

BABEŞ-BOLYAI UNIVERSITY

Faculty of Economics and Business Administration

Finance Domain

SUMMARY OF THE DOCTORAL THESIS

**CORPORATE FRAUD: CAUSES, RISK
FACTORS, AND PREVENTIVE MEASURES**

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Abstract

The main goal of the thesis is to enhance understanding of how governance practices can help prevent and detect fraudulent activities. To achieve this, the thesis conducts a thorough investigation into the relationship between corporate governance and fraud risk. The analysis covers all aspects of corporate fraud, including causes, associated risk factors, and prevention strategies. To thoroughly examine the conceptual framework, various literature review techniques were employed, such as critical, narrative, systematic, and bibliometric approaches. Regarding regression analysis, the study employs statistical techniques such as Panel Least Squares, Estimated Generalized Least Squares (EGLS), and Generalized Method of Moments (GMM), using data from 3,707 companies in EU countries from 2018 to 2023. The results show that fraud risk can only be effectively managed when approached as a multifaceted governance issue. Clear conceptual definitions and reliable measurement tools allow for accurate discussion of misconduct. Prevention depends on a layered governance framework that integrates traditional and innovative safeguards, considering structural oversight, managerial incentives, and an ethical foundation that facilitates early detection of misconduct. This research introduces several innovative elements that improve the understanding of fraud risk. The literature review and bibliometric analysis identify previously overlooked variables and incorporate various theoretical frameworks to develop a comprehensive, detailed model that goes beyond single-theory approaches. Extensive empirical research addresses gaps from earlier studies that focused on individual countries and limited variables. Additionally, it examines less-studied factors, such as whistleblower protection and external assurance of non-financial reports, to clarify their roles in reducing fraud risk across companies.

Keywords: fraud motivation, corporate governance, sustainability, financial reporting, internal control

Introduction

Understanding how corporate characteristics influence fraud is a crucial issue globally today. Numerous scandals involving corporate fraud continue to occur, sparking ongoing debate over whether specific behaviors or measures could prevent such incidents. Fraud impacts companies in multiple ways, as perpetrators use various schemes, resulting in negative effects on both organizations and their stakeholders. Since manipulated data often originates within routine reporting processes, identifying corporate traits and governance factors linked to heightened or reduced fraud risk is essential for both research and practical application. Strong governance encourages transparency and accountability, which can lower the chances of fraud. Effective corporate governance serves as a key defense, and understanding organizational factors that promote or prevent fraudulent behavior is an important academic and practical concern.

In this context, the thesis titled “Corporate fraud: causes, risk factors, and preventive measures” provides a strong foundation in economics and finance. The reasons for choosing the topic of fraud risk prevention are varied. The first relates to the complexity of the subject. Fraud is a complicated concept that sits at the intersection of accounting, behavioral economics, information systems, and corporate law; therefore, it involves different disciplines and can be analyzed and explained from numerous perspectives. As a result, even though many studies have examined this phenomenon, there are no conclusive findings, and room remains for further research. The second point concerns the constantly changing nature of the topic. As technology advances and new disclosure regulations come into force, they frequently open up fresh opportunities for misconduct. This situation also diminishes the effectiveness of traditional internal controls, making it vital to develop new control strategies. In this environment, laws reflect a policy shift toward wider notions of governance and accountability, underscoring the urgent need for evidence-based guidance to aid these initiatives. Consequently, both fraud and business practices evolve, and in such a dynamic environment, it is essential to update prior knowledge. The third motivation concerns the study’s usefulness, which aims to help companies reach their goals and improve results.

This thesis conducts a thorough investigation into the relationship between corporate governance and fraud risk. Its main aim is to enhance understanding of how governance practices can help prevent and detect fraud. The analysis covers all aspects of corporate fraud, including identifying its causes, the risk factors involved, and strategies for prevention. To achieve this, the following objectives were formulated:

- Explain what corporate fraud is, how it has evolved over time, and how it can be estimated.
- Build a clear theoretical and empirical foundation for studying fraud risk.
- Identify and operationalize traditional corporate governance variables related to fraud risk.
- Examine how the components of the Fraud Triangle Theory, specifically opportunity, motivation, and rationalization, contribute to fraud to identify the main factors driving fraud risk.
- Analyze the impact of both innovative and traditional organizational traits on corporate fraud to provide meaningful insights on preventing and managing fraud risk today.
- Convert empirical findings into practical recommendations for boards, auditors, regulators, and investors.

