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A Review Study On Corporate Fraud's Negative Effects On Corporations

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Abstract:

Corporate fraud has immense economic impacts and is also widespread. Corporate managers' undesirable actions often affect shareholders, put stakeholders at risk, and hurt the entire financial system. Corporate fraud is illegal, unethical, or deceptive acts by corporations, or an individual performed in his or her capacity as an employee of a corporation. It impairs the reputation of the organization and can harm the organization financially directly. It could make it challenging to find and maintain business partners, customers, and employees. It may lead to failure in satisfying banking covenants or expose the corporation to regulatory costs, legal fines, and sanctions, which may threaten its competitiveness. This article explores the consequences of corporate fraud at different levels by employing very basic literature review methodologies such as searching, critically appraising, and synthesizing the existing studies. It synthesizes the findings of several primary studies on the subject to build the evidence on the researched topic. A previous case analysis of a fraudulent case was used to develop the themes of discussion to examine some of the common and most threatening impacts of corporate fraud. This issue is critical for managers of financial institutions, accountants, auditors, and everyone else involved in fraud prevention and detection.

Key-words: Corporate Fraud, Corporate Governance, Corporate Misbehavior, Fraud Implications, Review Study

Introduction:

A corporation consists of many stakeholders, including customers, employees, investors, vendor partners, the government, and society. Strikingly, a corporation must be fair, and transparent with its stakeholders for all dealings (Ramakrishnan, 2008). Corporations now have access to a world without borders since everything is globalized, which is rather a new systemic shift into the existence. Unreasonable competition on the other hand follows this, as the worldwide market has become inescapable. Therefore, the companies' long-lasting development and success requires both adopting and subjecting oneself to ethical standards. In the last few decades, society and individuals have developed a great deal of greed, where people now seek selfish interests in almost all aspects of life. This is more than mere survival effort, it is the norm now, and even more so with regard to the behavior of large organizations which continue to persist, or even thrive. Gupta and Gupta (2015) consider this phenomenon as a macroeconomics and microeconomics problem where many other facets of society are at risk – corporate fraud, misconduct and other illegalities against humanity. The term fraud is defined as a misrepresentation of self or social relations in order to earn personal benefit in a certain position (CIMA,

2009). Based on Ruin (2009), began interpreting fraud as wrong doings intentionally carried out by one person or a party against another in reaching favorable ends and avoid due responsibilities or inflict loss whether in terms of wealth or prestige. It should be noted that in organizations somebody can gain an advantage that is not meant and is termed as fraud.

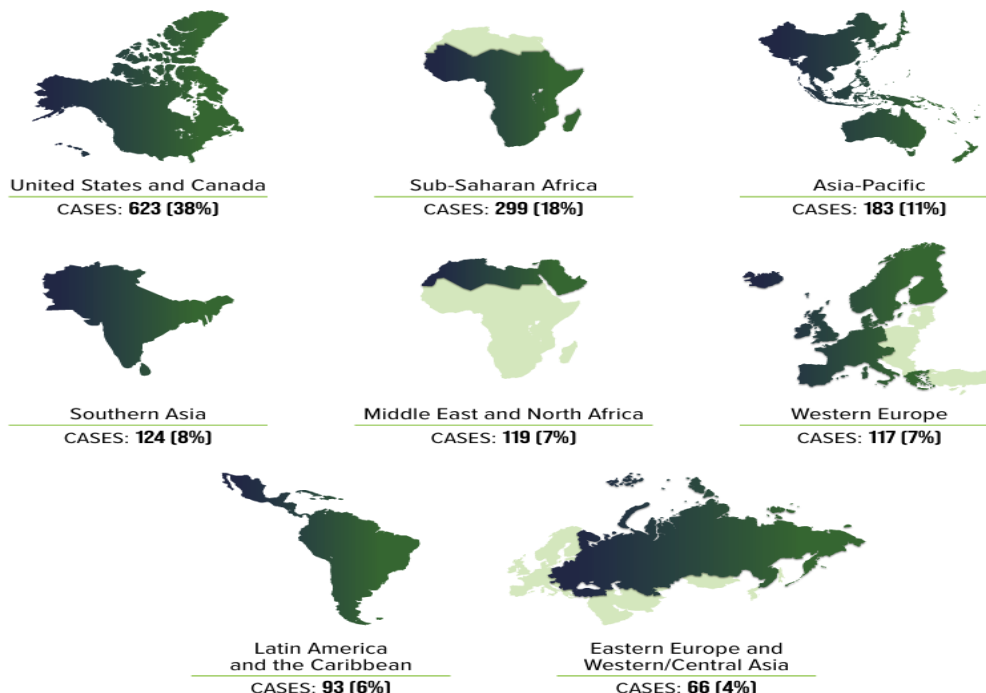
Employees of an organization or other outsiders may commit fraud in an attempt to artificially inflate the organization's value, often by misrepresenting its financial position (Xu, Zhang & Chen, 2018). Corporate fraud refers to acts perpetrated by organizational members, which are dishonest and illegal, and that serve the interests of the perpetrator or the organization.

