



Legal Risk Assessment in Cross-Border Business Agreements between Regulatory Compliance and Profit Optimization

Ayu Rosita Nugiantari

Universitas Pelita Harapan, Tangerang, Banten, Indonesia, ayu.rosita.n@gmail.com.

Corresponding Author: ayu.rosita.n@gmail.com

Abstract: This study explores the critical role of legal risk assessment in cross-border business agreements, focusing on the balance between regulatory compliance and profit optimization. Using a qualitative approach and literature study method, this research examines existing theories, regulations, and case studies related to legal risk assessment in international business. It identifies eight key risk criteria ranging from legal system disharmony to regulatory compliance challenges that influence legal risk assessments in cross-border contracts. The research highlights how differences in legal systems, evolving regulations, and inadequate early-stage risk assessments can create significant risks for companies engaged in international agreements. Furthermore, the study discusses how legal risk assessments can help businesses navigate the tension between compliance with international regulations and the pursuit of profit optimization strategies. By synthesizing insights from academic literature, international legal frameworks, and industry best practices, this study provides a comprehensive framework for integrating legal risk assessments into cross-border business decision-making processes. The findings suggest that companies can achieve sustainable growth by proactively addressing legal risks, ensuring compliance, and optimizing profits in an increasingly complex global business environment. This research contributes to the development of a standardized, adaptive legal risk assessment framework that can be applied across diverse sectors, ensuring both legal integrity and business success.

Keywords: Legal Risk Assessment, Cross-Border Agreements, Regulatory Compliance, Profit Optimization, International Business Law

INTRODUCTION

Legal Risk Assessment is a systematic process that is carried out to identify, analyze, and evaluate potential risks related to legal aspects in an organization's activities, policies, or decisions (Pomaza-Ponomarenko et al., 2023). The main purpose of this assessment is to prevent violations of the law, reduce potential disputes, and ensure that all organizational activities are in accordance with the provisions of applicable laws and regulations (Firmansyah et al., 2024). In practice, legal risk assessment includes a review of contracts, regulations of certain sectors, potential litigation, compliance with the law, and the legal impact of any action or policy taken (Khalef et al., 2021).

In the midst of rapid international business growth and increasingly intense global competition, cross-border legal risks have become an issue that cannot be overlooked (Cavusgil et al., 2014). Often, multinational companies face significant challenges in aligning compliance with laws from various countries that have very different legal systems (Chit & Vasudevan, 2024). This misalignment creates room for potential legal conflicts that can threaten the continuity of business. In many cases, companies fail to comprehensively understand the legal risks that may arise at the early stages of international agreements, leading to decisions that tend to be reactive rather than proactive (Brummer, 2010).

One of the main reasons for this failure is the lack of clear identification of legal risks that could impact the implementation of agreements. Most companies tend to wait until legal issues arise and only then conduct legal risk assessments. However, the impact of non-compliance in international contexts is significant, not only from a legal perspective but also in terms of reputation, business continuity, and profit optimization. Therefore, there is a need for a framework that can integrate adaptive and standardized legal risk assessments, capable of balancing legal compliance with profit optimization strategies.

This research arises in response to the gap in existing literature, which tends to focus separately on two aspects: regulatory compliance and profit optimization. While many studies explore legal compliance in cross-border agreements, few have delved into how legal risk assessments can be used as a balancing tool between these two aspects.

In an increasingly globalized and regulated business world, compliance with international laws is not only a necessity but can also be a driver of corporate sustainability. Non-compliance can lead to sanctions that damage both reputation and financial performance (Esther et al., 2021), while overly aggressive profit optimization strategies risk violating legal boundaries (Riley & Daniel Sokol, 2015), ultimately harming the company in the long term. Hence, this research is highly relevant in the current context, as it provides a framework for legal risk assessments that can play a critical role in addressing the tension between legal compliance and profit optimization.

