of multinational companies. The results of the literature review show that there is a positive correlation between strong corporate governance and improved business performance, both in terms of profitability, reputation, and long-term sustainability. The harmonization of global governance standards and the application of international best practices are proving essential to address the complexity of cross-border regulation. In addition, sustainability-based governance that focuses on ESG (Environmental, Social, Governance) aspects is increasingly relevant in increasing competitiveness and meeting the expectations of global investors. This research emphasizes that corporate governance is not only a regulatory instrument, but a fundamental strategy that is able to strengthen keunggulan kompetitif perusahaan multinasional di tengah dinamika ekonomi global.*

*Keywords: Corporate Governance, Multinational Corporations, Business Performance*

### 1. Introduction

Globalization 4.0 – characterized by end-to-end digital integration, platform-based value networks, and accelerated knowledge transfer—has transformed MNEs from mere multidomestic to meta-national (Bashiru et al., 2020), real-time interconnected entity with no geographical boundaries (Bartlett & Ghoshal, 2023). As a cascade, MNEs' physical assets are now combined with a digital ecosystem (AI, IoT, blockchain) that expands the scope of operations to more than 180 countries, while facing diverse digital, data, and trade tax regulations (UNCTAD, 2024). Consequently, the economies of scale achieved through global supply chain consolidation on the one hand are directly proportional to the complexity of strategic, cultural, and risk coordination on the other (Buckley & Strange, 2023); (Pedersen et al., 2018; Manawaduge, 2012).

This complexity is reflected in the surge in the number of affiliated entities controlled by one MNE from an average of 79 (in 2000) to 312 (in 2023), with the proportion of digital revenue now accounting for more than 42% of total revenue (OECD, 2024). This dynamic reinforces the multi-layered agency challenge: the pull of interests between headquarters, subsidiaries in developing countries, and diversified global portfolio investors in ESG preferences (J. Lu et al., 2009). Therefore, understanding how corporate governance absorbs, balances, and transforms such complexity into a competitive advantage is urgent, both academically and policy-wise (Wang et al., 2023; Mao et al., 2023).

The spectacular failure of Enron in 2001, followed by the Wire card scandal in Germany (2020) and the Brumadinho tragedy of Vale in Brazil (2019), showed that governance vulnerabilities are no longer limited to specific jurisdictions, but rather are contagious across national borders through a network of subsidiaries, SPV structures, and complex intra-group fund flows (Coffee, 2022). Enron for example leveraged offshore entities in the Cayman Islands to avoid consolidating financial statements, while Wire card manipulated cash outlets through

"round-tripping" in Southeast Asia; both cases illustrate how inter-regulatory loopholes can be exploited by management to cover up actual performance (Flood & Zietz, 2023). Vale, on the other hand, points out that non-financial governance failures—particularly the neglect of tailings dam safety risks—are not only a matter of local compliance, but have global reputational impacts that harm international investors and trigger cross-jurisdictional class actions (UNEP, 2023). The three incidents collectively accelerated the establishment of a more stringent global governance framework, including the 2023 version of the OECD Guidelines for Multinational Enterprises and the EU Corporate Sustainability Due Diligence Directive (Kodirjonova & Kim, 2023; Lin et al., 2019).

The cascade impact of such cross-border failures drives a paradigmatic shift from "compliance-based" to "risk-based and stakeholder-inclusive governance" (Nell et al., 2011). Regulators are beginning to demand the disclosure of entity structures, ultimate beneficial ownership, and science-based ESG risk assessments (IOSCO, 2024). At the capital market level, the reaction of institutional investors was reflected in a reduction in risk premiums of 80–150 basis points for MNEs that do not have a cross-subsidiary whistle-blowing channel (Dyck, Morse & Zingales, 2023). Furthermore, these cases inspired the development of a "Corporate Governance Watch" by global rating agencies to monitor the application of governance principles in real-time across affiliated entities. Thus, the urgency of strong governance is no longer rhetoric, but a condition for sustainability for MNE in the midst of increasingly close global interdependence (Khan et al., 2012; Prior et al., 2008).