As the Association of Certified Fraud Examiners (ACFE) was founded in 1988, it has been witnessing the mission to combat occupational fraud-the fraud committed by individuals against the companies employing them. Occupational fraud constitutes a significant threat to all organizations regardless of size, industry, or location, as it exerts far-reaching implications for organizations victimized by this common form of financial crime. Buried deep within occupational fraud is the assumption that every one of the estimated 3.55 billion members of the global workforce have the ability to engage in such crime because, during the course of business, they are often trusted by their employers with organizational cash and other assets. Of course, only a fractional portion of this global workforce might ever commit occupational fraud. There are innumerable factors that may provide the necessary pressures, opportunities, and rationalizations that motivate and enable an individual to commit occupational fraud, thereby creating the conditions under which global losses from fraud can total trillions each year.

The goal of *Occupational Fraud 2024: A Report to the Nations* is to compile detailed information about occupational fraud cases in six critical areas:

- The methods by which occupational fraud is committed
- The financial harm caused by occupational fraud
- The means by which occupational frauds are detected
- The characteristics of the organizations victimized by occupational fraud
- The characteristics of the people who commit occupational fraud
- The results of the cases after the frauds have been detected and the perpetrators identified

FIG. 1 REPORTED CASES BY REGION



While it is impossible to know the absolute figure of fraud at a global level, the information found in this report-from real-world cases investigated by certified fraud examiners (CFE)-presents key information that anti-fraud professionals need to understand.

The research studied reveals the risks that occupational fraud will be dangers so that they shall become better apprehensive in preventing, detecting, and investigating. Annually, this research serves to shape a really unique agenda. All cases submitted in this study were CFEs from around the globe. Each responded to the ACFE's 2023 Global Fraud Survey through a more detailed questionnaire with 86 questions for a single incident of fraud investigated from January 2022 to September 2023. This 13th edition of our study includes statutory analyses related to methods of committing, detecting, and preventing occupational fraud and that of the fraud perpetrators, in addition to the organizations victimized by such frauds, the monetary losses suffered by the organizations concerned, and their responses to the frauds.

Methodology:

This study adopted the basic literature review, which is a generic term for a summary of the evidence on a particular subject. Basic literature in academia can be quite simple or extremely complicated, and there are numerous ways of finding, evaluating, and presenting information (Kowalczyk & Truluck, 2013). Depending on the research topic, the purpose of a literature review might vary from being broad and descriptive to answering a specific question. A basic literature review can inform the background of articles and reports to give the reader an overview of the topic. This strategy might be narrow, such as examining the effect or relationship between two specific factors, or broad, such as studying the collective evidence in a certain research field (Baumeister & Leary, 1997). In addition, literature reviews are valuable when the objective is to provide an overview of a particular topic or research subject (Snyder, 2019). This form of literature evaluation is typically conducted to assess the current level of knowledge on a certain topic. It can be used, for instance, to build research agendas, identify research gaps, or simply discuss a specific topic (Tranfield, Denyer, & Smart, 2003).

Table 1: Selected Cases that formed Main Theme of Study

Selected Reference Fraud Scandals	Negative return/ Penalty	Dismissal/Issues of Job Loss	Corporate Social Responsibility (CSR) Issues	Cost of Capital and Low Investment	Low Market Evaluation
Enron	Yes	Yes	Yes	Yes	Yes
Toshiba	Yes	Yes	Yes	Yes	Yes
Lehman Brothers	Yes	Yes	Yes	Yes	Yes
AIG	Yes	Not determined	Yes	Yes	Yes
Satyam	Yes	Yes	Yes	Yes	Yes