To achieve these objectives, the thesis combines multiple methods of literature synthesis and panel-data econometrics. Various complementary literature review techniques such as critical, narrative, systematic, and bibliometric approaches are used to thoroughly map the concepts under investigation, ensuring theoretical saturation. Additionally, statistical methods including Panel Least Squares, fixed effects models, Estimated Generalized Least Squares (EGLS), and Generalized Method of Moments (GMM), applying different specifications and a wide range of variables, are employed for an in-depth empirical analysis.

Structurally, the thesis is divided into 5 chapters.

The first chapter offers an in-depth overview of the fundamental concepts related to corporate fraud. It starts by tracing the development of the term “corporate fraud,” emphasizing the historical and contextual changes in its meaning over time. The chapter outlines the key features necessary to understand what constitutes corporate fraud and provides a comprehensive definition based on existing ones. In addition to defining corporate fraud, this chapter critically analyzes existing classification systems used to categorize different types of fraud. It also introduces a new framework based on both the methods used to commit fraud and the scopes of the perpetrators. Furthermore, the chapter explores different perspectives on fraud by examining several well-known fraud theories. Finally, the chapter discusses how to measure corporate financial fraud, emphasizing the challenges in estimating it accurately and the importance of precise measurement using financial data to evaluate it across large datasets.

The second chapter is based on the idea that effectively reducing the risk of fraud requires a thorough understanding of the organizational factors that drive misconduct. To address this crucial need, it conducts a comprehensive bibliometric, narrative, and systematic review of academic research from 1977 to 2025. This detailed analysis aims to identify current trends in fraud risk discussions and point out gaps that previous research has missed. The chapter focuses on identifying specific topics and features of the corporate environment that are most often discussed in existing literature related to corporate fraud risk. To do this, it uses methods such as systematic literature review, co-citation analysis, keyword clustering, and frequency mapping. These techniques help pinpoint key variables for empirical modeling in fraud risk, with the goal of developing a standardized, interdisciplinary catalog of what was previously fragmented evidence. This strengthens the overall framework supporting the broader thesis, making it a key resource for exploring the complexities of corporate misconduct and its prevention.

The third chapter provides a thorough empirical investigation of the Fraud Triangle framework, focusing on its relevance among publicly listed companies in the European Union from 2018 to 2023. The research hypotheses test the impact of weak governance, high corporate debt, aggressive tax avoidance, and employees' belief that misconduct will go unnoticed on the occurrence of fraud. Using descriptive statistics, panel least-squares estimation, and robustness checks, the chapter confirms that the three elements of the Fraud Triangle are vital in influencing fraud risk. This comprehensive analysis underscores the importance for organizations to adopt a multifaceted strategy in managing fraud risk, considering the complex interactions among different factors to build a stronger, more ethical corporate environment.

In the fourth chapter, the discussion delves deeply into analysing the prevention of fraud risk by exploring the practical effects of legislative changes aimed at fighting fraud. It carefully examines the effectiveness of various innovative mechanisms, including the use of external assurance for non-financial reports, the promotion of gender diversity on corporate boards, and the implementation of strong whistleblower protections, alongside traditional factors such as board independence, audit committee presence, and CEO duality. This analysis utilizes a broad sample of data collected from European Union member states between 2018 and 2023. The main goal of this chapter is to provide concrete evidence to help policymakers identify which governance features should be supported by laws to improve fraud prevention. The findings offer valuable insights into new policy priorities that could strengthen corporate governance frameworks and reduce the perceived risk of financial misstatements. Ultimately, the results suggest that enhancing governance practices can increase overall trust in companies and lower

the cost of capital, as investors gain more confidence in the integrity and transparency of financial reporting.