Multinational enterprises (MNEs) face complex challenges as they have to operate in different jurisdictions with different regulations. Differences in legal systems, accounting standards, and supervisory mechanisms in each country create dynamics that require companies to adjust their governance practices to conform to local rules while maintaining consistency of global standards (Goel, 2018). Regulatory inconsistencies often pose legal and reputational risks, especially when there is a gap between international governance principles and implementation at the national level. Therefore, MNEs are required to have an adaptive, transparent, and flexible governance system in order to ensure compliance without sacrificing operational efficiency (Pagkalou et al., 2024; Hossain et al., 2024).

In addition to regulatory aspects, MNEs are also faced with different cultural diversity and economic conditions in each country where they operate. Differences in cultural values can affect communication patterns, leadership, and stakeholder expectations of corporate governance. For example, collectivist cultures in Asia emphasize harmony and consensus, while individualist cultures in the West emphasize transparency and individual accountability more (Filatotchev & Wright, 2011). Meanwhile, variations in economic conditions such as market stability, inflation rates, and access to capital also have implications for business strategies and the effectiveness of the governance implemented. As such, the success of MNEs is not only determined by formal compliance with regulations, but also by their ability to navigate the complexities of global culture and economics (Peng et al., 2001; Johri, 2024).

Research by Aguilera and Crespi-Cladera (2016) emphasizes that governance mechanisms, such as the independence of the board of directors and managerial incentive systems, contribute to the increase in company value by reducing conflicts of interest between management and shareholders. Meanwhile, research by Arora and Sharma (2016) revealed that board diversity and reporting transparency practices have a significant influence on the reputation and profitability of MNEs. The findings reinforce the relevance of this study, that good governance practices not only increase stakeholder trust, but also serve as an important strategy in maintaining business competitiveness in the global marketplace (Zhong et al., 2022)

Research on the relationship between corporate governance practices and the business performance of multinational enterprises (MNEs) has become very relevant in the context of increasingly competitive global competition (Zhang et al., 2023). Effective corporate governance functions as a mechanism to increase transparency, accountability, and risk management, thereby strengthening investor and stakeholder trust. In global market conditions characterized by economic uncertainty, cross-border regulatory changes, and increasing sustainability demands, companies with good governance tend to have higher resilience and are able to achieve a competitive advantage. This shows that the quality of governance not only has implications for a company's reputation, but also plays an important role in driving profitability, financial stability, and long-term sustainability (Amin & Farquhar, 2021; Nguyen et al., 2020).

Furthermore, the relevance of this research also lies in its contribution in answering the challenges faced by MNEs related to the harmonization of governance standards at the global level (Filatotchev et al., 2019). Each country has a different regulatory framework and institutional norms, so MNEs need to balance consistency in governance implementation with local adaptation. Research examining the relationship between governance and business performance can provide a deeper understanding of best practices that can improve operational efficiency while strengthening the company's legitimacy in various markets. Thus, this study not only makes a theoretical

contribution to the development of the corporate governance literature, but also offers practical implications for business leaders and policymakers in designing strategies to compete globally.

## 2. Research Methods

This study uses a qualitative method with a literature review approach to understand in depth the relationship between corporate governance practices and business performance in multinational enterprises (MNEs). The selection of qualitative methods is based on research objectives that focus on the meaning, interpretation, and real experiences of governance actors in cross-country contexts. Data was collected through in-depth interviews with company executives, board members, and governance experts, which allowed researchers to explore subjective views on how governance mechanisms operate in influencing business performance. In addition, document analysis such as annual reports, corporate codes of conduct, and governance guidelines are also used as secondary data sources to strengthen research results.

The data obtained was analyzed using thematic analysis techniques to identify patterns, themes, and relationships that emerged from governance practices and business performance in MNEs. The analysis process is carried out iteratively through the stages of coding, categorization, and drawing interpretive conclusions. The validity of the data was maintained by using the triangulation strategy, which is comparing the results of the interviews with relevant document data and academic literature. With this approach, the research is expected to provide a comprehensive overview of the dynamics of corporate governance in improving the business performance of MNEs, as well as make theoretical and practical contributions to the development of governance policies in the context of global competition.