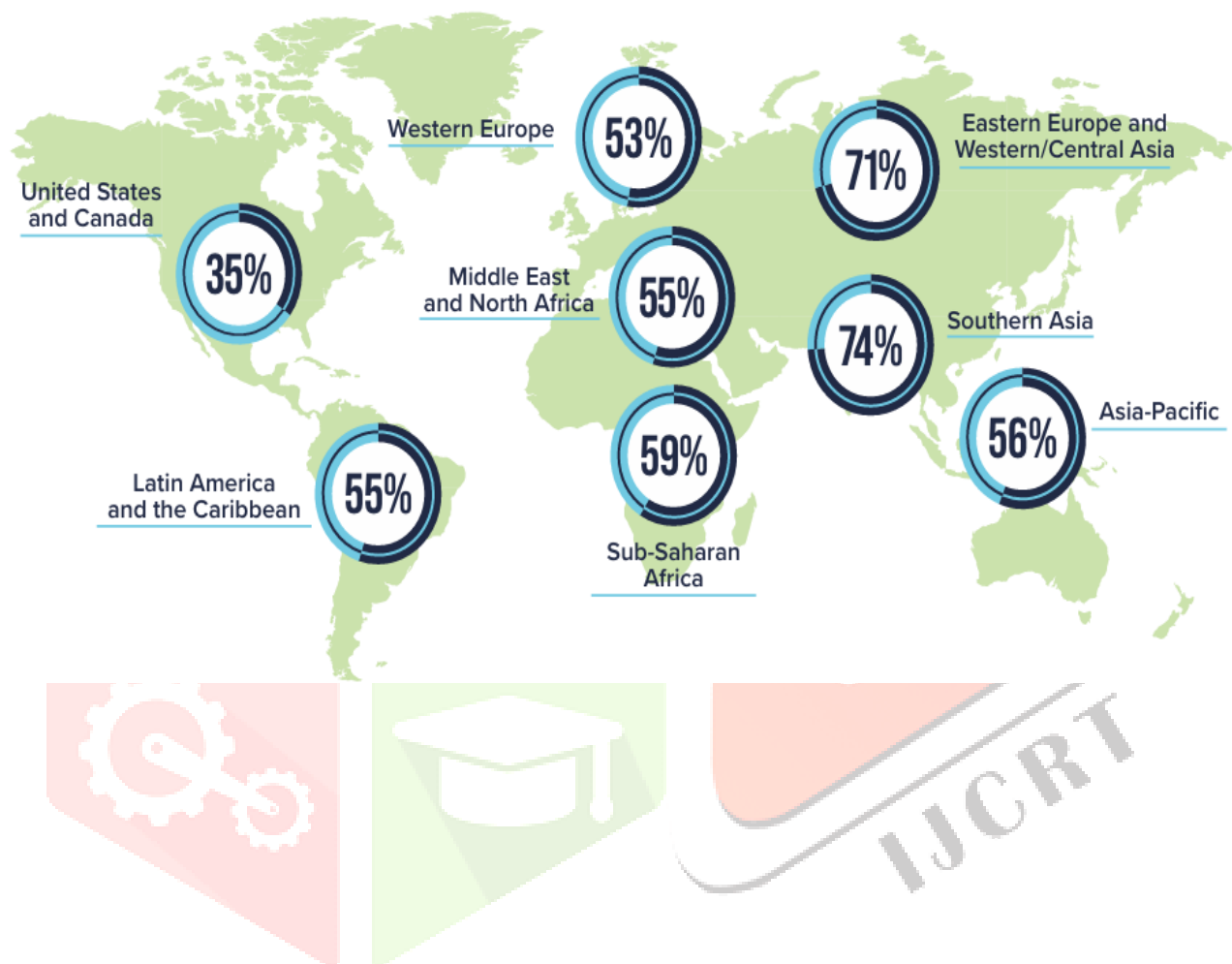
Source: Author elaboration

Despite the fact that a basic literature review is a rather loose method, several criteria have been set for this study in order to locate, evaluate, and present data regarding the reviewed studies. This study mainly relied on the Scopus database of business ethics, finance, management, and corporate governance, where pertinent studies on corporate fraud were published. This paper also utilized several existing cases to develop the research and tie it to the contagion effect of the company's fraudulent activity. Also, before deciding the main point of the study's discussion, this paper analyzed past fraud cases to determine the worst effects of business fraud on the company.