In the fifth chapter, the analysis shifts from statistical testing to practical interpretation. Building on the study's results, the chapter has two main goals: first, to visually present key relationships and highlight practical linkages that are difficult to grasp in regression tables alone, making patterns like the fraud-risk gap between well-governed and poorly governed firms, as well as cross country and regional differences, immediately clear; second, to turn empirical findings into actionable, evidence-based guidance for decision-makers. To achieve this, it creates structured recommendation tables that link each major finding with specific actions at the company level and also offers recommendations for policymakers and regulators regarding regulatory design, enforcement priorities, disclosure standards, and governance oversight. Overall, the chapter aims to connect academic research with real-world application, ensuring that insights are communicated clearly and comparably, and in a way that is practically useful for companies, regulators, and oversight bodies working to enhance integrity, transparency, and trust in corporate reporting.

The final chapter concludes the thesis by integrating insights from both theoretical frameworks and empirical studies. It highlights that fraud risk mitigation is most effective when internal governance mechanisms operate in complement to external institutions, aligning incentives and strengthening monitoring and enforcement. This coordination should be reinforced by an ethical framework that operationalizes expectations through clear codes of conduct, training, reporting channels, and enforcement, thereby supporting transparency and accountability. Additionally, the chapter discusses the limitations faced during the research and suggests potential directions for future studies. Overall, it offers a cohesive synthesis and outlines future research opportunities that can significantly contribute to the ongoing discussion in the vital area of organizational governance.

Overall, the chapters offer a cohesive and methodologically solid analysis of corporate fraud and serve as a valuable resource for academics, companies, users of financial information, policymakers, and the general public. Empirically, the thesis confirms that having a comprehensive governance structure that includes board composition, audit expertise, and an ethical infrastructure is essential for preventing financial misconduct in contemporary capital markets. Theoretically, it shows that a multi-theory approach explains misconduct more effectively than relying solely on agency theory. Practically, it provides a prioritized governance checklist for boards, improves red-flag signals for auditors, and supplies data-driven reasons for regulators to adopt stricter financial and non-financial assurance measures

and governance policies. By combining interdisciplinary insights with a wide cross-country dataset, this thesis advances finance research and helps market participants improve transparency, protect reputation, and boost overall performance.

The novelty of this research stems from several key elements that together enhance the understanding of fraud risk within organizations. First, the bibliometric analysis and literature review uncovered previously overlooked variables related to fraud management that previous studies did not examine. Second, the study distinguishes itself by integrating various theoretical frameworks, including the Fraud Triangle, Agency Theory, Stakeholder Theory, and Legitimacy Theory. Combining these theories allows for the creation of a detailed, nuanced model that goes beyond the single-theory approaches common in earlier research. This integration offers a thorough understanding of how organizational, societal, and institutional factors interact to impact fraud risks. Third, the empirical analysis is extensive, covering 27 jurisdictions over six years, addressing a common gap in prior studies that tend to focus on narrower, localized areas. Finally, the research emphasizes understudied topics such as board cultural diversity, whistleblower protections, and external sustainability assurance mechanisms, with the goal of enhancing understanding of their impact on reducing fraud risk across different organizational contexts.

Chapter 1. The concept of corporate fraud

To thoroughly analyze corporate fraud, it is essential to understand its fundamental causes, manifestations, and measurement techniques. This chapter has four primary objectives: first, to define corporate fraud conceptually; second, to examine the factors that lead to its occurrence; third, to develop a classification based on key forms of manifestation; and fourth, to review how academic research measures corporate fraud risk.

The chapter examines the evolution of corporate fraud, showing that fraud is an adaptable managerial tactic responsive to regulatory and technological changes. It introduces a new, unified classification system based on methods and scope, highlighting categories such as financial statement fraud, bankruptcy and insolvency-related fraud, tax evasion, and cyberfraud to provide a comprehensive view by analyzing their applications. Additionally, it reviews fraud theories, revealing that no single theory fully captures the complexity of fraud; instead, it stresses that fraud is a dynamic issue that requires multiple analytical viewpoints. Finally, the discussion of measurement techniques identifies the Beneish M-Score as the main empirical proxy for this research.

In summary, Chapter 1 delivers three main outcomes: a precise definition of corporate fraud, a cohesive theoretical framework, and a uniform measurement toolkit.

Regarding implications, the clarified taxonomy improves cross-study comparisons, meta-analyses, and policy benchmarking. The multi-theory framework encourages interdisciplinary dialogue across fields such as accounting, finance, sociology, and law, fostering cumulative knowledge rather than isolated work. Identifying a transparent fraud proxy like the Beneish M-Score offers a strong basis for evidence-based risk assessment in academic and professional settings.

