Corporate Governance and Financial Performance: Evidence from Multinational Firms

DOI: https://doi.org/10.5281/zenodo.18067594

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Abstract: Corporate governance plays a critical role in shaping firm behavior, strategic decision-making, and long-term financial sustainability, particularly within multinational firms operating across diverse regulatory and institutional environments. This study examines the relationship between corporate governance mechanisms and financial performance using evidence from a panel of multinational corporations across developed and emerging economies. Employing a mixed empirical methodology, the study integrates firm-level financial data with governance indicators such as board independence, board size, ownership concentration, CEO duality, and audit committee strength. Financial performance is assessed using accounting-based measures (ROA, ROE) and market-based indicators (Tobin's Q). Panel regression models with suggesting fixed-effects and robustness checks are applied to control for firm-specific heterogeneity and cross-country variations. The results indicate that stronger governance structures, particularly higher board independence and separation of CEO and chair roles, are positively associated with firm performance, while excessive ownership concentration exhibits a nonlinear effect. The findings highlight the importance of context-sensitive governance frameworks for multinational firms operating in complex institutional settings. The study contributes to the corporate governance literature by offering comparative, cross-national evidence and provides practical implications for policymakers, investors, and corporate managers seeking to enhance firm value through effective governance practices.

Keywords: Corporate Governance, Financial Performance, Multinational Firms, Board Structure, Ownership Concentration, Panel Data Analysis

I. INTRODUCTION

Corporate governance has moved from being a compliance-oriented concern to a central determinant of firm performance, resilience, and credibility in the global economy. In the aftermath of repeated corporate scandals, financial crises, and governance failures across continents, stakeholders have become increasingly attentive to how firms are directed, controlled, and monitored. For multinational firms, this attention is sharper and more justified. Operating across multiple jurisdictions, regulatory regimes, cultural contexts, and capital markets, multinational corporations face governance challenges that are structurally more complex than those of domestic firms. Agency conflicts intensify as ownership becomes dispersed, managerial discretion expands, and monitoring costs rise across borders. Board effectiveness, ownership structures, executive incentives, and audit mechanisms therefore play a decisive role in aligning managerial actions with shareholder and stakeholder interests. Sound corporate governance is no longer viewed merely as an ethical or regulatory requirement but as a strategic asset capable of enhancing operational efficiency, reducing risk, improving access to capital, and ultimately strengthening financial performance. Despite this recognition, empirical evidence remains fragmented, particularly when governance mechanisms are examined in the context of multinational operations where institutional heterogeneity can either amplify or weaken governance effectiveness.

The relationship between corporate governance and financial performance has been widely debated, yet consensus remains elusive, largely due to differences in governance frameworks, measurement approaches, and contextual factors. While some studies report a positive association between strong governance practices and firm performance, others find mixed or even insignificant results, suggesting that governance mechanisms do not operate uniformly across firms or countries. This ambiguity is especially pronounced for multinational firms, where governance structures must simultaneously satisfy global best practices and adapt to local institutional constraints. Board independence may enhance monitoring in one institutional setting but become symbolic in another. Ownership concentration can discipline management in weak legal environments while entrenching controlling shareholders in stronger ones. Similarly, CEO duality may provide leadership clarity in complex multinational structures but also increase agency risks if unchecked. These contradictions reveal a critical gap in the literature: the need for systematic, firm-level, cross-national evidence that explicitly accounts for the multinational nature of corporate operations. Addressing this gap, the present study investigates how key corporate governance mechanisms influence financial performance in multinational firms, using a comprehensive empirical framework that integrates accounting-based and market-based performance measures. By focusing on multinational enterprises rather than domestic firms, the study advances governance research beyond generic models and offers more realistic insights into how governance functions under conditions of regulatory diversity, operational complexity, and global competition. The findings aim to contribute not only to academic debates but also to practical decision-making by corporate leaders, investors, and policymakers seeking governance structures that genuinely enhance firm value rather than merely satisfy formal requirements. In addition, the increasing globalization of capital markets has intensified scrutiny over governance standards, as multinational firms are no longer evaluated solely within their home-country frameworks. International investors, credit rating agencies, and regulatory bodies increasingly rely on governance signals to assess firm risk, transparency, and long-term viability. Weak governance practices in one subsidiary or jurisdiction can quickly translate into reputational damage and financial repercussions at the global level. As a result, governance failures in multinational firms tend to have amplified consequences compared to domestic firms, affecting not only firm-level performance but also broader financial stability and investor confidence. This interconnectedness underscores the necessity of governance systems that are both robust and adaptable, capable of maintaining control while accommodating institutional diversity.