This Table displays an indicator of the major themes discussed in this study, derived from a case study of a previous major fraud scandal that shook the world and was considered the most prevalent and threatening to the company after the exposure of fraud issue. Based on the case analysis, it is clear that all companies are penalized under the law and have suffered losses due to the fraud exposure. Employees fear losing their jobs and some companies are forced to lay off workers to meet the shortfall. Companies that restructure and divest their business units suffer significant losses and layoffs. Concerning CSR issues, the fraudulent company is deemed irresponsible by committing fraud, which indicates they intend to commit fraud and disregard their social duty. The terms "cost of capital" and "low investment" refer to the expectation that earnings from the investment will

be disrupted and they will not be able to make good investments due to the shortfall in funding. Lastly, when it comes to the value of a company's stock, all fraudulent companies see a sharp drop in price after an investigation by the authorities.

FIG. 6 HOW DOES CORRUPTION RISK VARY BY REGION?



THE GLOBAL COST OF FRAUD

Fraud is a truly global problem, affecting organizations in every region and in every industry worldwide. Measuring the true extent of the damage caused by occupational fraud can be challenging due to the inherent nature of concealment and deception involved in most schemes. However, our study provides some valuable insight into the scope of this issue and how it affects organizations everywhere.

OUR STUDY COVERED



1,921
CASES

from



138
COUNTRIES and
TERRITORIES

Causing total
losses of more than

\$3.1 BILLION



\$1,662,000

Average loss per case



22% of cases had losses of
\$1 million+

CFEs estimate that
organizations **LOSE**

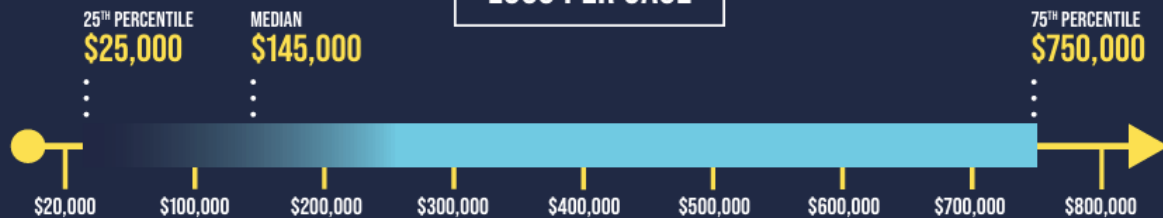
5% of revenue
to **FRAUD**
each year

Projected against
2022 GWP*
(\$101 TRILLION)

that's more than
\$5 TRILLION
LOST TO FRAUD
GLOBALLY

[*https://databank.worldbank.org/data/download/GDP.pdf](https://databank.worldbank.org/data/download/GDP.pdf)

LOSS PER CASE



LOSS PER REGION



Case studies

The Fall of Enron

The Enron Corporation scandal from 2001-2002 is one of the most infamous examples of corporate fraud. Raking in billions of dollars in revenues at its peak, the energy giant's leaders used fictitious holdings and tampered with bookkeeping to conceal the truth when the company began to have problems.

Several Enron executives were criminally charged with insider trading, securities fraud, and conspiracy. Founder and former CEO Kenneth Lay was found guilty of six charges of fraud and conspiracy, as well as four charges of bank fraud. He died of a heart attack just before he was sentenced.

The Wells Fargo Cross-Selling Scandal

In 2013, employees at Wells Fargo Bank resorted to corporate fraud to fulfill their daily cross-selling objectives motivated by the bank's policy of establishing daily sales quotas, which if not met will be added to the next day's objectives. Employees created new accounts and issued debit or credit cards without the knowledge of customers. They admitted that in five years, about 2 million accounts were established without client authorization.

This corporate fraud boosted short-term revenues, but it wasn't worth it in the long run. Wells Fargo announced a \$185 million settlement, was ordered to pay \$3 billion in fines, and lost the trust of its customers.

The Volkswagen Diesel Dupe

In 2015, Volkswagen attempted to circumvent vehicle emission standards around the world by installing special software in around 11 million of its diesel-powered vehicles that could detect when those vehicles were being tested for pollutants and alter the findings in a corporate fraud dubbed as "diesel dupe".

The company was compelled to pay a \$25 billion fine and recall almost 480,000 vehicles in the United States alone. This corporate fraud resulted in the resignation of then-CEO Martin Winterkorn, continuing financial obligations, and lawsuit risk as a result.