Two constraints exist: first, the taxonomy may become outdated with new fraud methods like AI-generated transactions and decentralized finance. Second, relying on document proxies like the M-Score misses unreported fraud, creating a measurement gap. These limitations highlight the need for ongoing updates and new proxies using real-time, unstructured data.

Chapter 2. Potential factors impacting fraud risk: identification and measurement

This chapter aims to explore current research trends in fraud detection and prevention, along with company characteristics that might help reduce unethical behavior. The specific objectives include providing an overview of current literature on fraud prevention and detection, as well as identifying factors that influence corporate fraud and methods to measure them. The approaches employed to accomplish these objectives are bibliometric literature review, critical analysis, and systematic literature review.

The analysis provides key insights into fraud-related research and offers a complete set of variables and well-defined measurement protocols, giving researchers a ready-made framework for collecting data and assessing corporate traits. Multiple key factors affect the likelihood of corporate fraud, such as corporate governance, ownership structure, and overall business traits. Past research has used various metrics, such as percentages, counts, dummy variables, and financial ratios tailored to each characteristic, to assess their influence on fraud.

Limitations include reliance on published research for mapping and review, which may fall behind emerging fraud techniques and innovative governance practices. Future studies should aim to identify new factors using experimental designs and include new data sources that consider real-time contexts.

In conclusion, Chapter 2 connects the idea of understanding with practical application by offering a detailed, prioritized list of fraud factors and pointing out where additional evidence is most required.

Chapter 3. The influence of company characteristics on fraud risk through Fraud Triangle elements: opportunity, motivation, and rationalization

Given the complexity of corporate fraud, it is crucial to identify the key factors that enable fraudulent activities and serve as potential determinants. The primary aim of this chapter is to examine how the organizational environment impacts the likelihood of unethical corporate conduct. An empirical study was conducted, focusing on the three components of the Fraud Triangle theory: the opportunity to commit fraud, the motivations driving it, and the rationalizations used to justify it. The sample included 3,707 companies from EU member states between 2018 and 2023, and EViews software was used for statistical analysis.

Taken together, the results across all models strongly validate the Fraud Triangle theory: opportunity, motivation, and rationalization each significantly influence corporate fraud risk. Analyzing individual components reveals that opportunity and pressure factors are particularly strong predictors within the chosen sample. Weak governance features, such as the absence of an audit committee and small boards, combined with financial pressures such as high leverage and aggressive tax strategies, have the most significant effects. This suggests firms with weak controls and external pressures are at higher fraud risk.

This research impacts both practice and theory. It supports the Fraud Triangle framework in a corporate context, emphasizing all three elements can significantly reduce fraud risk. In practice, companies can reduce fraud risk by strengthening governance and managing pressure points to limit opportunities for fraud. Lowering debt levels and avoiding aggressive financial tactics also reduce pressures that may lead to fraud. Although evidence on rationalization is less definitive, larger firms tend to be more susceptible due to their complexity, which can create a false sense of security among fraudsters. Boards that are inattentive are associated with increased fraud risk, underscoring the need for active supervision.

The limitations of the study encompass dependence on the Beneish Score instead of observed enforcement actions, which may lead to misclassification of firms; potential challenges in generalizability stemming from industry and regional-specific dynamics; and the limited variation in predictors such as audit committee presence, which remains predominantly common.

Future research could address these limitations by utilizing event-based fraud data, more detailed governance and behavioral proxies, and industry effects to analyze company characteristics across different contexts and conditions.

Chapter 4. Empirical study regarding the role of innovative and traditional governance factors in mitigating fraud risk

This chapter explores how innovative and traditional governance factors reduce fraud risk, considering company characteristics identified in earlier research and the current legislative context. Governance variables include board characteristics, audit features, and overall company and management traits. Despite their importance, research gaps exist, with many studies analyzing variables in isolation, often within single countries, and mostly limited to agency theory. This leads to an incomplete understanding of how governance reduces fraud, particularly across Europe. Innovations like whistleblower protections and non-financial reporting are underexplored, highlighting the need for a comprehensive investigation.