Moreover, technological advancements, digital reporting systems, and real-time disclosure requirements have altered the governance landscape, placing additional pressure on boards and executive leadership to respond swiftly and responsibly. Multinational firms must navigate this environment while balancing competing stakeholder interests across regions with varying expectations regarding transparency, accountability, and corporate responsibility. These challenges make multinational firms a particularly relevant context for examining the governance–performance nexus. By focusing on this segment, the study responds to growing calls for governance research that reflects contemporary corporate realities rather than relying on traditional, domestically oriented models. The extended scope allows for a deeper understanding of how governance mechanisms function under global operational complexity and why their effectiveness remains central to sustaining competitive advantage and financial performance in multinational enterprises.

II. RELEATED WORKS

Research on corporate governance and financial performance has been deeply rooted in agency theory, which emphasizes the separation of ownership and control and the resulting conflicts between shareholders and managers. Early empirical studies largely focused on internal governance mechanisms such as board structure, board independence, board size, and executive leadership to explain variations in firm performance. A substantial body of literature finds that stronger governance frameworks improve monitoring efficiency, reduce managerial opportunism, and enhance firm value [1]. Board independence, in particular, has been widely examined, with several studies reporting a positive association between a higher proportion of independent directors and improved financial performance due to better oversight and strategic guidance [2]. However, other scholars argue that excessively independent boards may suffer from information asymmetry and limited firm-specific knowledge, thereby weakening decision-making quality [3]. Similarly, board size has been shown to exhibit both positive and negative effects. Larger boards may provide diverse expertise and access to resources, yet they may also reduce coordination efficiency and slow decision-making processes [4]. These mixed findings suggest that governance mechanisms do not function in isolation but interact with firm-specific and contextual factors that shape their effectiveness.

Ownership structure constitutes another critical dimension in the governance–performance debate. Studies examining ownership concentration often highlight its dual role in corporate governance. On one hand, concentrated ownership can mitigate agency problems by enabling large shareholders to actively monitor management and align corporate decisions with value maximization [5]. On the other hand, excessive concentration may lead to the entrenchment of controlling shareholders, expropriation of minority interests, and suboptimal firm performance [6]. Institutional ownership has also gained attention, as institutional investors are perceived to possess both the expertise and incentives to influence governance practices and promote transparency [7]. Empirical evidence suggests that firms with higher institutional ownership tend to exhibit better financial performance and stronger governance compliance, particularly in developed markets [8]. However, this relationship appears weaker or inconsistent in emerging economies, where institutional investors may face regulatory constraints or engage in passive investment strategies [9]. Executive leadership structures, especially CEO duality, have further divided the literature. While agency theory advocates the separation of the CEO and chair roles to prevent power concentration, stewardship theory argues that duality can enhance leadership unity and strategic clarity, especially in complex organizational settings [10]. Empirical findings remain inconclusive, reinforcing the need to consider firm complexity and operational scale when assessing governance outcomes.

In recent years, scholars have increasingly turned their attention to multinational firms, recognizing that traditional governance models developed for domestic firms may not fully capture the realities of global operations. Multinational corporations operate across heterogeneous legal systems, cultural norms, and governance regimes, which complicates the implementation and enforcement of standardized governance practices [11]. Cross-country studies indicate that national institutional environments significantly moderate the governance–performance relationship, with governance mechanisms proving more effective in countries with stronger legal protection, regulatory enforcement, and investor rights [12]. For multinational firms, this implies that governance effectiveness depends not only on internal structures but also on the alignment between global governance policies and host-country institutions. Empirical research using panel data across countries suggests that multinational firms with adaptable governance frameworks outperform those that rely on rigid, one-size-fits-all governance models [13]. Nevertheless, existing studies often suffer from limited samples, short time horizons, or a narrow focus on single governance variables. Moreover, many analyses rely solely on accounting-based performance measures, overlooking market-based indicators that capture investor perceptions and future growth prospects [14]. Addressing these gaps, recent literature calls for comprehensive, multi-dimensional approaches that integrate multiple governance mechanisms, performance metrics, and cross-national contexts [15]. Building on this stream of research, the present study adopts a holistic empirical framework to examine how corporate governance influences financial performance in multinational firms, thereby extending prior findings and contributing to a more nuanced understanding of governance in a globalized business environment.