The Luckin Coffee Scam

In 2019, the Chinese coffee business Luckin Coffee, which soared from an IPO price of little over \$20 in May 2019 to highs of more than \$50 per share by January 2020, was exposed to be doctoring its figures.

An internal probe showed that the business had manufactured nearly \$310 million in sales in 2019 by selling coffee vouchers in bulk to organizations linked to its chairman and reportedly fabricated a bogus employee to obtain \$140 million in raw supplies from vendors as well. Exactly a year after going public, Luckin's [stock](#) plummeted to a low of \$1.39 as a result of the two-pronged attack, and the stock remains weak as leaders attempt to fix the mess.

The Wirecard Controversy

In early 2020, accounting auditors discovered a whopping \$2 billion corporate fraud by Wirecard, a payment transfer and processing company in Germany. They found a discrepancy between the books and the actual money held by the company.

Like many corporate fraud schemes, Wirecard's book-tampering had been going on for several years before it was detected. The company was forced to declare bankruptcy, and its CEO was arrested by German authorities.

Discussion

Negative Returns and a Decline in Reputation

The first public exposure to corporate fraud is correlated with adverse abnormal returns that are statistically significant for the corporations that are accused of fraud (Armour, Mayer, & Polo, 2015; Lee & Gerald, 2008; Karpoff & Lott, 1993; Murphy, Shrieves, & Tibbs, 2009; Palmrose & Scholz, 2004). It not only damages the image of the fraudulent company but also widens the knowledge gap that appears to exist between the company's

shareholders and management, which makes it more difficult for the company to get more funding (Yuan & Zhang, 2016). As a result, the disclosure of corporate fraud may lead to a decrease in corporate finance. The exposure of corporate dishonesty may set off a chain reaction that is very detrimental to the corporation and can, in the end, result in the failure of the corporation to remain profitable. The worst case leads to the bankruptcy of the corporation. Evidence from the Enron case suggests that the corporation may not be able to finance all lucrative investments, which might lead to a fall in corporate investment, the destruction of the company's name and image, high turnover, and, eventually, a situation in which the company is bankrupt. Enron proposed a takeover bid with smaller cross-town competitor Dynegy on November 9, 2001, but Dynegy rescinded it on November 28 due to Enron's lack of full disclosure of its off-balance-sheet debt, lowering Enron's rating to junk. On November 30, the stock closed at an incredible 26 cents per share. On December 2, the company filed for bankruptcy. In another case, after decades of success, Toshiba faced a financial scandal in its energy division, resulting in a total loss of US \$2.14 billion (over seven years ending March 31, 2015). Toshiba's internal audit department discovered the manipulation of profits and other balance sheet figures in April 2015. As a result, the CEO, Vice Chairman, and seven directors resigned. The negative ROE (-3.5%) reflects investor disappointment in 2015. When the power sector scandal became public, they got a lot of backlashes from the public and a negative ROA (0.5%), which shows that Toshiba's ability to use its assets is going down.

Another fact that has been proven beyond a reasonable doubt is that the losses suffered by a company accused of misbehavior cannot be adequately explained by legal punishments. It is one of the perpetual losses to the corporation, as the legal suit remains in address. It has been shown that the loss of the firm's reputation, apart from the legal consequences, plays a significant influence in the penalty meted out to the corporation. Legal sanctions refer to any fines, fees, or penalties that the corporation is required to pay as a result of the court's decision. For instance, in Malaysia, if the corporation is exposed to practicing fraud, it will be fined under the Corporate Liability Provision under Section 17a of the MACC Act 2009; if a commercial organization commits an offence, it may be subject to a fine of not less than 10 times the sum or value of the gratification that is the subject matter of the offence, where the gratification is capable of being valued or is pecuniary, or RM1, 000,000, whichever is greater. Alternatively, the commercial organization may be sentenced to a term of imprisonment not exceeding 20 years, or it may be subject to both options. For instance, Toshiba was the target of several lawsuits filed by individuals and groups of investors who claimed that their decisions in the past (between 2008 and 2015) were based on Toshiba's financials. According to a reliable source, 45 overseas institutional investors have filed a lawsuit seeking 16.7 billion yen in damages since the company first admitted to reporting inflated profits in 2008 (Taiga & Makiko, 2017). In addition, 15 groups and individuals in Japan have filed suits totaling 15.3 billion yen. Also, the company was fined \$60 million by Japanese regulators.

