



## Jurnal Nominal Barometer Riset Akuntansi dan Manajemen

URL: <https://journal.uny.ac.id/index.php/nominal>



# The Role of Corporate Governance in Financial Fraud Prevention: A Systematic Literature Review

Rizky Ridho Dwinanda <sup>a,1,\*</sup>, Anak Agung Gde Satia Utama <sup>a,2</sup>

<sup>a</sup> Universitas Airlangga, Indonesia

<sup>1</sup> [rizky.ridho.dwinanda-2023@feb.unair.ac.id](mailto:rizky.ridho.dwinanda-2023@feb.unair.ac.id); <sup>2</sup> [gde.agung@feb.unair.ac.id](mailto:gde.agung@feb.unair.ac.id)

\* corresponding author

## ARTICLE INFO

### Article history

Received : 2 January 2025

Revised : 20 May 2025

Accepted : 19 August 2025

### Keywords

Audit Committees  
Board Composition  
Corporate Governance  
Financial Fraud Prevention  
Fraud Mitigation Strategies

### Kata Kunci

Komite Audit  
Komposisi Dewan  
Tata Kelola Perusahaan  
Pencegahan Penipuan Keuangan  
Strategi Mitigasi Penipuan

## ABSTRACT

This study systematically examines corporate governance mechanisms and their effectiveness in preventing financial fraud across diverse organizational contexts. The findings reveal that governance effectiveness is highly context-dependent, influenced by industry type, firm size, and regulatory environment. Tailored governance strategies incorporating structural oversight and cultural dimensions significantly reduce fraud risk. Moreover, regulatory frameworks and enforcement practices must strike a balance to maintain managerial motivation while ensuring accountability. Emerging governance challenges such as digitalization, board political connections, and stakeholder inclusivity require further empirical investigation. The study contributes to the literature by advocating integrated governance frameworks that combine formal and informal elements, offering insights for researchers and practitioners seeking to enhance fraud mitigation. These findings are important for developing adaptive, context-sensitive governance models that effectively address contemporary fraud risks.

## ABSTRAK

Penelitian ini secara sistematis mengkaji mekanisme tata kelola perusahaan dan efektivitasnya dalam mencegah penipuan keuangan di berbagai konteks organisasi. Temuan menunjukkan bahwa efektivitas tata kelola sangat dipengaruhi oleh konteks, termasuk jenis industri, ukuran perusahaan, dan lingkungan regulasi. Strategi tata kelola yang disesuaikan dengan mengintegrasikan pengawasan struktural dan dimensi budaya secara signifikan mengurangi risiko penipuan. Selain itu, kerangka regulasi dan praktik penegakan harus menyeimbangkan motivasi manajerial dan akuntabilitas. Tantangan tata kelola baru seperti digitalisasi, koneksi politik dewan, dan inklusivitas pemangku kepentingan membutuhkan penelitian empiris lebih lanjut. Studi ini memberikan kontribusi dengan mendorong kerangka tata kelola terpadu yang menggabungkan elemen formal dan informal serta memberikan wawasan bagi peneliti dan praktisi untuk meningkatkan mitigasi penipuan. Temuan ini memiliki implikasi penting dalam pengembangan model tata kelola yang adaptif dan sensitif konteks untuk mengatasi risiko penipuan kontemporer.

This is an open-access article under the [CC-BY-SA](https://creativecommons.org/licenses/by-sa/4.0/) license.



## 1. Introduction

Financial fraud, with severe economic and social consequences, remains a pervasive and critical issue confronting corporations worldwide. Organizations are estimated to lose approximately 5% of their annual revenues to occupational fraud and abuse, amounting to trillions of dollars lost globally every year ([Association of Certified Fraud Examiners \[ACFE\], 2024](#)). Such fraudulent activities result in substantial direct financial losses, erode stakeholder confidence, undermine market integrity, and impair sustainable corporate development ([Bader et al., 2024](#); [Nindito et al., 2025](#)). High-profile corporate scandals such as Enron, WorldCom, and more recently, the Société Générale trading fraud, have starkly exposed systemic weaknesses in corporate governance frameworks that allowed unethical behaviors to flourish ([Chambers, 2006](#); [Morrison, 2004](#)). These cases underscore the urgent need for robust governance mechanisms capable of deterring, detecting, and mitigating financial fraud.

The economic impact of financial fraud is far-reaching. Studies indicate that corporate fraud can reduce shareholder equity by as much as 1.6% in large publicly traded firms, significantly affecting market valuations and investor returns ([Dyck et al., 2024](#)). Moreover, fraudulent activities compromise profitability and operational sustainability, especially in organizations with inadequate internal controls and ineffective oversight ([Popa \(Sabău\) et al., 2024](#)). Beyond immediate monetary losses, fraud causes long-lasting reputational damage that can deter future investments and disrupt stakeholder relationships ([Capraş & Achim, 2024](#); [Siahaan et al., 2024](#)). Therefore, financial fraud represents a multifaceted challenge requiring comprehensive preventive and corrective strategies.

Corporate governance is central to addressing financial fraud, which provides the structural and procedural framework ensuring accountability, transparency, and ethical conduct in organizations. Corporate governance encompasses mechanisms such as the composition and function of boards of directors, audit committees, internal audits, ownership structures, and the cultivation of an ethical organizational culture ([Mousavi et al., 2022](#); [Nindito et al., 2025](#)). Empirical research consistently demonstrates that stronger governance systems correlate with lower fraudulent reporting and asset misappropriation ([Beasley, 1996](#); [Coram et al., 2008](#)). The presence of independent directors, effective audit committees, and active internal audit functions enhances monitoring and control, thereby reducing opportunities for fraud. However, fraud remains prevalent despite these advances, suggesting limitations and challenges within existing governance frameworks.

A primary concern is that extant research often examines isolated governance components in specific contexts, such as board independence or audit committee effectiveness within particular industries or regions, resulting in fragmented insights ([Beasley, 1996](#); [Chen et al., 2006](#)). Furthermore, non-structural factors, such as organizational culture, ethical climate, and regulatory enforcement, are frequently overlooked or insufficiently integrated into governance analyses ([Bowe & Jobome, 2001](#); [Martinov-Bennie, 2007](#)). These gaps impede a comprehensive understanding of how multifaceted governance mechanisms operate to prevent financial fraud across diverse organizational environments. This fragmented approach limits the development of universally applicable frameworks and policies capable of addressing the evolving nature of fraud.