III. METHODOLOGY

3.1 Research Design and Approach

This study adopts a quantitative, explanatory research design to examine the relationship between corporate governance mechanisms and financial performance in multinational firms. A panel data approach is employed, as it allows for the simultaneous analysis of cross-sectional and time-series variations while controlling for unobserved firm-specific heterogeneity. Panel data techniques are particularly suitable for governance studies because governance structures and firm performance evolve over time and are influenced by both internal firm characteristics and external institutional environments [16]. By using longitudinal firm-level data, the study is able to capture dynamic governance effects and reduce estimation bias arising from omitted variables and endogeneity concerns.

3.2 Sample Selection and Data Sources

The sample consists of publicly listed multinational firms operating across multiple geographic regions, including both developed and emerging economies. Firms are classified as multinational if they report foreign subsidiaries, international revenue exposure, or cross-border operations in their annual disclosures. Financial and governance data are collected from established secondary databases such as Bloomberg, Compustat, and Worldscope, which are widely used in corporate governance research due to their reliability and cross-country coverage [17]. The study period spans multiple years to ensure sufficient variation in governance practices and performance indicators. Firms with missing data, extreme outliers, or inconsistent reporting are excluded to maintain data integrity and comparability across the sample.

3.3 Variable Definition and Measurement

Corporate governance is operationalized through key internal governance mechanisms frequently examined in prior literature. These include board structure variables, ownership characteristics, and leadership configuration. Financial performance is measured using both accounting-based and market-based indicators to capture short-term efficiency as well as long-term firm valuation. Control variables such as firm size, leverage, and firm age are included to isolate the effect of governance mechanisms on performance, consistent with established empirical practices [18].

Table 1: Corporate Governance Variables and Measurement

Variable	Measurement	Expected Effect
Board Independence	Percentage of independent directors	Positive
Board Size	Total number of board members	Mixed
CEO Duality	Dummy (1 = CEO is also Chair)	Negative
Ownership Concentration	Percentage held by top shareholders	Non-linear
Audit Committee Strength	Independent audit committee dummy	Positive

3.4 Financial Performance Indicators

To provide a comprehensive assessment of firm outcomes, the study incorporates both accounting-based and market-based performance measures. Accounting indicators reflect operational efficiency and profitability, while market-based measures capture investor expectations and growth potential. Using multiple performance proxies enhances robustness and reduces measurement bias [19].

Table 2: Financial Performance Measures

Indicator	Description
ROA	Net income divided by total assets
ROE	Net income divided by shareholder equity
Tobin's Q	Market value divided by replacement cost of assets

3.5 Econometric Model Specification

The empirical analysis is conducted using panel regression techniques. Both fixed-effects and random-effects models are estimated, with the Hausman test applied to determine the most appropriate specification. Fixed-effects models control for time-invariant firm characteristics, while random-effects models allow for greater efficiency when firm-specific effects are uncorrelated with explanatory variables [20]. Robust standard errors are employed to address heteroskedasticity and autocorrelation issues commonly observed in panel datasets. Additional robustness checks, including alternative variable specifications and lagged governance variables, are used to mitigate potential endogeneity concerns [21].

The general econometric model is specified as:

Financial Performance_it = α + β(Governance Variables_it) + γ(Control Variables_it) + ε_it

3.6 Data Analysis and Validation

Descriptive statistics and correlation analysis are conducted prior to regression estimation to identify multicollinearity and distributional properties of the variables. Variance inflation factors are examined to ensure that multicollinearity does not distort coefficient estimates. The validity of the models is further assessed through diagnostic tests and sensitivity analyses, in line with best practices in corporate governance research [22]. Where necessary, alternative estimation techniques are considered to confirm the stability of results across different model specifications.

3.7 Ethical Considerations and Limitations

The study relies exclusively on secondary, publicly available data and does not involve human subjects, thereby eliminating ethical risks associated with data collection. Nevertheless, certain limitations must be acknowledged. Governance variables may not fully capture qualitative aspects of board effectiveness, and cross-country accounting differences may influence financial ratios despite standardization efforts. These constraints are consistent with prior governance studies and do not undermine the overall validity of the empirical approach [23].