In addition, corporate fraud will influence creditor/supplier engagement with the exposed fraud company as a result of the company's damaged reputation and lack of confidence in its ability to fulfil contract terms. According to Armour et al. (2015), in a business transaction, reputation refers to "partners' future expectations about the benefits of doing business with it." This is an essential part of all businesses. The market's decision to impose this penalty on the corporation may be justified by the possibility that the company will not be reliable in the near future. Such revisions to the estimates would have a future impact on the trade and the organization's expenses and operations. Typically, a dishonest company will have poor financial health, which may hinder its ability to pay its creditors. This may prompt creditors to impose stringent supply requirements for future contracts, making it more difficult for the company to meet such requirements. These unfavorable changes in the prices of inputs and outputs would reduce the company's profitability and, consequently, its market value (Jarrell & Peltzman, 1985; Klein & Leffler, 1981).

Issue of Attrition/Turnover of Human Capital

The term "capital" is frequently described as "assets accessible for use in production, wealth in the form of property, and a center linked with some activity." According to Awalluddin (2019), human capital is a skill a person possesses that allows them to be more efficient and productive than regular individuals. Individuals can gain such abilities through education, health, and training offered by their employers. Most of the time, unethical behaviour is shown to be bad for an employee's career. Scholars state that companies with good social performance tend to do better financially by attracting socially responsible customers (Bagnoli & Watts, 2003), reducing the threat of regulation (Lev, Petrovits, & Radhakrishnan, 2010), improving their reputation with customers (Orlitzky, Schmidt, & Rynes, 2003), or addressing the concerns of activists and non-governmental organizations (Baron, 2001).

However, ethical behavior and legal compliance are not always advantageous to employees' careers. Customers in some industries may demand behavior that violates existing laws and harms society as a whole, a condition known as unethical demand. Unethical demand for fraud is one of the most common types of misconduct in which firms and individuals deceive or misrepresent information. Examples include Arthur Andersen auditing, bars serving underage clients with fake identification, and home appraisers and mortgage brokers fraudulently inflating home values or income on loan applications (Pierce & Snyder, 2013). If ethical businesses fail to respond to unethical demand, they may lose a significant number of customers and employees, either through workforce reduction or voluntary departure owing to uncompetitive pay. For example, restaurant servers may give free food or drinks to customers to increase tips (without telling the manager), store employees may choose not to watch or prosecute shoplifters for bribes or social benefit, and doctors may lie about a patient's health to make it easier for them to get medical care (Snyder, 2010). However, such organizational deviations may have regulatory repercussions, and departing from regulatory requirements may have much more negative implications. This is because ethical businesses are typically more successful. According to the Ethisphere Institute, the global leader in defining and advancing the standards of ethical business practices, Dell, Ford Motor Company, Intel Corporation, Levi Strauss & Company, L'Oreal, Manpower Group, Marriott International, Marks & Spencer, Royal Caribbean Cruises, Starbucks, and Xerox are among the 2016 world's most ethical companies (Albu, Mandru, & Suci, 2017). All these businesses are doing well, which shows that ethics and business success are related.

Since these major corporations are more successful economically, their employees stay with them longer, meaning they get paid more, have more job security, and have better career opportunities as the companies grow. If employees are misled about the company's prospects during the fraud, they might be negatively affected along with other stakeholders. For instance, over-hiring might cause unsuspecting individuals to suffer later when these excesses are resolved, such as losing job-specific capital or seeking employment under adverse conditions. Existing research also says that a lack of ethics in an organization will make employees less happy with their jobs and more frustrated, subsequently leading to more turnover (Pettijohn, Pettijohn, & Taylor, 2007; Valentine, Godkin, Fleischman, & Kidwell, 2011). Corporations in financial distress have difficulty hiring new employees and are encouraged to lay off younger staff (Brown & Matsa, 2016; Caggese, Cuñat, & Metzger, 2019). Ultimately, the fraud corporation has negative job growth following the conclusion of the fraud.