This study proposes a systematic literature review (SLR) synthesizing extant empirical, theoretical, and regulatory research on corporate governance's role in financial fraud prevention to address these shortcomings. Such a comprehensive approach aggregates knowledge across disciplines, industries, and jurisdictions, facilitating the identification of governance mechanisms with the most substantial evidence of effectiveness and clarifying interactions between formal structures and informal cultural factors. The SLR also enables critical assessment of governance rating systems and regulatory frameworks, whose oversimplifications may inadequately reflect real-world fraud risk ([Donker & Zahir, 2008](#)). The study aims to establish a holistic and adaptable governance framework supporting fraud mitigation by mapping these interrelations and contextual influences.

Prior literature reveals that governance mechanisms such as independent boards and audit committees significantly reduce financial statement fraud, while internal audit functions enhance detection and self-reporting of fraud incidents ([Beasley, 1996](#); [Coram et al., 2008](#)). Conversely, outsourcing internal audit entirely may diminish effectiveness. Ownership structure influences fraud risk variably across regions, with boardroom characteristics holding greater importance in specific contexts ([Chen et al., 2006](#)). Regulatory responses like the Sarbanes-Oxley Act (SOX) have improved oversight and transparency but have not fully eradicated fraud, partly due to persistent corporate

secrecy and evolving fraud techniques (Chambers, 2006). Organizational culture and ethical climate have emerged as complementary factors fostering trust, openness, and constructive dissent that counteract cognitive biases and unethical behaviors (Martinov-Bennie, 2007). Regulatory frameworks and legal enforcement further deter misconduct, yet governance rating systems remain simplistic and sometimes misaligned with actual fraud occurrences (Bowe & Jobome, 2001; Thompson & Thomas, 2004).

Despite these advances, significant research gaps persist. There is an absence of systematic reviews integrating multiple governance dimensions in fraud prevention, limited examination of governance effectiveness in developing markets, and insufficient attention to the interplay between governance structures and organizational culture. Comparative analyses across fraud types and stakeholder perspectives beyond shareholders are also lacking. This study addresses these gaps through an SLR methodology, enabling an integrative and comprehensive evaluation of governance's multifaceted role in fraud prevention.

The objectives of this study are fourfold: (1) to systematically review and synthesize literature on corporate governance mechanisms' effectiveness in preventing financial fraud; (2) to identify key governance practices and contextual factors influencing fraud mitigation; (3) to critically assess the roles of cultural, regulatory, and structural governance elements; and (4) to propose a research agenda addressing outstanding gaps. This study aims to provide novel insights by incorporating empirical, theoretical, and regulatory perspectives, emphasizing cultural and behavioral governance factors alongside structural mechanisms. The scope encompasses diverse industries, geographic regions, and fraud typologies, ensuring broad applicability and relevance.

This paper is structured as follows: Section 2 presents the Literature Review, detailing governance mechanisms and their relation to fraud prevention; Section 3 outlines the Research Methodology, describing the systematic review approach; Section 4 presents the Results and Discussion, synthesizing findings and highlighting gaps; Section 5 concludes the study, offering practical implications, limitations, and directions for future research.

## 2. Literature Review

Corporate governance constitutes a fundamental framework designed to ensure accountability, transparency, and ethical conduct within organizations. It encompasses mechanisms, processes, and relationships through which corporations are directed and controlled. Core components include the board of directors, audit committees, internal audit functions, ownership structure, and the cultivation of organizational culture and ethics. Collectively, these elements aim to mitigate risks associated with financial misreporting and fraud, providing oversight capable of detecting and deterring fraudulent activities by enhancing monitoring effectiveness and aligning managerial incentives with stakeholder interests.

Structural governance mechanisms have been widely recognized as critical in reinforcing control environments. The presence of independent directors on boards and audit committees, frequent and rigorous audit committee meetings, and active internal audit units increases the likelihood of fraud detection and reduces the incidence of fraudulent reporting. Empirical evidence supports that audit committees composed of independent directors are associated with lower instances of financial misreporting due to enhanced oversight and accountability. For example, research demonstrates that audit committees integrating independence and relevant expertise are more effective in limiting fraud risks by ensuring conformity between financial and non-financial measures (Mousavi et al., 2022; Persons, 2010). Similarly, boards with more independent directors provide impartial oversight, reducing collusion and enhancing governance effectiveness (Marzuki et al., 2019; Rizwan & Chughtai, 2023).

Internal audit functions also play a pivotal role in fraud prevention. Effective internal audits strengthen corporate governance frameworks by systematically evaluating internal controls, monitoring compliance, and facilitating early detection of fraudulent activities. Studies in various contexts, including Indonesia, affirm that robust internal audit functions and risk management significantly reduce financial reporting fraud (Novatiani et al., 2022; Thuy, 2025). Furthermore, integration between internal audits, audit committees, and risk management creates a synergistic effect that fortifies fraud detection and prevention (Halbouni et al., 2016).

Beyond formal governance structures, organizational culture and ethical climate emerge as vital, complementary factors in fraud prevention. Trust, openness, and candid dialogue among board members and management cultivate an environment less conducive to unethical behavior. Addressing cognitive biases and fostering constructive dissent further enhances governance effectiveness by challenging complacency and groupthink tendencies (Martinov-Bennie, 2007). Ethical climates encourage whistleblowing and empower employees to report misconduct without fear of retaliation, facilitating early fraud identification (Nawawi & Salin, 2018; Utami et al., 2020).

External governance influences, including regulatory frameworks, enforcement mechanisms, and legal actions, shape corporate behavior and complement internal controls. Regulatory reforms such as the Sarbanes-Oxley Act (SOX) have strengthened governance mechanisms by mandating enhanced internal controls, promoting board independence, and establishing whistleblower protections (Hassan et al., 2025; Mandal & S., 2025). Enforcement intensity and penalties for misconduct act as deterrents, incentivizing compliance and ethical practices (Ghafoor et al., 2019; Rizwan & Chughtai, 2023). Moreover, governance rating systems, which provide benchmarks for evaluating corporate governance quality, have been associated with lower fraud risk when reflecting comprehensive governance dimensions (Rizwan & Chughtai, 2023). Nonetheless, some critics highlight that simplified governance scores may inadequately capture real fraud risk, indicating a need for more nuanced assessments (Donker & Zahir, 2008).

Despite these insights, existing research remains fragmented and context-specific, often isolating individual governance components rather than synthesizing their combined effects on fraud prevention. There is also limited understanding of how governance mechanisms operate across different industries, geographic regions, and types of fraud, such as financial statement fraud versus asset misappropriation. Furthermore, the interplay between formal governance structures and non-structural factors such as culture and ethics is insufficiently integrated in current literature. These gaps impede the development of holistic and adaptable frameworks to mitigate financial fraud effectively.