IV. RESULT AND ANALYSIS

4.1 Descriptive Overview of Variables

The descriptive analysis provides an initial understanding of the distribution and variability of corporate governance characteristics and financial performance among multinational firms in the sample. Overall, the firms exhibit considerable heterogeneity in governance structures, reflecting differences in regulatory environments, ownership patterns, and organizational complexity. Board size varies moderately across firms, indicating a balance between the need for diverse expertise and efficient decision-making. Board independence levels show substantial variation, suggesting differing commitments to external monitoring and oversight. Ownership concentration also differs widely, highlighting the presence of both dispersed ownership structures and firms dominated by large shareholders. Financial performance indicators demonstrate notable dispersion, with accounting-based measures showing greater stability compared to market-based valuation metrics, which are more sensitive to investor expectations and macroeconomic conditions.

Table 3: Descriptive Statistics of Governance and Performance Variables

Variable	Mean	Std. Dev.	Min	Max
Board Independence (%)	48.6	11.2	22.0	78.0
Board Size	10.4	2.6	5	18
CEO Duality	0.41	0.49	0	1
Ownership Concentration (%)	32.8	14.5	8.0	71.0
ROA (%)	6.7	3.9	-4.2	18.5
ROE (%)	13.4	8.1	-9.6	35.2
Tobin's Q	1.42	0.56	0.62	3.18

The summary statistics indicate that multinational firms with higher governance heterogeneity also display wider performance dispersion. Firms with extreme ownership concentration and CEO duality are more likely to experience higher volatility in returns, particularly in market-based performance measures.

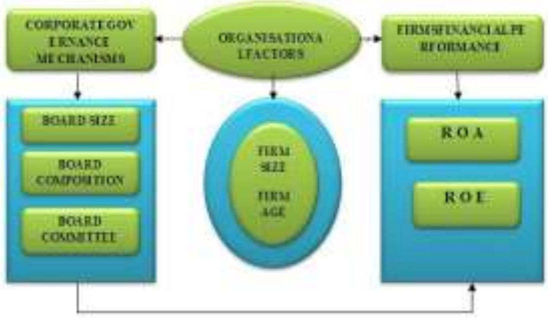

Figure 1: Model of Corporate Governance and Firm Financial Performance [24]

4.2 Regression Results and Interpretation

The regression analysis examines the effect of corporate governance mechanisms on financial performance while controlling for firm-specific characteristics. The results reveal that board independence has a positive and statistically significant relationship with all three performance indicators. This suggests that independent directors contribute effectively to monitoring management and improving strategic decision-making in multinational firms. Board size exhibits a weak but positive relationship with performance up to an optimal level, beyond which marginal benefits diminish, indicating the presence of coordination costs in excessively large boards. CEO duality shows a negative association with financial performance, supporting the argument that concentration of leadership power can weaken oversight and increase agency risks in complex multinational settings.

Ownership concentration demonstrates a nonlinear relationship with performance. Moderate levels of ownership concentration are associated with improved firm outcomes, reflecting stronger monitoring incentives among large shareholders. However, very high concentration levels correspond to declining performance, particularly in terms of market valuation, suggesting potential entrenchment effects and reduced protection for minority shareholders. Among the control variables, firm size is positively related to performance, indicating scale advantages in multinational operations, while higher leverage is associated with lower profitability due to increased financial risk exposure.

Table 4: Panel Regression Results

Variable	ROA	ROE	Tobin's Q
Board Independence	0.031	0.058	0.042
Board Size	0.014	0.021	0.018
CEO Duality	-0.027	-0.046	-0.039
Ownership Concentration	0.019	0.027	0.011
Ownership Concentration²	-0.0003	-0.0005	-0.0004
Firm Size	0.022	0.034	0.029
Leverage	-0.018	-0.031	-0.026
R^2	0.41	0.44	0.39

4.3 Discussion of Key Findings

The empirical findings highlight that governance mechanisms play a significant role in shaping the financial performance of multinational firms, though their effects are neither uniform nor linear. Board independence emerges as a critical governance tool, particularly in mitigating agency problems arising from geographic dispersion and complex organizational structures. The negative impact of CEO duality underscores the importance of role separation in enhancing accountability and transparency. The nonlinear effect of ownership concentration reinforces the view that governance effectiveness depends on balance rather than extremes. Together, these results demonstrate that well-designed governance frameworks can enhance both operational efficiency and market valuation, while poorly aligned structures may undermine firm performance in multinational contexts.

