The Impact of Corporate Governance on Firm Performance in the Context of Economic Globalization Evidence from Multinational Corporations

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Abstract: This paper examines how corporate governance affects the performance of multinational corporations (MNCs) in the context of global economic integration. By analyzing the theoretical framework of corporate governance and the impact of globalization on corporate governance structures, the study reveals the relationship between governance excellence and firm performance. Using quantitative analysis methods, the article verifies the specific impact of different governance structures on the operations and performance of multinational corporations, and puts forward strategic recommendations for optimizing corporate governance to enhance firm performance. The findings not only enrich the theoretical system of corporate governance, but also provide empirical support for the management practice of multinational corporations.
***Keywords*:** corporate governance; globalization; multinational corporations; firm performance

1. Introduction

With the deepening development of global economic integration, corporate governance has become a key factor affecting the performance of transnational corporations (TNCs). Effective corporate governance not only enhances corporate transparency and accountability, but also optimizes resource allocation and strengthens the ability of enterprises to meet the challenges of the international market. In the context of globalization, corporate governance is faced with the challenges of multiple and complex factors ranging from geographical dispersion, differences in laws and regulations to cultural diversity, all of which greatly affect the efficiency of the governance structure and the overall performance of the firm. This study aims to provide an in-depth analysis of how globalization shapes corporate governance structures and to explore the specific impact of different governance models on the performance of multinational corporations (MNCs), with a view to providing MNCs with more effective governance strategies that can help them maintain competitiveness in the global marketplace, thereby contributing to the healthy development of the global business environment[1].

2. Theoretical framework of corporate governance

The theoretical framework of corporate governance revolves around how to develop effective management structures and control mechanisms to ensure alignment of interests between the firm's stakeholders, particularly shareholders and management. This framework emphasizes the importance of transparency, responsibility, fairness and accountability, and aims to reduce agency problems, i.e. management's actions that may not be in the best interests of shareholders, through monitoring and incentive mechanisms. Theoretically, good corporate governance should be able to promote transparency in decision-making and enhance trust through a standardized financial reporting and auditing process, while strengthening the oversight function through an effective board structure and independence. In addition, corporate governance involves risk management and compliance strategies, which are key components in ensuring the long-term stability of business operations. In a globalized economy, the practice of corporate governance must also take into account the complexity of cross-border operations, including dealing with compliance with laws and regulations in different countries, as well as the management challenges posed by cultural differences[2]. Thus, the theoretical framework of corporate governance is not only a tool for enhancing the efficiency of internal corporate management, but also a cornerstone for the successful implementation of an enterprise's international strategy and the enhancement of its global competitiveness.

3. Analysis of the impact of globalization on corporate governance

The impact of globalization on corporate governance has been significant and far-reaching, particularly in terms of the complexity of managing and monitoring transnational corporations (TNCs). With the geographical expansion of corporate activities, corporate governance faces the challenge of adapting to a multiplicity of laws and regulations, cultural differences and international market dynamics. For example, according to the International Accounting Standards Board

(IASB), some 120 countries and territories around the world have adopted the International Financial Reporting Standards (IFRS), which requires TNCs to integrate these standards in their governance structures to ensure financial transparency and comparability[3].