This study addresses these shortcomings by conducting a systematic literature review to integrate empirical, theoretical, and regulatory perspectives on corporate governance's role in financial fraud prevention. By synthesizing findings across multiple governance dimensions, industries, and contexts, this research endeavors to identify the most effective practices and elucidate the interactions between governance structures and cultural factors. The study critically examines governance rating systems and regulatory frameworks to propose more accurate fraud risk and governance quality measures. This integrative approach underpins the development of a comprehensive framework to guide future research and practical governance interventions.

### 3. Research Methods

This study employs a systematic literature review (SLR) methodology to comprehensively examine the role of corporate governance in preventing financial fraud. The aim is to synthesize existing empirical, theoretical, and regulatory research, providing a holistic understanding of governance mechanisms and their effectiveness in mitigating fraud risks. The SLR adheres to the PRISMA 2020 (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines, ensuring transparency, reproducibility, and methodological rigor throughout the review process (Page, McKenzie, et al., 2021; Page, Moher, et al., 2021).

A comprehensive literature search was conducted in the Scopus database to capture various relevant studies. The search strategy was designed to identify articles addressing corporate governance and financial fraud. The primary keyword combination used was "corporate governance AND financial fraud," aiming to retrieve studies that explore various governance mechanisms and their relation to fraud prevention. The search was restricted to studies published in journals with an Academic Journal Guide (AJG) 2024 rating higher than 2, ensuring that only high-quality, academically rigorous research was included (Hudson, 2024). The total number of records identified was 54, all retrieved from Scopus.

The inclusion and exclusion criteria were designed to focus the review on studies directly relevant to corporate governance mechanisms and financial fraud prevention. Only empirical and theoretical articles discussed governance structures such as audit committees, board independence, internal

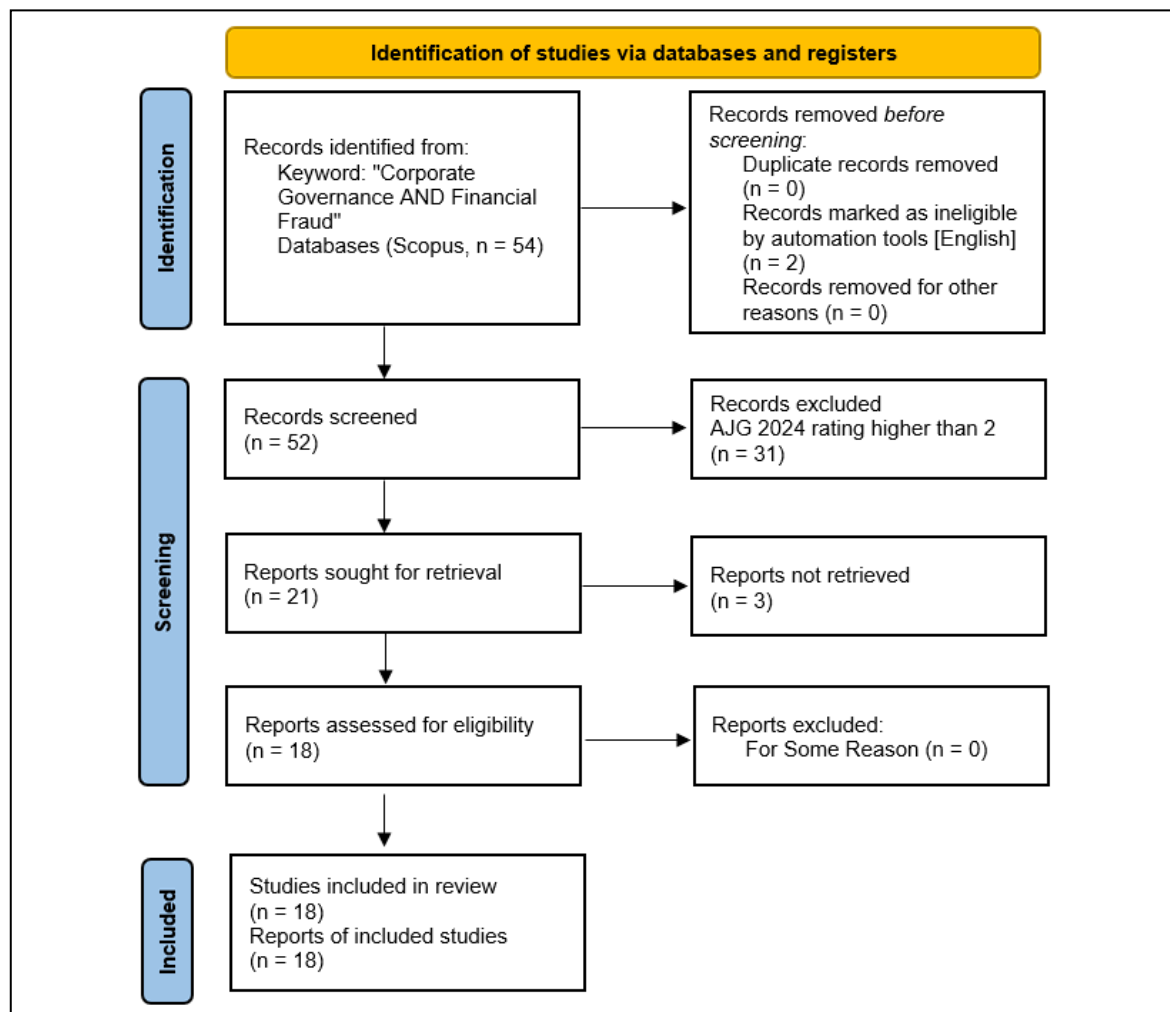
audits, and related regulatory frameworks. Studies focusing on other areas, such as non-financial fraud, were excluded to maintain a focused examination of financial fraud prevention.

In addition to relevance, the inclusion criteria were guided by the academic quality of the journals in which the studies were published, ensuring that only articles from journals with an AJG rating above two were considered. Articles with unclear methodologies, those published in non-peer-reviewed sources, or those focused on non-corporate entities (such as government organizations or non-profits) were excluded. The total number of studies excluded at this stage was 31, as they did not meet the journal quality criteria or were not directly relevant to the research focus.

After identifying relevant studies, the records underwent a systematic screening process. The first step involved the removal of duplicate records, ensuring that unique studies were considered for inclusion. This step resulted in the removal of zero duplicate entries. Subsequently, the records were screened based on their titles and abstracts to assess their relevance to the study's research questions. At this stage, automation tools marked two records as ineligible due to language limitations (non-English papers) and were excluded from further review.

After this initial screening, 52 records were deemed eligible for further assessment. These studies were then assessed for eligibility based on their full text. This process involved reviewing the articles to determine whether they met the inclusion criteria of explicitly discussing the role of corporate governance mechanisms in preventing financial fraud. Of the 52 records assessed, 18 were deemed eligible for inclusion, and three were not retrieved for full-text review due to access issues.