Additionally, this research is aligned with the concept of corporate sustainability. Given the importance of law in supporting business sustainability, legal risk assessments are not just crucial for ensuring compliance but also for creating long-term competitiveness (Apooyin, n.d.). In this regard, proper regulation can support strategic decision-making that aligns with the company's long-term goals, without compromising compliance or neglecting profit potential (Drew et al., 2006).

This research is also crucial for the field of international business law and management, particularly in relation to recent regulations in corporate sustainability and international compliance. In this context, several international frameworks, such as the UN Global Compact, OECD Guidelines, and ISO 31000 (Risk Management Standards), provide guidelines for companies to maintain compliance while achieving business sustainability goals (Amirmostofian et al., 2014). Therefore, it is vital to create a legal risk assessment system that not only ensures compliance but also supports profit optimization and the long-term sustainability of businesses (Lawal et al., n.d.).

By aligning legal risk assessments with global standards and regulations, companies can develop strategies that effectively balance compliance with regulatory requirements while also optimizing business performance (Dosumu et al., 2024). This research aims to address this gap by proposing a comprehensive legal risk assessment framework that supports sustainable corporate strategies and aligns with evolving international laws.

The urgency of this research arises from the increasing importance of corporate sustainability in today's globalized business environment, where companies must not only prioritize economic success but also comply with legal frameworks that protect environmental, social, and governance (ESG) standards (Ilori et al., 2023). As international business

agreements become more complex, the legal risks involved are growing in parallel. Therefore, integrating legal risk assessment with corporate sustainability strategies is critical to ensuring that businesses not only comply with international laws but also contribute to long-term sustainable development (Berger-Walliser & Shrivastava, 2015).

This research focuses on bridging the gap between regulatory compliance and profit optimization by exploring the legal frameworks and regulations that influence cross-border business agreements (Khan, 2025). A key aspect of this study is understanding how different regulatory environments across jurisdictions shape business strategies, particularly in relation to sustainability goals. It examines how legal risk assessments can be used not only as a tool to mitigate risks but also to align business objectives with the overarching principles of corporate responsibility.

By addressing these concerns, this research aims to fill a crucial gap in the existing literature by developing a comprehensive legal risk assessment framework that supports both regulatory compliance and sustainable business practices. Such a framework would serve as a valuable tool for businesses, legal professionals, and policymakers in navigating the complex landscape of international business law and aligning it with corporate sustainability (Lescrauwaet et al., 2022).

The aim of this research is to develop a comprehensive and adaptive legal risk assessment framework specifically designed to address the complexities of cross-border business agreements. This framework will help businesses navigate the balance between regulatory compliance and profit optimization, ultimately contributing to corporate sustainability. The study will also explore how legal risk assessments can be strategically integrated at the pre-contractual stage to proactively identify and mitigate potential legal risks across different legal jurisdictions.

The findings of this study are expected to provide a practical and scalable framework for companies engaged in international business agreements, enabling them to effectively manage legal risks while maintaining compliance with international regulations. By integrating legal risk assessment into business decision-making processes, the research aims to help companies achieve sustainable growth without compromising on legal integrity. Moreover, the study will serve as a valuable resource for legal practitioners, business decision-makers, and policy-makers, offering insights on how to align legal compliance with profit-maximizing strategies, ensuring long-term business success.

METHOD

This research uses a qualitative approach with the literature study method (library research). This approach was chosen because the research focuses on an in-depth understanding of the concepts, principles, and practices of legal risk assessment in the context of cross-border business agreements. The literature review allows researchers to systematically examine legal theories, doctrines, regulations, and relevant previous research results, in order to formulate a comprehensive analytical framework on the integration between regulatory compliance and profit optimization in international business practices (Noor, 2023).

The data sources in this study consist of secondary data obtained from various international legal and business literature, including academic books, scientific journal articles, reports of international institutions, international treaty documents, as well as regulations and legal instruments that apply both nationally and transnationally. In addition, data is also obtained from international court or arbitration decisions related to cross-border treaty disputes, as well as compliance guidelines from regulatory authorities in various countries (Chaisse, 2024).