The results provide evidence that both innovative and traditional governance factors play significant roles in mitigating fraud risk. Strong corporate governance and ethical management decrease unethical behavior. Analyzing data from 3,707 EU companies (2018-2023), we find that board traits, audit mechanisms, and management practices help lower fraud, confirming our hypotheses. Attentive, structured, diverse, independent, and engaged boards greatly reduce fraud. Effective audits and oversight strengthen defenses, limiting managerial opportunism. Ethical culture through inclusive leadership, fraud training, and whistleblower protections significantly lowers fraud risk.

This research enriches academic literature by illustrating how governance theories, such as agency, stakeholder, and legitimacy theory, interact to explain fraud cases. It highlights that traditional governance methods and new legislative measures jointly work to mitigate risk. This broad view bridges gaps left by previous studies that analyzed these factors separately. Our results present cross-country and cross-industry evidence that strong oversight enhances the quality of financial reporting. For companies, paying attention to aspects of corporate governance like independent, diverse boards, effective audit committees, and fostering an ethical culture helps lower fraud risk. Regulators may consider practices such as auditor rotation or expanding audit scope. Management should foster an ethical environment through training programs and whistleblower channels. Controlling fraud demands a comprehensive approach that encompasses controls, human elements, and culture.

This study offers valuable insights but has limitations. First, fraud was estimated using the Beneish M-Score, which detects earnings manipulation but not qualitative fraud such as misleading non-financial disclosures or actual fraud. Future research could evaluate

governance mechanisms against verified fraud cases. Second, the analysis focused only on EU-listed companies, so results may not apply elsewhere; replicating in North America or Asia-Pacific would improve validity. Third, external assurance was considered without distinguishing between providers; future research could separate external auditors from independent experts. The study period (2018–2023) aligns with initial EU governance and sustainability directive implementation, so long-term effects will be clearer over time. Future research could extend the timeframe for long-term impacts.

Chapter 5. Visualization and practical guidance

This chapter presents the thesis findings with visualization maps and graphs, and offers recommendations for companies, policymakers, and supervisory bodies to reduce fraud risk. It connects research with practical application, making lessons clear and actionable for decision-makers. Its two main goals are: first, to visually display findings, emphasizing trends such as the fraud risk gap between well-governed and poorly governed companies and regional differences; second, to transform empirical results into practical guidance.

The visual analysis examines fraud risk and governance traits in EU companies via graphs (2019–2023) and maps (2018–2023). Fraud risk is measured with the Beneish M-score, converted into a binary indicator: scores above -2.22 indicate likely manipulation (1), others 0. This allows calculating the proportion of high-fraud-risk firms annually and by country. Governance variables include the board, audit, management, and company features. Visualizations, created with Tableau, show trends in line charts and country data on maps, with metrics as percentages or ratios for easy comparison, illustrating governance's impact on fraud risk.

The visual analysis highlights where fraud risk is concentrated, how it evolves, and the governance factors associated with lower risk. It also reveals a significant gap in fraud risk between well-governed and poorly governed firms, as well as regional differences within the EU. Good governance includes both structural and behavioral elements that enhance monitoring. This highlights a broader point: corporate fraud is dynamic, changing with new practices, reporting methods, and technology, so it requires adaptable governance. For businesses, fraud risk extends beyond compliance and is affected by board quality, audit frameworks, and management practices such as strong monitoring, whistleblowing, and training. Policymakers should tailor guidance, oversight, and monitoring to different countries, especially where fraud risk is higher.

Limitations include challenges from rapidly evolving schemes such as artificial intelligence and decentralized finance, as well as dependence on observable proxies that cannot verify intentions or reveal hidden practices.

Conclusions, limitations, and future research

The topic of fraud prevention and detection is evolving and attracting greater attention from researchers over time, as the focus on combating crime. This thesis offers evidence demonstrating how governance and ethical measures help lower fraud risk across EU countries, which is essential for stakeholders working in a more transparent and scrutinized environment.

The study finds that effectively preventing corporate fraud requires a combined approach where structural oversight, incentive alignment, and ethical infrastructure support each other. When these elements work together, they make misconduct more difficult to commit and easier to detect. Essentially, the strongest fraud prevention occurs when strong structural oversight, involving independent, diverse, and engaged boards supported by skilled audit committees, is paired with ethical measures such as secure whistleblower channels. Applying this layered approach transforms governance from a mere compliance obligation into a proactive tool for financial stability and market confidence.