The PRISMA flow diagram (Figure 1) illustrates the detailed study selection process, from identification to the final inclusion of 18 studies for the review. The studies included in the review provided empirical evidence, theoretical insights, and comprehensive reviews pertinent to corporate governance and fraud prevention.



**Figure 1.** PRISMA Flow Diagram



Once the relevant studies were identified, a systematic data extraction process was conducted. Key information was extracted from each selected study, including the study's objectives, governance mechanisms examined, fraud types addressed, contextual factors (such as industry and geography), and the methodologies employed. Additionally, the principal findings of each study were recorded, focusing on their insights into the effectiveness of governance mechanisms in preventing financial fraud.

The data extraction process was structured to ensure consistency and thoroughness, with specific attention given to the governance mechanisms discussed (e.g., audit committees, internal audits, board independence) and the types of financial fraud (e.g., financial statement fraud, asset misappropriation) targeted by each study. This ensured that a comprehensive understanding of the relationship between corporate governance and fraud prevention was developed, allowing for the identification of common themes and patterns across the studies.

The extracted data were then synthesized using a qualitative approach involving thematic categorization and content analysis. This approach allowed for identifying recurring governance mechanisms, theoretical frameworks, and emerging patterns in fraud prevention practices. The thematic synthesis also helped map gaps in the existing literature, contrasting findings across different contexts (e.g., industries, regions) and providing a holistic understanding of corporate governance mechanisms' functions to prevent financial fraud.

A quality assessment was conducted on the included studies to ensure the validity and reliability of the review's findings. Various quality assessment tools, such as the Joanna Briggs Institute checklists and CASP (Critical Appraisal Skills Programme) checklists, were used to evaluate the methodological rigor of each study. This process involved assessing the clarity of research questions, the appropriateness of study design, the robustness of data collection and analysis methods, and the reporting transparency.

Studies that exhibited weaknesses in methodological rigor were given less weight in the final synthesis, ensuring that the conclusions drawn from the review are based on high-quality evidence. This step also helped identify areas where further research is needed, particularly concerning studies with methodological limitations or inconsistencies.

Throughout the systematic literature review process, special attention was paid to potential biases that could affect the validity and generalizability of the findings. This included addressing publication bias, where studies with positive results may be more likely to be published, and selection bias, where studies not aligning with the research focus may be excluded. The review also ensured that a diverse range of viewpoints was considered by including quantitative and qualitative studies. The transparency of the search process and the rigorous inclusion/exclusion criteria minimized the risk of bias, ensuring that the findings reflect a comprehensive and balanced view of the existing literature on corporate governance and financial fraud prevention.

The findings from the data synthesis were analyzed and discussed about the research questions. Key patterns, themes, and gaps in the literature were identified, contributing to a comprehensive understanding of the effectiveness of corporate governance mechanisms in preventing financial fraud. The synthesis also highlighted areas where future research is needed, particularly with the interplay between governance structures and cultural factors, and the impact of regulatory frameworks on fraud prevention.

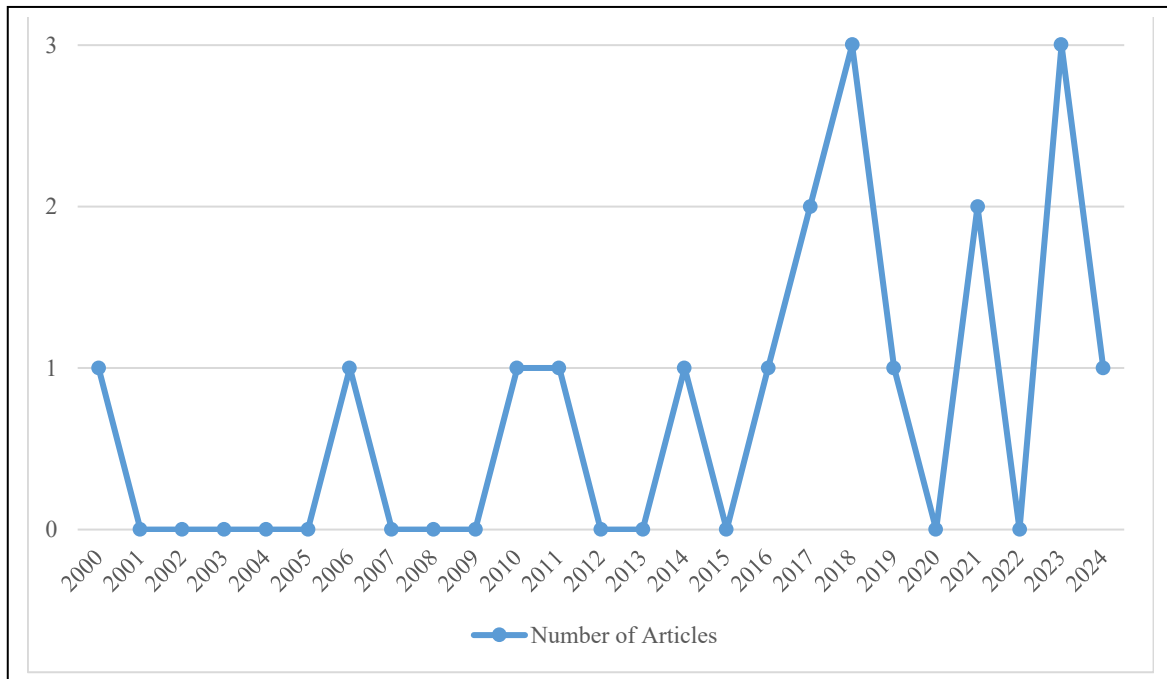
The review's results were reported under PRISMA 2020 guidelines, ensuring the methodology and findings were clearly and transparently presented. The final report provides valuable insights into the role of corporate governance in fraud prevention and offers recommendations for future research and practice.

#### 4. Results and Discussion

The present study systematically reviews literature on corporate governance mechanisms and their role in preventing financial fraud, synthesizing findings from 18 high-quality articles indexed in AJG-rated journals. This section analyzes publication trends, journal distribution, study characteristics, and thematic co-occurrence to delineate the scholarly landscape and identify key governance factors in fraud prevention.

Figure 2 illustrates a steady upward trajectory in scholarly output concerning corporate governance and financial fraud over the past two decades. The initial surge in publications coincides with the early 2000s, particularly following the Enron scandal in 2001, which intensified global attention on the weaknesses of corporate governance and the prevalence of financial misconduct (Beasley et al., 2000). This seminal event catalyzed extensive research into governance structures and their efficacy in mitigating fraud, resulting in an observable publication peak shortly thereafter. Implementing regulatory reforms, such as the Sarbanes-Oxley Act in 2002, further stimulated academic interest, underscoring the link between policy interventions and research activity.