The data collection technique is carried out through an in-depth literature review of relevant sources (Taherdoost, 2021). This process includes the search, selection, and

categorization of data based on key themes related to legal risk assessment, regulatory compliance, and contractual strategies in a cross-jurisdictional context. The selected literature is critically selected by considering its relevance, academic validity, and contribution to the formation of the theoretical and conceptual framework of the research.

The data analysis method used is descriptive-qualitative analysis with a juridical-normative approach and thematic analysis. Juridical-normative analysis is used to examine the positive legal rules governing international treaties and the legal responsibilities of the parties. Meanwhile, thematic analysis was conducted to identify key patterns and issues in the literature related to the integration between legal compliance and economic objectives in cross-border business agreements. The results of this analysis are then used as a basis for compiling argumentative synthesis and recommendatory frameworks that are the main contribution of the research.

RESULTS AND DISCUSSION

In this section, we identify and discuss the 8 main risk criteria that influence legal risk assessments in cross-border business agreements, along with the risk factors that shape each criterion. Below is a more detailed explanation of each criterion and the underlying risk factors:

Legal System Disharmony as the Main Source of Legal Risks

One of the main sources of legal risk in cross-border business agreements is the disharmony of the legal system between the countries involved (Akinsola, 2025). Countries that adhere to the common law system tend to have a more liberal, precedent-based, and flexible contractual approach to interpretation, while countries with a civil law system rely more on written law and tend to be more rigid. These differences can cause legal uncertainty, especially in terms of the interpretation of the content of the contract, the dispute resolution mechanism, and the recognition of certain clauses such as limitation of liability or termination clause (Panov et al., 2024). As a result, when a dispute occurs, the parties face significant interpretive risks because the applicable legal system may give different results to the same contract (Ghodoosi, 2022). Risk Factor: The difference between countries with a common law system, which is more flexible, and a civil law system, which is stricter. This misalignment can cause varied contract interpretations, differences in dispute resolution, and the recognition of specific contract clauses, such as liability limits and termination clauses (Arruñada & Andonova, 2008).

Regulatory Compliance

Deep Dive into Regulatory Compliance Challenges in Cross-Border Business

Compliance with applicable laws and regulations is a fundamental element in avoiding administrative, criminal, or reputational sanctions in cross-border transactions. Regulations that are often of concern in this context include anti-money laundering, anti-bribery, international taxation, and prohibition of trade with certain countries (sanction regimes) (Miralis & Gibson, 2020). While compliance provides legal protection, it often also limits the company's room to move in adjusting its business strategy. For example, FCPA (Foreign Corrupt Practices Act) or UK Bribery Act compliance clauses could limit how companies interact with local partners in jurisdictions that have different ethical standards (Junaid & Zahid, 2024). This shows the tension between the need to be compliant and the need to compete efficiently in the global marketplace. Risk Factor: Changing regulations or misalignment between national and international laws can limit a company's operational flexibility. For example, compliance with regulations such as the Foreign Corrupt Practices Act (FCPA) or the

UK Bribery Act may restrict interactions with local partners in jurisdictions with different ethical standards (Trautman & Kimbell, 2018).

Companies operating across borders must comply with various international regulations, such as anti-corruption, taxation, and anti-money laundering (Rikkilä et al., 2022). One of the main challenges is the differences in regulations between countries, such as the FCPA (Foreign Corrupt Practices Act) in the United States and the UK Bribery Act in the United Kingdom, which govern similar policies but with different approaches. Non-compliance with these regulations can result in significant fines, reputational damage, and legal sanctions (Raynor, 2022). For instance, Siemens and ExxonMobil are examples of cases where violations of international regulations led to substantial fines and significant reputational damage. Siemens was fined heavily for violations related to international bribery, while ExxonMobil faced FCPA regulations related to foreign business transactions involving parties engaged in corruption.