Disengaging CSR

CSR is traditionally defined as the responsibility of corporations to pursue policies, make decisions, and follow courses of action that are beneficial to society's goals and values (Bowen, 1953). Carol (1991) elaborates on this description by stating that CSR encompasses the economic, legal, ethical, and discretionary categories of corporate responsibility that society expects of companies. In other words, corporations must fulfil their economic objectives, comply with legal obligations, and engage in other ethical behaviors that are not mandated by law but are demanded by diverse stakeholders. According to Awalluddin (2020), the fundamental rationale is that corporations operate by obtaining a social license from society, i.e., by extracting resources from nature and society. Therefore, it is their ethical responsibility to return any social support for social benefit. However, the

rise of corporate scandals worldwide in recent years has shown that many companies are making money at the expense of society as a whole. However, the results of past studies on the relationship between CSR engagement and corporate fraud are mixed. For example, Evans, Goodman, and Davis (2011) show that perceived corporate citizenship has a negative impact on employee deviance via organizational cynicism. One school of thought holds that CSR efforts are utilized by self-serving managers to enhance their public image and deceive stakeholders (Li, Kim, Wu, & Yu, 2021). However, Prior, Surroca, and Tribó (2008) and Tran and O'Sullivan (2020), for instance, demonstrate that CSR is positively related to corporate earnings management. Other researchers, however, say that CSR activities show that managers care about doing the right thing, and Kim et al. (2012) found that socially responsible firms manipulate their earnings less. Additionally, Liao, Chen, and Zheng (2019) found that CSR scores are negatively and significantly associated with firms' propensity for financial fraud, implying that firms with higher CSR ratings are less likely to engage in fraudulent activities. Corporations with a commitment to social responsibility strive to enhance their company brand and meet the ethical standards of stakeholders. CSR is strongly related to the business internal governance framework, which restricts fraudulent conduct opportunities. Furthermore, Lee and Mitchell (1994) argue that internal moral stakeholders, including executives, investors, and employees, tend to stick with ethical and responsible businesses and steer clear of opportunistic ones. From this point of view, CSR activities that portray a strong ethical image for the corporation can decrease managers' propensity to participate in fraudulent actions. In other words, businesses are thought to be socially responsible if they employ socially responsible managers who are prepared to give up some of the company's resources in order to advance socially responsible goals (Godos-Díez, Fernández-Gago, & Martínez-Campillo, 2010). CSR managers believe that ethics and social responsibility are vital to a company's success due to the fact that ethical practices are more concerned with the sustainable value of the company as well as the legitimate interests of all stakeholders. Because of these things, it is thought that socially responsible managers are less likely to do illegal or immoral things, particularly when those things can severely hurt a company's reputation and legitimacy.

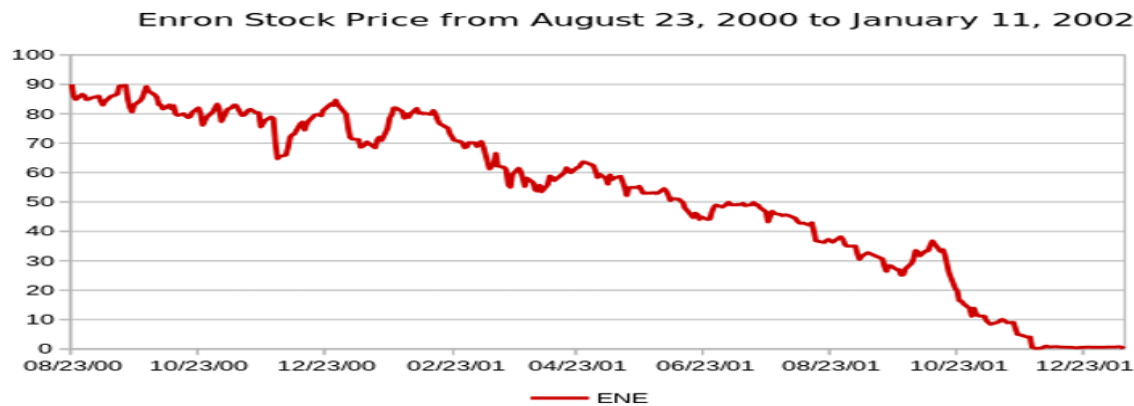
Increase in the Cost of Capital and Low Investment