Subsequent years show sustained growth with notable fluctuations, often aligning with periods of economic upheaval and emerging fraud cases, such as the 2008 financial crisis and its aftermath (Shi et al., 2017). In recent years, up to 2024, this upward trend has been maintained, reflecting ongoing challenges in governance amid evolving corporate complexities and the increasing prominence of fraud risk in diverse economic settings. This sustained scholarly attention highlights the critical importance of corporate governance as a mechanism for safeguarding organizational integrity in a dynamic global market.



**Figure 2.** Trends in Articles Published (2000-2024)

Table 1 reveals that the reviewed articles are dispersed across various academic journals, indicating the interdisciplinary nature of corporate governance and financial fraud research. The Journal of Corporate Finance and the Journal of Business Ethics emerge as prominent platforms, each contributing three articles. Their focus on financial management and ethical governance underscores the dual economic and moral dimensions inherent in fraud prevention.

Other journals such as the Asia Pacific Journal of Management, Strategic Management Journal, and Accounting Horizons contribute to this discourse by integrating perspectives from management strategy, organizational behavior, and accounting practices. This diverse publication landscape reflects the multifaceted challenges of fraud prevention and the necessity for cross-disciplinary approaches that encompass financial oversight, ethical considerations, and regulatory compliance.

The distribution also suggests that the topic transcends a singular academic niche, engaging scholars from finance, business ethics, management, and organizational studies. This breadth fosters a comprehensive understanding of governance mechanisms within varied institutional and cultural contexts.

**Table 1.** Distribution of Articles by Journal

Journal	Articles
Journal of Corporate Finance	3
Journal of Business Ethics	3
Asia Pacific Journal of Management	2
Long Range Planning	1
Strategic Management Journal	1
International Review of Financial Analysis	1
Journal of Management	1
Journal of Accounting, Auditing and Finance	1
Organization Science	1
Technological Forecasting and Social Change	1
Corporate Governance: An International Review	1
Accounting Horizons	1
Journal of Business Research	1

Table 2 presents bibliometric details of the included studies, highlighting their academic rigor and impact. The predominance of articles published in AJG 3 and 4\* journals affirms the quality and credibility of the evidence base. Citation counts vary considerably, with foundational works such as "Ownership structure, corporate governance, and fraud: Evidence from China" by [Chen et al. \(2006\)](#) receiving 669 citations, reflecting their seminal status and widespread influence.

**Table 2.** Studies Included in Review

Paper	AJG 2024	Citations
External corporate governance and financial fraud: cognitive evaluation theory insights on agency theory prescriptions	4*	194
The deterrence effects of vicarious punishments on corporate financial fraud	4*	101
Alternative Governance and Corporate Financial Fraud in Transition Economies: Evidence from China	4*	71
Ownership structure, corporate governance, and fraud: Evidence from China	4	669
Do long-term investors improve corporate decision making?	4	170
Cooking the books: Recipes and costs of falsified financial statements in China	4	167
Board age and corporate financial fraud: An interactionist view	4	66
Fraudulent financial reporting: Consideration of industry traits and corporate governance mechanisms	3	604
Executive Compensation and Corporate Fraud in China	3	158
The determinants of financial fraud in Chinese firms: Does corporate governance as an institutional innovation matter?	3	69
Corporate Social Responsibility and Financial Fraud: The Moderating Effects of Governance and Religiosity	3	38
A Disposition-Based Fraud Model: Theoretical Integration and Research Agenda	3	26
Do non-executive employees matter in curbing corporate financial fraud?	3	22
Restructuring to repair legitimacy - A contingency perspective	3	21
The dark side of marital leadership: Evidence from China	3	9
How boards' factional faultlines affect corporate financial fraud	3	8
The Effects of Board Interlocks with an Allegedly Fraudulent Company on Audit Fees	3	3
Board political connections and financial fraud: The case of business groups in South Korea	3	1

Geographically, a significant concentration of studies focuses on China and other transition economies, indicating regional research priorities aligned with complex governance challenges in emerging markets. These studies examine a range of governance dimensions, including board composition, executive compensation, and ownership structure, within culturally and institutionally specific frameworks.

Thematically, the literature spans theoretical models, empirical investigations, and case studies that collectively elucidate the mechanisms by which governance affects fraud occurrence. For instance, research on cognitive evaluation theories offers insights into managerial behavior ([Shi et al., 2017](#)), while studies on board political connections and social responsibility highlight nuanced socio-political dynamics impacting fraud risks ([Kim & Lee, 2023](#); [Li et al., 2021](#)).



---

### **Empirically Supported Governance Mechanisms in Fraud Prevention**

Empirical evidence consistently underscores the pivotal role of formal governance structures in mitigating financial fraud. Independent audit committees stand out as frontline defenders against fraud. [Beasley et al. \(2000\)](#) demonstrate that firms involved in fraudulent financial reporting tend to have fewer and less independent audit committees, less frequent meetings, and weaker internal audit support. Board composition also significantly influences fraud prevention. [Chen et al. \(2006\)](#) reveal that firms with diverse ownership structures and a higher proportion of outside directors face lower fraud risks. Similarly, [Xu et al. \(2018\)](#) find that older and more experienced boards correlate with stronger oversight, reducing fraud incidences. The role of board dynamics is further highlighted by [Xue et al. \(2024\)](#), who show that factional faultlines within boards can increase uncertainty and provide avenues for unethical decisions, emphasizing the need for harmonious board relations to prevent fraud.

Executive compensation aligned with long-term firm performance is another critical mechanism. [Conyon & He \(2016\)](#) argue that compensation schemes emphasizing short-term gains increase incentives for fraudulent behavior, whereas aligning pay with sustainable performance mitigates this risk. [Harford et al. \(2018\)](#) further support the importance of long-term investor presence in enhancing corporate decision-making and reducing fraud potential.

Beyond structural mechanisms, alternative governance tools are essential in specific contexts, especially transitional economies. [Wu et al. \(2023\)](#) document the significant role of employee stock ownership plans (ESOPs) in curbing fraud by empowering non-executive employees to monitor organizational behavior. [Yiu et al. \(2019\)](#) argue that foreign auditing practices and strategic business group affiliations serve as vital governance supplements where formal institutional frameworks are less robust.

### **Integration of Cultural and Behavioral Factors with Structural Governance**

While formal structures provide foundational controls, integrating cultural and behavioral elements significantly enhances fraud prevention efficacy. [Li et al. \(2021\)](#) demonstrate that a strong ethical climate, such as transparency, accountability, and employee empowerment, correlates with markedly lower fraud incidences. Conversely, dysfunctional cultural elements such as nepotism or marital leadership, highlighted by [Yao et al. \(2021\)](#), can undermine these structures and increase fraud vulnerability.