To address these challenges, companies can implement various risk mitigation strategies to ensure compliance with international regulations. One solution is to establish a well-organized compliance team with strong knowledge of the regulations in each country where the company operates. Additionally, companies can adopt standardized compliance frameworks, such as ISO 37001 for anti-corruption management or ISO 19600 for compliance management systems, which help companies identify, manage, and mitigate legal risks associated with non-compliance with regulations.

Rapidly changing international regulations also add complexity for companies. Regulations such as the OECD's Common Reporting Standard (CRS) for automatic tax data exchange and new policies related to tax avoidance compel companies to adapt quickly (Matras, 2023). Companies must monitor these regulatory changes proactively and assess how much time it takes to adjust their internal policies to align with new regulations. Moreover, companies need to monitor the frequency of regulatory changes and evaluate their impact on operations.

Violations of international regulations often result in significant reputational damage for companies. A decline in stock value, loss of customers, and diminished market trust are some of the consequences that can occur due to non-compliance with regulations. For example, the Volkswagen emissions scandal severely damaged the company's reputation globally (Cavico & Mujtaba, 2016). This highlights the importance of compliance with regulations, especially regarding environmental regulations, and how failure in this area can erode market trust.

Overall, companies operating across borders need to adopt a more proactive and adaptive compliance management system in response to changes in international regulations. Companies need to strengthen their regulatory monitoring and ensure that their internal policies can quickly adapt to changes in international regulations. Investing in compliance can provide long-term benefits in terms of market trust and operational sustainability.

Lack of Integration of Legal Risk Assessment in the Pre-Contractual Stage

Research shows that in many cases, the legal risk assessment process has not yet become an integral part of the early stages of designing cross-border business agreements. Legal assessments are usually carried out reactively, namely after the contract is almost completed or when a potential dispute has arisen (Haron et al., 2020). This practice is high-risk because

potential risks are not identified early and are not effectively addressed in contract design. For example, a disregard for local legal provisions related to data protection, business license requirements, or restrictions on foreign investment can have a serious impact on the sustainability of a business project in the future. Risk Factor: Many companies fail to integrate legal risk assessments in the early stages of agreements, leading to risks that are not identified until legal issues arise. This increases the likelihood of misinterpretation of laws that are only detected when disputes occur.

Balancing Clauses: Legal Choices, Dispute Forums, and Compliance Clauses

Contractual clauses such as governing law, dispute resolution, and compliance clauses have a central role in managing legal risks across jurisdictions (Uwamusi, 2025). This clause allows the parties to explicitly establish which laws apply and which forums are authorized to resolve disputes. However, the effectiveness of this clause is highly dependent on a contextual analysis of the risks in each party's country. For example, choosing an international arbitration forum may be ideal for jurisdictions with corrupt or sluggish judicial systems, but it can be costly and inefficient for medium-sized businesses. Many contracts still use a standard format without consideration of specific legal risks, potentially creating legal loopholes in their implementation. Risk Factor: Choosing the wrong dispute resolution forum, such as international arbitration, which may be inefficient or too costly for medium-sized businesses. Another risk is the mismatch between accepting decisions from arbitration bodies in countries with different legal systems.

Profit Optimization Encounters Challenges in a Strict Regulatory Environment

Profit-optimization strategies in cross-border business agreements are generally carried out through tax efficiency, corporate structure arrangements, and transfer price adjustments. However, these practices often intersect with thin legal boundaries. For example, tax avoidance efforts through tax havens risk being perceived as a form of regulatory abuse or regulatory arbitrage (Otto et al., 2015). In some cases, companies that are too aggressive in optimizing profits instead face litigation from fiscal authorities or financial regulators. Therefore, legal risk assessments need to pay attention not only to formal legal aspects, but also to public perception, ethical values, and regulatory tendencies in each country. Risk Factor: Practices such as tax avoidance through tax havens or transfer pricing adjustments may lead to perceptions of regulatory abuse, or even illegal tax evasion, which can harm the company's reputation.