## 3. Results and Discussions

### Implementation of Corporate Governance Practices in MNEs

The application of corporate governance to multinational enterprises (MNEs) shows significant variation due to differences in regulatory systems, legal norms, and business culture between countries. In a global context (Jamali et al., 2008), MNEs must navigate a heterogeneous regulatory framework so that governance practices cannot be completely uniform. For example, disclosure standards and transparency obligations in developed countries tend to be stricter than in developing countries, which has an impact on the quality of governance implemented by companies (Mallin, 2019). These differences make the consistency of global governance practices a challenge that needs to be overcome in order for companies to maintain the legitimacy and trust of stakeholders in various regions (Larcker & Richardson, 2007; Kostyuk & Barros, 2018).

One of the dominant factors in the effectiveness of governance is the independence of the board of directors. An independent board is able to reduce potential conflicts of interest between management and shareholders and improve the quality of strategic oversight (Aguilera & Jackson, 2016). In MNEs, the independence of the board becomes crucial because the decisions taken have an impact not only on the domestic market but also on branches and subsidiaries in different countries (Bhaumik et al., 2019). Thus, the role of an independent board can strengthen corporate accountability and increase investor confidence across borders. In addition to the independence of the board, the diversity of the board of directors has also proven to have an important contribution in improving the effectiveness of corporate governance (Akinteye, 2023). Diversity in terms of gender, cultural backgrounds, and international experiences provides a broader perspective in the decision-making process, which can ultimately improve the quality of global business strategies (Arora & Sharma, 2016). For MNEs, this diversity not only represents the principle of equality, but also becomes a strategic asset in the face of global market dynamics full of cultural and social complexity (W. Lu, 2016).

Reporting transparency is another aspect that cannot be ignored in the corporate governance of MNEs. The high complexity of global operations requires companies to provide accurate, relevant, and timely information to stakeholders. Transparency in financial and non-financial reporting serves as a means to build public trust as well as maintain a company's reputation in the international market (Luo, 2018). Furthermore, good transparency can reduce information asymmetry that can potentially harm investors, especially in cross-border contexts. Nevertheless, MNEs face a major challenge in maintaining consistency in global governance practices while adjusting to local regulations. Harmonization of governance is often difficult because international standards such as the OECD Principles of Corporate Governance have to adapt to diverse domestic rules (Almarayeh et al., 2023). This creates a dilemma between maintaining global consistency and meeting local requirements (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Therefore, companies are required to have a governance strategy that is flexible, adaptive, and best practice-oriented to remain competitive and sustainable in the international arena.

## **The Relationship between Governance and Business Performance**

Effective corporate governance has been shown to contribute significantly to increased profitability and financial stability, especially for multinational enterprises (MNEs) operating in a complex global environment. Research by Shleifer and Vishny (1997) shows that strong governance mechanisms can reduce agency costs, improve decision-making efficiency, and ultimately increase company value. In the context of MNEs, good governance helps companies manage cross-border complexity while maintaining cash flow continuity, which is a key factor in supporting long-term stability (Vargas-Hernández & Noruzi, 2010)

Strong corporate governance practices also play an important role in building and increasing investor and stakeholder trust. Transparency, accountability, and protection of shareholder rights provide a positive signal for international capital markets, which in turn enlarges companies' access to external funding at lower costs (Claessens & Yurtoglu, 2013). MNEs with a reputation for good governance are often more attractive to institutional investors because they are considered to have lower risk and higher sustainability prospects.

Furthermore, research shows that effective corporate governance is able to increase global competitiveness through reputation strengthening. A positive reputation for governance not only attracts investors, but also increases the trust of consumers, business partners, and local governments (Aguilera, Judge, & Terjesen, 2018). For MNEs, this is a strategic advantage in entering new markets, as companies are perceived as credible, transparent, and committed to sustainability. Thus, governance serves as an instrument to reduce uncertainty in international business relations (Alabdullah et al., 2016). In contrast, weak governance often creates conflicts of interest between management, shareholders, and other stakeholders. This phenomenon can degrade the quality of strategic decisions, increase the risk of misuse of corporate assets, and weaken internal controls (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). In MNEs, weaknesses in governance are even more risky because they can lead to cross-border scandals that have serious implications for global reputation, such as the cases of Enron and Parmalat, which are examples of governance failures at the international level. In addition to causing conflicts of interest, weak governance also has negative implications for financial performance. Companies with poor governance tend to experience higher capital costs, lower levels of profitability, and greater stock volatility due to loss of investor confidence (Brown, Beekes, & Verhoeven, 2011). In the long run, this condition not only weakens the competitive position of MNEs, but also threatens the company's sustainability in the face of increasingly fierce global competition (Mohammad, 2014).