Employee engagement initiatives, such as ESOPs, foster intrinsic motivation and vigilance, complementing formal governance mechanisms ([Wu et al., 2023](#)). This interplay between cultural commitment and structural oversight creates a proactive, fraud-resistant organizational environment. [Raval \(2018\)](#) emphasizes the necessity of understanding individual motivations behind fraudulent behaviors, advocating for models that integrate psychological factors with governance frameworks.

### **Contextual Influences: Industry, Firm Size, and Regulatory Environment**

Governance effectiveness in fraud mitigation varies according to key contextual factors. Industry-specific characteristics shape fraud typologies and governance needs. [Beasley et al. \(2000\)](#) identify that technology firms are more vulnerable to revenue recognition fraud, necessitating stringent audit controls, while financial service firms face asset misappropriation risks requiring operational oversight. [Firth et al. \(2011\)](#) elaborate on the economic pressures leading to such falsifications, particularly in Chinese firms under performance targets.

Firm size influences governance complexity. [Shi et al. \(2017\)](#) note that larger firms often face coordination challenges within multilayered governance structures, potentially diluting oversight effectiveness. On the other hand, smaller firms may lack comprehensive governance capabilities due to resource constraints.

Regional regulatory maturity profoundly impacts governance implementation. Robust legal environments, typical in North America and Western Europe, reinforce internal governance through deterrent external pressures ([Li et al., 2021](#)). As China exemplifies, transitional economies depend heavily on alternative governance mechanisms to compensate for weaker institutions ([Yiu et al., 2019](#)). [Yang et al. \(2017\)](#) underscore that governance innovations tailored to institutional contexts significantly reduce fraud risk.

## Regulatory Frameworks and Enforcement

Regulatory oversight is a crucial external governance layer that enhances transparency and sanctions misconduct. However, it must balance deterrence with managerial motivation. [Shi et al. \(2017\)](#) reveal that excessive external pressures can paradoxically decrease managers' intrinsic motivation, inadvertently increasing fraud risks. [Yiu et al. \(2014\)](#) demonstrate that when companies observe sanctions against peers, vicarious punishment effectively deters fraud only when detection and enforcement are credible.

Regulatory frameworks must therefore align with internal governance structures to nurture ethical cultures rather than enforce compliance ([Li et al., 2021](#)). [Ivanova & Prencipe \(2023\)](#) highlight that board interlocks with allegedly fraudulent firms elevate audit fees due to reputational risk, underscoring the intricate relationship between regulatory enforcement, internal governance, and reputational considerations.

## Stakeholder Perspectives Beyond Shareholders

Expanding governance perspectives to include employees and customers enriches fraud prevention strategies. [Wu et al. \(2023\)](#) show that non-executive employees empowered through whistleblower policies and stock ownership enhance fraud detection by extending oversight beyond formal boards. Customers' influence, while less studied, manifests through reputational pressures. Firms engaging earnestly in corporate social responsibility (CSR) tend to experience lower fraud incidences ([Li et al., 2021](#)). This multidimensional stakeholder engagement fosters organizational accountability and strengthens ethical resilience.

[Shi et al. \(2017\)](#) argue that governance frameworks incorporating external stakeholder pressures, including civil society and regulatory bodies, can counteract opportunistic executive behaviors. [Wang \(2010\)](#) further suggests that legitimacy repair via organizational restructuring post-fraud must consider broader stakeholder interests to restore trust.

## Methodological Diversity and Gaps in Literature

The reviewed literature is dominated by quantitative empirical research that offers robust correlations between governance variables and fraud outcomes ([Beasley et al., 2000](#); [Conyon & He, 2016](#)). Nevertheless, qualitative and theoretical approaches remain underutilized, limiting exploration of behavioral, cultural, and contextual subtleties ([Raval, 2018](#)). Integration of structural, behavioral, and cultural governance dimensions remains fragmented, constraining holistic insights.

Emerging challenges such as digital transformation, cybersecurity risks, and remote governance practices are insufficiently addressed. [Wu et al. \(2023\)](#) and [Yiu et al. \(2019\)](#) call for interdisciplinary and longitudinal research to comprehensively capture evolving fraud mechanisms and governance responses.

## Emerging Governance Challenges and Future Directions

New governance complexities demand empirical attention. Transition economies undergoing regulatory reforms require adaptive fraud mitigation strategies, balancing formal and relational governance ([Yiu et al., 2019](#)). [Ivanova & Prencipe \(2023\)](#) highlight the nuanced effects of board interlocks on audit and fraud risk, advocating deeper investigation into networked governance.

[Kim & Lee \(2023\)](#) explore the double-edged nature of board political connections, which can shield fraud but also exacerbate power abuses, underscoring the need for vigilant oversight in politically connected firms. Board demographic factors, such as age diversity and factional faultlines ([Xu et al., 2018](#); [Xue et al., 2024](#)), introduce further complexity in governance design.

The intersection of CSR and governance effectiveness warrants further empirical scrutiny to unravel how ethical commitments concretely deter fraud ([Li et al., 2021](#)). Empowering non-executive employees and enhancing stakeholder inclusivity remain promising but underexplored avenues.

## 5. Conclusion

This study highlights the multifaceted nature of corporate governance mechanisms in preventing financial fraud, emphasizing the critical roles of formal governance structures such as independent audit committees, diverse and experienced boards, and appropriately designed executive

compensation schemes. Integrating cultural and behavioral factors, including organizational ethical climate and employee engagement through mechanisms like ESOPs, significantly enhances governance effectiveness. Contextual variables such as industry type, firm size, and regional regulatory maturity were found to influence governance outcomes, necessitating tailored fraud prevention strategies responsive to these conditions. Additionally, the dynamic interplay between internal governance and regulatory frameworks requires a balanced approach to maintain managerial motivation while ensuring transparency and accountability.

Despite these insights, limitations exist in the predominantly quantitative nature of existing research, which often overlooks deeper behavioral and cultural nuances. There is also insufficient attention to emerging challenges such as digital transformation, cybersecurity risks, and governance complexities in transition economies. Future research should pursue interdisciplinary methodologies, combining qualitative and longitudinal approaches to address these gaps comprehensively.

This study contributes to the expanding body of knowledge by underscoring the need for integrated governance frameworks that synergize structural, cultural, and behavioral components to mitigate financial fraud effectively. It advocates for more context-sensitive governance practices and calls for further empirical investigations into evolving governance challenges, including political connections, board dynamics, and stakeholder inclusivity, to inform academia and practice in designing robust fraud prevention systems.