Corporations that have committed fraud face increased capital costs due to changes in trade terms. Allegations of fraud can lead to contract revisions, including bank loans, which are a major source of funding for corporations. This is due to the fact that the cost of equity is used to calculate the current stock price based on future cash flows. Alternatively, corrupt behaviour could have an impact on the required rate of return for the firm. The study of bank loans enables an understanding of the real financial consequences of misreporting because the implications for debt costs can be assessed directly on interest rates and indirectly on maturity, covenants, etc. According to Yuan and Zhang (2016), fraudulent firms have higher capital costs and invest less in long-term assets. In accordance with previous research, Chapman-Davies, Parwada, and Tan (2014) found that corruption-tainted mutual funds experience a decline in inflows. According to Shang-Jin and Andrei (2000), there is a similar negative relationship between corruption and foreign direct investment. Evidence supporting the connection between corrupt behaviour and the needed rate of return is drawn from the literature on agency costs and corporate (Boubakri, Guedhami, Mishra, & Saffar, 2012; Chen, Chen, & Wei, 2009). Specifically, in the case of corporate corruption (Qian et al., 2011), politicians have incentives to capture rent and regulators have motivations to apply severe fines, hence increasing systemic risk (Banerjee, Gupta, & Krishnamurti, 2022). Moreover, unscrupulous corporations incur more regulatory risks. They would be exposed to greater systemic risk if the regulation were to be altered. Also, in emerging markets with undeveloped institutions, diversification opportunities may be restricted, hence increasing the cost of unethical corporate behavior. As the availability of loans generally declines, businesses are forced to rely on short-term funding, which may force them to forego certain investment opportunities. This is consistent with Diamond's (1991) theory that debt maturity depends on risk ratings.

Low Market Valuation/Stock

The reputational effects of fraud are extensive. According to Fich and Shivdasani (2007), even corporations that are simply interlocked with a firm being sued because they share the same directors experience significant valuation decreases when the case is filed. In significant fraud incidents such as Enron, stockholders lost the great majority of their investments (Enron shares fell from \$83 to nearly nothing after fraud disclosure) (Healy & Palepu, 2003). Meanwhile, Dyck, Morse, and Zingales (2011) estimate the average corporate fraud costs to be as high as 22% of the firm's total value. Karpoff and Lott (1993) performed the first substantial investigation into corporate fraud in 1993. After researching 132 incidents of corporate fraud in the U.S. market, the researchers discovered that firms convicted of fraud risk enormous reputational costs compared to legal penalties. Only 6.5% of a company's losses may be attributable to court-imposed costs and 1.4% can be attributed to penalties; the remainder, over 90%, can be attributed to reputational losses. Also, corporate fraud makes the value of common stock drop by an average of 1.34 percent. One of the causes of market devaluation is the decline in public confidence in dishonest corporations and poor ratings. While the sentiment of financial losses suffered by investors or shareholders stays unchanged, other losses are added, such as the loss of future investors or shareholders, resulting in a decrease in the corporation's stock valuation. For instance, when the Securities and Exchange Commission (SEC) discovered the scam in early 2003, HealthSouth stock fell from about \$100 per share to less than 15 cents in a single trading day. Consequently, it was delisted from the New York Stock Exchange (NYSE). In 1997, Bre-X Minerals supposedly discovered the world's largest gold mine in Indonesia. The stock price soared to about \$300 per share, and many investors who sold around the peak made a fortune. Unfortunately for the remaining Bre-X investors, the massive gold discovery turned out to be an elaborate deception. Almost immediately, the stock reverted to its status as a penny stock after the scam was uncovered. Consequently, the depiction portrays the discovery of fraud resulting in a substantial decrease in the corporation's market value and, in the worst-case scenario, the declaration of bankruptcy.

Figure 2: Enron's Stock Price Plummets



Source: Wikimedia Common (2015)

Conclusion:

Recent fraud scandals have elevated the fraud issue to the forefront of economic and financial concerns. Fraud risks surround businesses. Each organization is susceptible to fraud from its personnel, regardless of rank or tenure, and in many instances, internal and external fraudsters work together. The existing literature has served as a reference for comprehending the damaging effects of corporate fraud. The fraud issue should not be downplayed since its repercussions endanger not only the existence of the organizations but also industry policy. The disclosure of fraud motivates the government to implement strict rules and revise the law, thus requiring corporations to meet stringent governance requirements. In addition, corporations with fraud scandals must face legal repercussions on both sides, which cause certain problems, such as legal suits from employees and creditors. Despite the fact that they may have survived, they will be branded as problematic and new investors will be hesitant to invest in them. Competent human capital will exercise caution before signing a contract with

them. Hence, there is a high probability that the corporations will become less attractive and will be unable to compete in the market. As fraud activity is difficult to combat, the paper recommends that corporations enhance their internal controls, conduct frequent job rotations, and focus on top management, as the majority of fraud is committed by top management due to their advantageous circumstances.

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