The theoretical framework provided in Chapter 1 emphasizes the complexity of corporate fraud, its main features, and the different forms it can take. Additionally, various measures for corporate fraud risk identified in previous research were presented, along with a detailed analysis of the M-Beneish Model, which uses financial ratios to estimate the likelihood of fraud in companies.

Chapter 2, by analyzing previous studies using multiple methods, concludes that several factors can influence corporate fraud risk and highlights the trends in developing detection models, general fraud prevention, and corporate governance practices. Additionally, it provides various measures used to assess corporate characteristics to study their relationship with corporate fraud risk.

Chapter 3 confirms that all elements of the Fraud Triangle, which are opportunity, motivation, and rationalization, play crucial roles in fraud risk. It further applies the model by identifying governance features like board size, the presence of an audit committee, and indebtedness that directly influence fraud risk. Essentially, the research places the Fraud Triangle within a broader governance framework, offering a practical guide for incorporating situational factors into large-scale studies.

Chapter 4 demonstrates through an integrated empirical model that economic incentives, social expectations, and institutional pressures collectively influence managerial behavior, rather than acting independently. It considers both traditional corporate governance elements,

like board composition and audit features, and innovative practices such as gender and cultural diversity and whistleblower protections. The study indicates that ethical infrastructure mechanisms, like whistleblower channels, external assurance of sustainability reports, and board cultural diversity, significantly reduce fraud. These measures enhance traditional practices such as having an audit committee, ensuring board independence, and separating powers.

Chapter 5 transitions from a focus on model-based testing to a descriptive, visual analysis of how fraud risk and governance features differ across EU firms over time and between countries. Using Tableau line charts and European maps, the visuals offer an intuitive overview of temporal trends and geographic variations, constructing a comparable landscape of governance and fraud. This approach facilitates a nuanced understanding of how governance characteristics relate to variations in fraud risk.

Taken as a whole, the thesis shows that fraud risk can only be managed effectively if viewed as a multidimensional governance issue. Clear conceptual definitions and reliable measurement tools enable firms, auditors, regulators, and investors to discuss wrongdoing accurately. Systematic data on organizational factors helps identify where controls should be implemented, and large-scale testing of traditional and new safeguards reveals which approaches are truly effective. Prevention depends on a layered governance structure that integrates structural oversight, managerial incentives, and an ethical framework that promotes early detection of misconduct.

Concerning the methodological contribution, the thesis utilizes various methods and extensive cross-country samples, outlining the research process in detail. By explaining the methods and following a step-by-step approach within a broader research framework, it can also act as a replicable template for scholars exploring different geographic regions or governance variables.

Regarding practical implications, this thesis demonstrates that strategic governance is a value-creation tool for companies by highlighting the importance of board independence, diversity, engagement, and the expertise and quality of auditors at all levels: internal audit, audit committee, external audit, and transparency policies. It highlights that low director attendance, director busyness, high unexplained audit fees, excessive leverage, and aggressive tax strategies are key red flags supported by statistical evidence. For researchers, the thesis advocates for viewing corporate governance and fraud prevention as an interdisciplinary,

multidimensional field, incorporating accounting, behavioral economics, law, and information systems.

As all studies, this research also has some limitations. First, while the Beneish M-Score is widely applicable, it faces common issues with other estimation methods, such as potential proxy inaccuracies. Specifically, it may over-identify aggressive but legal earnings management, incorrectly flagging some safe companies as possibly fraudulent. Its manual calculation can also introduce errors. The second limitation concerns regional focus. While the dataset covers EU countries to ensure broad relevance, governance mechanisms might operate differently in North America, Asia-Pacific, Africa, or Latin America due to varying legal environments and investor protections. Third, the observation periods occur before full implementation of the new directives.

Future research could focus on measuring actual fraud cases or improving traditional proxies through natural-language processing of managerial disclosures to minimize false positives and negatives. It could also test the identified governance variables across different jurisdictions with diverse legal frameworks, ownership models, and cultural norms to evaluate their applicability and determine any region-specific adjustments. Finally, examining fraud occurrence and governance changes during and after the full implementation of new regulations would offer insights into policy effectiveness and potential unintended effects.

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