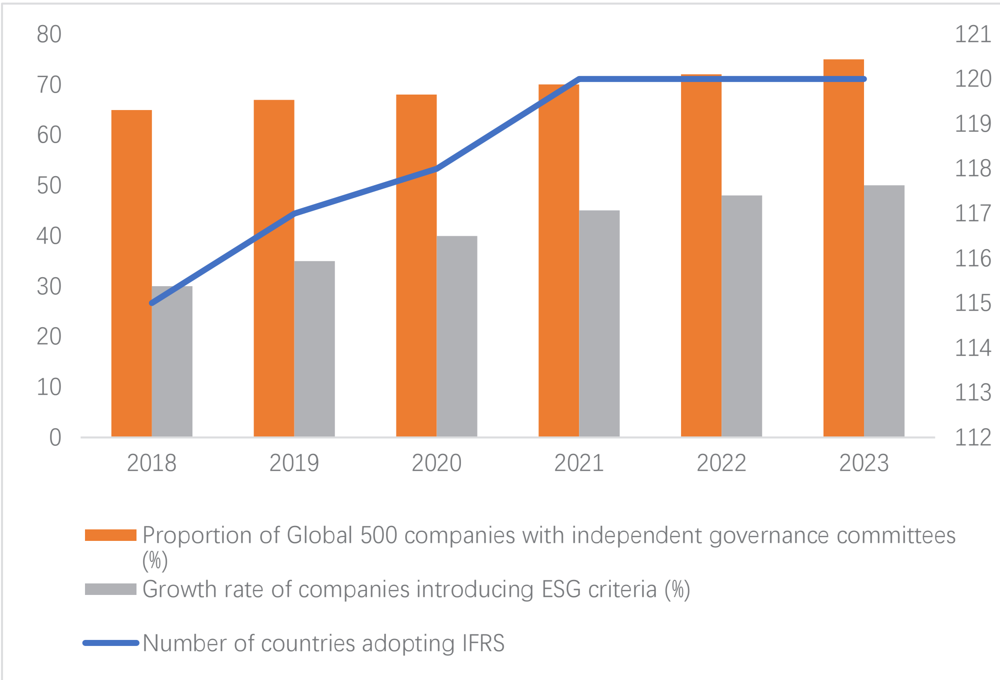

Figure 1. Trends in Corporate Governance under the Impact of Globalization (2018-2023) (International Accounting Standards Board 2023)

Globalization has also driven international consistency in governance models. A study of Global 500 companies shows that more than 70 percent have established at least three independent governance committees to enhance oversight effectiveness and respond to global governance trends. At the same time, globalization has led to an increased focus on social responsibility and environmental sustainability, which have become integral to modern corporate governance. A statistic published by the Global Sustainability Organization shows that the number of companies introducing environmental, social and governance (ESG) standards increased by 50% between 2018 and 2022, and that these companies tend to outperform companies that do not implement ESG standards in the market.In addition, globalization has increased regulatory pressures on companies. Multinational companies must operate within different legal frameworks, such as the Sarbanes-Oxley Act in the U.S. and the General Data Protection Regulation (GDPR) in the EU, which not only increase the cost of compliance, but also drive companies to improve their governance structures and processes to meet international standards[4].

4. The relationship between corporate governance and the performance of multinational corporations

The relationship between corporate governance and the performance of TNCs is crucial, especially in a globalized economy where good governance structures can significantly improve a firm's market performance and competitiveness. Effective corporate governance helps companies build credibility and attract investors and customers by ensuring transparency in decision-making and managerial accountability, which in turn has a direct impact on a company's financial performance. For example, companies with high standards of governance practices typically manage risks more effectively and optimize resource allocation, which not only enhances operational efficiency but also improves profitability.

In multinational corporations, the complexity of corporate governance makes it more difficult to manage, but at the same time provides opportunities to enhance performance. For example, by implementing uniform governance standards in different markets, TNCs are able to reduce compliance costs, unify their brand image and enhance their governance credibility globally. In addition, the governance structure of TNCs often includes the management and adaptation of multiculturalism, and this ability to respond flexibly to different cultures and markets further strengthens the firm's global competitiveness[5].

However, the implementation of good governance is not always easy, especially when there is a need to harmonize legal and cultural differences across multiple countries. Multinational corporations must have the flexibility to adapt to local characteristics and needs while maintaining globally harmonized governance standards. When companies are able to balance this dynamic effectively, their global performance improves significantly and they are able to achieve sustained growth and profitability in international markets. Thus, corporate governance is closely linked to the performance of TNCs and is one of the key factors in corporate success.

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