### Acknowledgment

During the preparation of this work, the authors used AI-based tools, including ChatGPT and Scite, to assist with literature review, content refinement, and language polishing. After using these tools, the authors thoroughly reviewed and edited the content as needed and take full responsibility for the publication's accuracy, integrity, and originality.

### References

- Association of Certified Fraud Examiners (ACFE). (2024). *Occupational Fraud 2024: A Report to the Nations*. <https://legacy.acfe.com/report-to-the-nations/2024/>
- Bader, A. A., Abu Hajar, Y. A., Weshah, S. R. S., & Almasri, B. K. (2024). Predicting Risk of and Motives behind Fraud in Financial Statements of Jordanian Industrial Firms Using Hexagon Theory. *Journal of Risk and Financial Management*, 17(3). <https://doi.org/10.3390/jrfm17030120>
- Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting Review*, 71(4), 443–465. <https://www.jstor.org/stable/248566>
- Beasley, M. S., Carcello, J. V., Hermanson, D. R., & Lapides, P. D. (2000). Fraudulent financial reporting: Consideration of industry traits and corporate governance mechanisms. *Accounting Horizons*, 14(4), 441–454. <https://doi.org/10.2308/acch.2000.14.4.441>
- Bowe, M., & Jobome, G. (2001). Regulating securities fraud: Evidence from unauthorised trading cases. *Journal of Financial Regulation and Compliance*, 9(2), 151–160. <https://doi.org/10.1108/eb025070>
- Capraș, I. L., & Achim, M. V. (2024). Analysis and Classification of Corporate Fraud Based on the Literature and Investigated Cases in Romania. *Studies in Business and Economics*, 19(2), 155–175. <https://doi.org/10.2478/sbe-2024-0031>
- Chambers, R. (2006). Corporate secrecy: The final barrier to corporate governance. *International Journal of Business Governance and Ethics*, 2(1–2), 43–53. <https://doi.org/10.1038/sj.bjp.0706822>
- Chen, G., Firth, M., Gao, D. N., & Rui, O. M. (2006). Ownership structure, corporate governance, and fraud: Evidence from China. *Journal of Corporate Finance*, 12(3), 424–448. <https://doi.org/10.1016/j.jcorpfin.2005.09.002>
- Conyon, M. J., & He, L. (2016). Executive Compensation and Corporate Fraud in China. *Journal of Business Ethics*, 134(4), 669–691. <https://doi.org/10.1007/s10551-014-2390-6>
- Coram, P., Ferguson, C., & Moroney, R. (2008). Internal audit, alternative internal audit structures and the level of misappropriation of assets fraud. *Accounting and Finance*, 48(4), 543–559. <https://doi.org/10.1111/j.1467-629X.2007.00247.x>

- Donker, H., & Zahir, S. (2008). Towards an impartial and effective corporate governance rating system. *Corporate Governance*, 8(1), 83–93. <https://doi.org/10.1108/14720700810853428>
- Dyck, A., Morse, A., & Zingales, L. (2024). How pervasive is corporate fraud? *Review of Accounting Studies*, 29(1), 736–769. <https://doi.org/10.1007/s11142-022-09738-5>
- Firth, M., Rui, O. M., & Wu, W. (2011). Cooking the books: Recipes and costs of falsified financial statements in China. *Journal of Corporate Finance*, 17(2), 371–390. <https://doi.org/10.1016/j.jcorpfin.2010.09.002>
- Ghafoor, A., Zainudin, R., & Mahdzan, N. S. (2019). Corporate fraud and information asymmetry in emerging markets: Case of firms subject to enforcement actions in Malaysia. *Journal of Financial Crime*, 26(1), 95–112. <https://doi.org/10.1108/JFC-11-2017-0107>
- Halbouni, S. S., Obeid, N., & Garbou, A. (2016). Corporate governance and information technology in fraud prevention and detection: Evidence from the UAE. *Managerial Auditing Journal*, 31(6–7), 589–628. <https://doi.org/10.1108/MAJ-02-2015-1163>
- Harford, J., Kecskés, A., & Mansi, S. (2018). Do long-term investors improve corporate decision making? *Journal of Corporate Finance*, 50, 424–452. <https://doi.org/10.1016/j.jcorpfin.2017.09.022>
- Hassan, S. W. U., Kiran, S., Gul, S., Khatatbeh, I. N., & Zainab, B. (2025). The perception of accountants/auditors on the role of corporate governance and information technology in fraud detection and prevention. *Journal of Financial Reporting and Accounting*, 23(1), 5–29. <https://doi.org/10.1108/JFRA-05-2023-0235>
- Hudson, R. (2024). Responding to incentives or gaming the system? How UK business academics respond to the Academic Journal Guide. *Research Policy*, 53(9). <https://doi.org/10.1016/j.respol.2024.105082>
- Ivanova, M. N., & Prencipe, A. (2023). The Effects of Board Interlocks With an Allegedly Fraudulent Company on Audit Fees. *Journal of Accounting, Auditing and Finance*, 38(2), 271–301. <https://doi.org/10.1177/0148558X20971947>
- Kim, D. S., & Lee, S. H. (2023). Board political connections and financial fraud: The case of business groups in South Korea. *Asia Pacific Journal of Management*. <https://doi.org/10.1007/s10490-023-09902-8>
- Li, X., Kim, J. B., Wu, H., & Yu, Y. (2021). Corporate Social Responsibility and Financial Fraud: The Moderating Effects of Governance and Religiosity. *Journal of Business Ethics*, 170(3), 557–576. <https://doi.org/10.1007/s10551-019-04378-3>
- Mandal, A., & S., A. (2025). Preventing financial statement fraud in the corporate sector: insights from auditors. *Journal of Financial Reporting and Accounting*, 23(1), 56–80. <https://doi.org/10.1108/JFRA-02-2023-0101>
- Martinov-Bennie, N. (2007). What we might learn about fraud and corporate governance from NAB's annus horribilis. *Australian Accounting Review*, 17(43), 85–90. <https://doi.org/10.1111/j.1835-2561.2007.tb00340.x>
- Marzuki, M. M., Haji-Abdullah, N. M., Othman, R., Wahab, E. A. A., & Harymawan, I. (2019). Audit committee characteristics, board diversity, and fraudulent financial reporting in Malaysia. *Asian Academy of Management Journal*, 24(2), 143–167. <https://doi.org/10.21315/aamj2019.24.2.7>
- Morrison, M. A. (2004). Rush to judgement: The lynching of Arthur Anderson & Co. *Critical Perspectives on Accounting*, 15(3), 335–375. <https://doi.org/10.1016/j.cpa.2004.01.001>
- Mousavi, M., Zimon, G., Salehi, M., & Stepnicka, N. (2022). The Effect of Corporate Governance Structure on Fraud and Money Laundering. *Risks*, 10(9). <https://doi.org/10.3390/risks10090176>
- Nawawi, A., & Salin, A. S. A. P. (2018). Whistle blowing intentions – evidence from Malaysian PLC. *International Journal of Law and Management*, 60(5), 1111–1125. <https://doi.org/10.1108/IJLMA-04-2017-0096>
- Nindito, M., Avianti, I., Koeswayo, P. S., & Tanzil, N. D. (2025). Guardians of Integrity: Exploring The Role of Corporate Governance in Preventing Financial Statement Fraud. *Journal of Governance and Regulation*, 14(1), 109–118. <https://doi.org/10.22495/jgrv14i1art10>
- Novatiani, R. A., Afiah, N. N., & Sumantri, R. (2022). Risk Management and Other Factors Preventing Fraudulent Financial Reporting by State-Owned Enterprises in Indonesia. *Asian Economic and Financial Review*, 12(8), 686–711. <https://doi.org/10.55493/5002.v12i8.4587>