Limited Internal Capacity of Companies in Conducting Legal Risk Assessment

These findings highlight that not all business entities have adequate in-house legal resources to conduct effective legal risk assessments. Large multinational corporations may have structured legal and compliance departments, but small and medium-sized companies that are starting to expand internationally often rely on external law firms (Baumann-Pauly et al., 2013). This dependency poses challenges in terms of cost, time, and accuracy of information. In addition, there is a communication gap between business managers and legal advisors that causes many legal risks to not be integrated into the company's overall strategic decisions. Risk Factor: Small or medium-sized companies often rely on external legal consultants, which leads to issues with cost, time, and the accuracy of information. This dependency also creates a communication gap between business managers and their legal advisors.

The Need for an Adaptive and Standardized Legal Risk Assessment Framework

The analysis shows that there is no standard framework that is widely used in conducting legal risk assessments for cross-border agreements (Stiglitz, 2007). Companies or legal practitioners tend to use an ad hoc approach based on experience and case studies. Therefore,

an analytical framework is needed that is adaptive to global regulatory dynamics and at the same time flexible enough to be applied to various industrial sectors. This framework can be in the form of a jurisdictional risk index-based assessment model, a legal risk classification matrix, and risk mitigation guidelines sourced from global best practices. Risk Factor: Fast-changing policies and regulations, such as anti-money laundering (AML) rules, international trade tariffs, or tax regulations, force companies to constantly adapt, adding complexity to cross-border contracts.

Convergence between Legal and Economic Objectives Can Be Achieved through a Strategic Approach

The results of the analysis in general show that regulatory compliance and profit optimization are not two goals that always contradict each other. With the right strategy, the two can go hand in hand. Legal risk assessments conducted from the outset, complemented by proper risk mapping and mitigation, will enable companies to make efficient business decisions while remaining compliant with the law. This approach requires collaboration between legal experts, risk managers, accountants, and executive management in one integrated planning process. Risk Factor: Reputation damage caused by involvement in corruption or other legal violations can lower market and business partner trust. This is often linked to non-compliance with local or international regulations.

Table 1. Kriteria Risiko, Faktor Risiko, dan Indikator Penilaian dalam Perjanjian Bisnis Lintas Negara

Risk Criterion	Risk Factor	Assessment Indicator
Disharmony of Legal Systems	Differences between common law and civil law systems lead to varied interpretations, dispute resolution mechanisms, and contract clause recognition.	<ul style="list-style-type: none">• Percentage of contract interpretation errors in international dispute cases• Number of cases where differences in legal systems (common law vs civil law) lead to different outcomes in court or arbitration• Duration of dispute resolution due to legal system discrepancies
Regulatory Compliance	Misalignment between national and international regulations, such as FCPA or UK Bribery Act, limits business flexibility.	<ul style="list-style-type: none">• Number of legal violations or fines imposed related to international regulations• Level of compliance with global regulations (e.g., FCPA, UK Bribery Act)• Compliance audit results for international regulations
Lack of Integration of Legal Risk Assessment at the Pre-Contract Stage	Failure to conduct risk assessments early in the agreement process results in unaddressed risks and missed opportunities for proactive mitigation.	<ul style="list-style-type: none">• Time taken to identify and address legal risks at the pre-contract stage• Percentage of companies that involve legal teams early in contract negotiations• Percentage of legal risks identified before the contract is signed
Uncertainty in Dispute Resolution	Choosing the wrong dispute resolution forum, such as international arbitration, can be costly and inefficient for medium-sized businesses.	<ul style="list-style-type: none">• Average duration of dispute resolution in international arbitration forums• Success rate of dispute resolution using the selected forum• Costs incurred in cross-jurisdictional dispute resolution