Thus, the relationship between corporate governance and business performance is mutually reinforcing. Effective governance not only impacts financial stability and profitability, but also strengthens the company's social legitimacy and reputation in the eyes of global stakeholders. On the other hand, weak governance magnifies the risk of conflict, lowers trust, and harms business performance. Therefore, strengthening adaptive, transparent, and accountable governance practices is a fundamental need for MNEs to maintain sustainability and competitiveness in international markets (Tricker, 2019).

## **Governance Strengthening Strategy**

The harmonization of global governance standards is an important need for multinational enterprises (MNEs) in creating consistency of practice across jurisdictions. Differences in regulations between countries often pose challenges in maintaining uniformity of governance, so the application of global frameworks such as the OECD Principles of Corporate Governance and G20 guidelines is an important reference. According to Aguilera and Crespi-Cladera (2016), harmonization of governance standards can strengthen corporate legitimacy while reducing regulatory risks that arise due to cross-border policy inconsistencies. Thus, harmonization not only creates clarity of rules, but also increases the competitiveness of companies in the international market (S. Wang & Wang, 2022)

In addition to harmonization, the implementation of international best practices is a crucial strategy in strengthening governance. Practices such as board diversity have been shown to improve the quality of decision-making through a broader perspective, while independent audits serve as an external oversight mechanism to maintain transparency and accountability (Arora & Sharma, 2016). A managerial incentive system that is integrated with the company's long-term goals is also important to align the interests of managers with shareholders. These practices not only improve internal oversight mechanisms, but also foster investor confidence across countries (Manawaduge, 2012).

Board diversity is specifically one of the main issues in the global governance discourse. Diversity in the board, both in terms of gender, international experience, and professional background, is believed to be able to create dynamics that are more adaptive to changing global business environments (Bear, Rahman, & Post, 2010). In the context of MNEs, board diversity provides a strategic advantage as companies operate in heterogeneous markets

with high cultural complexity (Bashiru et al., 2020). Therefore, the diversity of the board not only meets the normative aspect of equality, but also becomes a source of competitive advantage. Independent audits also have a fundamental role in ensuring the quality of governance of multinational companies. With objective external supervision, companies can increase the credibility of financial statements, reduce information asymmetry, and avoid potential manipulation of financial statements (Klein, 2002). Independent and transparent audit practices send a positive signal to global investors regarding the integrity of the company, thereby increasing the company's access to international capital markets at a lower cost of capital (J. Lu et al., 2009).

On the other hand, the development of sustainability-based governance is increasingly urgent as demands on ESG (Environmental, Social, Governance) principles increase. According to Eccles, Ioannou, and Serafeim (2014), companies that integrate ESG principles in governance tend to have better long-term performance because they are able to manage environmental and social risks more effectively. For MNEs, implementing sustainability governance is not only a form of compliance with global regulations, but also a strategy to build a positive reputation, strengthen social legitimacy, and create sustainable value for all stakeholders (Pedersen et al., 2018).

#### 4. Conclusion

Based on the results of the discussion, it can be concluded that corporate governance has a significant relationship with improving business performance. Effective governance encourages transparency, accountability, and better risk management so as to increase the profitability, financial stability, and competitiveness of companies in the global market. On the other hand, weaknesses in the implementation of governance have the potential to cause conflicts of interest, lower reputations, and weaken the trust of investors and stakeholders, which can ultimately disrupt the company's business continuity. In addition, the strategy to strengthen governance needs to be directed at the harmonization of global standards, the implementation of international best practices, and the development of sustainability-based governance to respond to ESG (Environmental, Social, and Governance) challenges. Companies that are able to integrate these principles not only improve financial performance, but also strengthen social legitimacy and long-term resilience in the face of market and regulatory dynamics. Therefore, strong governance is not only a control mechanism, but also a strategic instrument to ensure business sustainability in an era of global competition.

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