- Page, M. J., McKenzie, J. E., Bossuyt, P. M., Boutron, I., Hoffmann, T. C., Mulrow, C. D., Shamseer, L., Tetzlaff, J. M., Akl, E. A., Brennan, S. E., Chou, R., Glanville, J., Grimshaw, J. M., Hróbjartsson, A., Lalu, M. M., Li, T., Loder, E. W., Mayo-Wilson, E., McDonald, S., ... Moher, D. (2021). The PRISMA 2020 statement: An updated guideline for reporting systematic reviews. In *The BMJ* (Vol. 372). BMJ Publishing Group. <https://doi.org/10.1136/bmj.n71>
- Page, M. J., Moher, D., Bossuyt, P. M., Boutron, I., Hoffmann, T. C., Mulrow, C. D., Shamseer, L., Tetzlaff, J. M., Akl, E. A., Brennan, S. E., Chou, R., Glanville, J., Grimshaw, J. M., Hróbjartsson, A., Lalu, M. M., Li, T., Loder, E. W., Mayo-Wilson, E., McDonald, S., ... McKenzie, J. E. (2021). PRISMA 2020 explanation and elaboration: Updated guidance and exemplars for reporting systematic reviews. In *The BMJ* (Vol. 372). BMJ Publishing Group. <https://doi.org/10.1136/bmj.n160>
- Persons, O. S. (2010). Could investors use voluntary ethics disclosure to assess the likelihood of fraudulent financial reporting. *International Journal of Disclosure and Governance*, 7(2), 153–166. <https://doi.org/10.1057/jdg.2009.24>
- Popa (Sabău), A., Achim, M. V., & Teusdea, A. C. (2024). Corporate governance and financial fraud occurrence – case study on Romanian companies. *Journal of Risk Finance*, 25(3), 489–509. <https://doi.org/10.1108/JRF-10-2023-0257>
- Raval, V. (2018). A Disposition-Based Fraud Model: Theoretical Integration and Research Agenda. *Journal of Business Ethics*, 150(3), 741–763. <https://doi.org/10.1007/s10551-016-3199-2>
- Rizwan, S., & Chughtai, S. (2023). Reestablishing the legitimacy after fraud: does corporate governance structure matter? *South Asian Journal of Business Studies*, 12(4), 537–558. <https://doi.org/10.1108/SAJBS-08-2020-0286>
- Shi, W., Connelly, B. L., & Hoskisson, R. E. (2017). External corporate governance and financial fraud: cognitive evaluation theory insights on agency theory prescriptions. *Strategic Management Journal*, 38(6), 1268–1286. <https://doi.org/10.1002/smj.2560>
- Siahaan, M., Suharman, H., Fitrijanti, T., & Umar, H. (2024). When internal organizational factors improve detecting corruption in state-owned companies. *Journal of Financial Crime*, 31(2), 376–407. <https://doi.org/10.1108/JFC-11-2022-0292>
- Thompson, R. B., & Thomas, R. S. (2004). The public and private faces of derivative lawsuits. *Vanderbilt Law Review*, 57(5), 1747–1793. <https://www.proquest.com/scholarly-journals/public-private-faces-derivative-lawsuits/docview/198929116/se-2>
- Thuy, L. T. T. (2025). Determinants of internal audit effectiveness and its mediating role in fraud prevention. *Edelweiss Applied Science and Technology*, 9(4), 1252–1264. <https://doi.org/10.55214/25768484.v9i4.6230>
- Utami, W., Nugroho, L., Mappanyuki, R., & Yelvionita, V. (2020). Early warning fraud determinants in banking industries. *Asian Economic and Financial Review*, 10(6), 604–627. <https://doi.org/10.18488/journal.aefr.2020.106.604.627>
- Wang, P. (2010). Restructuring to repair legitimacy - A contingency perspective. *Corporate Governance: An International Review*, 18(1), 64–82. <https://doi.org/10.1111/j.1467-8683.2009.00782.x>
- Wu, F., Cao, J., & Zhang, X. (2023). Do non-executive employees matter in curbing corporate financial fraud? *Journal of Business Research*, 163. <https://doi.org/10.1016/j.jbusres.2023.113922>
- Xu, Y., Zhang, L., & Chen, H. (2018). Board age and corporate financial fraud: An interactionist view. *Long Range Planning*, 51(6), 815–830. <https://doi.org/10.1016/j.lrp.2017.08.001>
- Xue, S., Tang, Y., Xu, Y., Ling, C. D., Xie, X. Y., & Mo, S. (2024). How boards' factional faultlines affect corporate financial fraud. *Asia Pacific Journal of Management*, 41(1), 351–376. <https://doi.org/10.1007/s10490-022-09859-0>
- Yang, D., Jiao, H., & Buckland, R. (2017). The determinants of financial fraud in Chinese firms: Does corporate governance as an institutional innovation matter? *Technological Forecasting and Social Change*, 125, 309–320. <https://doi.org/10.1016/j.techfore.2017.06.035>
- Yao, S., Zhao, W., Sensoy, A., Cheng, F., & Goodell, J. W. (2021). The dark side of marital leadership: Evidence from China. *International Review of Financial Analysis*, 77. <https://doi.org/10.1016/j.irfa.2021.101844>



- 
- Yiu, D. W., Wan, W. P., & Xu, Y. (2019). Alternative Governance and Corporate Financial Fraud in Transition Economies: Evidence From China. *Journal of Management*, 45(7), 2685–2720. <https://doi.org/10.1177/0149206318764296>
- Yiu, D. W., Xu, Y., & Wan, W. P. (2014). The deterrence effects of vicarious punishments on corporate financial fraud. *Organization Science*, 25(5), 1549–1571. <https://doi.org/10.1287/orsc.2014.0904>