Profit Optimization Contrasted with Regulatory Compliance	Practices like tax avoidance through tax havens or transfer pricing may create perceptions of regulatory abuse or illegal tax evasion.	<ul style="list-style-type: none">• Number of companies facing sanctions or litigation related to tax avoidance or regulatory abuse• Level of compliance with international tax regulations• Efficiency of tax strategies employed without violating laws
Dependency on External Legal Consultants	Smaller businesses depend on external consultants due to limited in-house capacity, which can lead to high costs, delays, and communication gaps.	<ul style="list-style-type: none">• Comparison of costs for external legal consultants versus internal legal expenses• Number of external legal consultation hours used annually• Quality and accuracy of information provided by external legal consultants
Rapid Changes in International Regulations	Constantly evolving regulations, such as AML rules, trade tariffs, and tax laws, add complexity to cross-border agreements.	<ul style="list-style-type: none">• Frequency of regulatory changes affecting business operations (e.g., anti-money laundering, international trade tariffs)• Number of violations due to failure to adapt to regulatory changes• Time required for companies to adjust internal policies to regulatory changes
Reputation Damage to the Company	Legal violations or non-compliance with regulations can harm a company's reputation, leading to reduced trust from partners and the market.	<ul style="list-style-type: none">• Number of negative media reports or legal cases resulting in reputation damage• Decline in stock value or market trust following legal violations or scandals• Customer satisfaction survey results showing decreased trust

Source: Author's own analysis

CONCLUSION

This study highlights the critical role of legal risk assessments in cross-border business agreements and identifies key risk criteria that influence their effectiveness. The findings emphasize that legal system disharmony, regulatory compliance challenges, and the lack of early integration of legal risk assessments into the contract formation process can significantly undermine the success of international agreements. The research also underscores the importance of balancing profit optimization strategies with legal compliance, particularly in complex regulatory environments. The analysis reveals that businesses must adopt a strategic approach to legal risk management, ensuring that legal assessments are integrated proactively into the decision-making process to mitigate risks and foster sustainable growth.

The results also demonstrate that legal risk assessments can serve as a tool for aligning business objectives with legal requirements, fostering a balance between corporate profitability and regulatory compliance. Companies that incorporate a comprehensive legal risk assessment framework early in the agreement process are more likely to avoid costly litigation, reputational damage, and operational setbacks. Furthermore, the study identifies the need for a standardized, adaptive framework for legal risk assessments that can navigate the rapidly changing landscape of international business regulations and mitigate legal risks effectively.

In conclusion, this research contributes to the understanding of how legal risk assessments can be integrated into cross-border business agreements, emphasizing the importance of proactive risk management in ensuring long-term business sustainability. It

provides a foundation for future research aimed at developing more sophisticated tools and frameworks to address legal risks in the context of global business operations.

Further Research Recommendations

Future research should focus on developing a more detailed, quantitative framework for assessing the effectiveness of legal risk assessments in cross-border agreements. A quantitative approach could help identify key performance indicators (KPIs) that measure the success of risk mitigation strategies and provide a benchmark for evaluating the impact of legal compliance on business performance. Additionally, research could explore the application of advanced technologies, such as artificial intelligence and machine learning, to predict and analyze legal risks in real time, enabling businesses to respond to emerging legal challenges swiftly and effectively.

Moreover, further studies could investigate the relationship between legal risk assessments and the organizational structures of multinational companies. Specifically, research could examine how different types of legal departments and compliance teams contribute to the overall effectiveness of legal risk assessments in managing cross-border agreements. This would help clarify how organizational resources and structures can be optimized to support proactive legal risk management.

Lastly, the evolving nature of international trade agreements and the increasing complexity of regulatory frameworks warrant continued exploration of how legal risk assessments can evolve to address new global challenges. Future studies should focus on how companies can adapt their legal risk assessment strategies to align with emerging trends such as digital transformation, sustainability regulations, and geopolitical uncertainties, ensuring that businesses remain compliant and competitive in an ever-changing global marketplace.

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