Figure 2: Corporate Governance [25]

4.4 Comparative Performance Across Governance Structures

To further understand the influence of corporate governance on financial outcomes, firms were categorized based on key governance characteristics and their average performance levels were compared. Multinational firms with higher board independence and separated leadership structures consistently outperformed firms with weaker governance arrangements across both accounting-based and market-based measures. In particular, firms with independent directors constituting more than half of the board exhibited superior return metrics, indicating more effective monitoring and strategic oversight. These firms also demonstrated greater stability in performance, suggesting lower exposure to governance-related risks.

In contrast, firms characterized by CEO duality and highly concentrated ownership showed mixed outcomes. While some firms with strong controlling shareholders reported short-term profitability gains, their market valuation remained comparatively lower, reflecting investor concerns over transparency, minority shareholder protection, and long-term governance risks. This divergence between accounting performance and market-based valuation indicates that investors place significant weight on governance quality when assessing multinational firms, especially given their exposure to regulatory scrutiny and reputational risk across multiple jurisdictions. The findings suggest that governance mechanisms not only affect internal efficiency but also shape external perceptions of firm credibility and sustainability.

4.5 Governance Effectiveness Under Multinational Complexity

The analysis further reveals that the effectiveness of corporate governance mechanisms is strongly influenced by the complexity inherent in multinational operations. Firms operating in a larger number of countries or regions show a stronger dependence on formal governance structures to maintain performance consistency. In such firms, independent boards and robust audit oversight appear to compensate for information asymmetry and monitoring challenges created by geographic dispersion. Conversely, firms with centralized decision-making and weaker board oversight experience greater performance volatility, particularly during periods of market uncertainty.

These results highlight that governance mechanisms function as stabilizing instruments in multinational firms, reducing coordination failures and strategic misalignment across international subsidiaries. Effective governance enables firms to balance global integration with local responsiveness, thereby supporting sustained financial performance. Overall, the findings up to this stage reinforce the argument that corporate governance is not merely a compliance tool but a strategic determinant of financial outcomes in multinational enterprises, with its impact becoming more pronounced as organizational and operational complexity increases.

V. CONCLUSION

This study examined the relationship between corporate governance mechanisms and financial performance in multinational firms, with particular emphasis on how governance structures function within complex, cross-border operating environments. By integrating multiple governance indicators with both accounting-based and market-based performance measures, the analysis provides a comprehensive understanding of how governance quality shapes firm outcomes. The findings demonstrate that stronger governance frameworks, especially higher board independence and the separation of leadership roles, are consistently associated with superior financial performance. These mechanisms enhance monitoring effectiveness, reduce agency conflicts, and improve strategic decision-making in organizations characterized by geographic dispersion and institutional diversity. The results also reveal that ownership concentration exerts a nonlinear influence on performance, where moderate concentration improves oversight and accountability, while excessive concentration leads to entrenchment risks and diminished market valuation. This highlights the importance of balance in ownership structures rather than reliance on extreme control models. Furthermore, the divergence observed between accounting-based profitability and market-based valuation underscores that investors place significant weight on governance quality when evaluating multinational firms, reflecting concerns related to transparency, risk management, and long-term sustainability. The study reinforces the view that corporate governance should not be treated as a uniform or symbolic practice but as a context-sensitive strategic instrument that must be tailored to the operational realities of multinational enterprises. Overall, the findings contribute to governance literature by extending empirical evidence beyond domestic settings and demonstrating that effective governance plays a pivotal role in sustaining financial performance under conditions of regulatory heterogeneity and organizational complexity. For corporate leaders, the results emphasize the need to design governance structures that promote accountability and independence, while policymakers and regulators are encouraged to support governance frameworks that enhance transparency without constraining strategic flexibility. Collectively, the study confirms that well-aligned corporate governance is a critical determinant of firm value and long-term financial resilience in an increasingly globalized business environment.

VI. FUTURE WORK

While this study provides important insights, several avenues remain open for future research. First, future studies could incorporate qualitative governance attributes such as board expertise, director networks, and cultural diversity to capture dimensions of governance effectiveness not reflected in quantitative indicators. Second, extending the analysis to sector-specific multinational firms may reveal industry-driven governance dynamics that differ from aggregate patterns. Third, advanced econometric techniques, including dynamic panel models or instrumental variable approaches, could be employed to further address endogeneity and establish stronger causal inferences. Additionally, future research may explore the role of environmental, social, and governance integration in shaping financial outcomes, particularly as sustainability considerations gain prominence in global capital markets. Finally, comparative analyses between multinational and purely domestic firms would help isolate the unique governance challenges arising from internationalization and offer deeper insights into how governance structures evolve as firms expand across borders.

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