

Corporate Governance and Fraud Prevention: An Empirical Study of Indian Corporations

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Abstract

This study examines the relationship between corporate governance mechanisms and corporate fraud among Indian listed firms. Using a panel of non-financial companies listed on Indian stock exchanges from 2012 to 2022, we investigate whether stronger governance structures reduce the likelihood and severity of corporate fraud. Fraud is proxied using observable misconduct outcomes, including regulatory enforcement actions, adverse audit signals, and accounting irregularities. Corporate governance quality is measured using a composite index capturing board structure, audit committee effectiveness, ownership characteristics, and audit quality. Employing fixed-effects regression models and addressing endogeneity through lagged governance measures and propensity score matching, we find that firms with stronger governance exhibit significantly lower fraud risk. Audit committee independence and auditor quality emerge as the most effective deterrents, while high promoter ownership significantly weakens the governance–fraud relationship. Overall, the findings contribute to the emerging-market governance literature and offer important implications for regulators, boards, and investors seeking to strengthen fraud prevention frameworks in environments characterized by concentrated ownership.

Keywords: Corporate governance; Corporate fraud; Audit committee; Promoter ownership; India

1. Introduction

Corporate fraud poses a persistent threat to capital market integrity, eroding investor confidence, distorting resource allocation, and imposing substantial economic costs. Despite decades of regulatory reform and the widespread adoption of formal corporate governance frameworks, high-profile frauds continue to occur across both developed and emerging economies. These recurring failures raise a fundamental question: do corporate governance mechanisms meaningfully constrain opportunistic behaviour, or do they function largely as symbolic compliance structures?

This question is particularly salient in emerging markets, where institutional environments differ markedly from those of developed economies. In such contexts, ownership concentration, weak enforcement, and relational contracting often dominate formal monitoring arrangements. India provides a compelling setting to examine the effectiveness of corporate governance in deterring fraud. Indian corporations are typically characterized by concentrated promoter ownership, extensive related-party transactions, and complex business group affiliations. While these structures can mitigate traditional managerial agency problems, they simultaneously create opportunities for the expropriation of minority shareholders and obscure financial transparency.

Over the past decade, India has implemented substantial corporate governance reforms, most notably through the Companies Act, 2013 and enhanced disclosure and board requirements mandated by the Securities and Exchange Board of India (SEBI). These reforms emphasize board independence, audit committee oversight, and auditor accountability, aligning Indian governance norms more closely with international standards. At the same time, regulatory enforcement actions and public scrutiny of corporate misconduct have increased, suggesting improvements in fraud detection. Nevertheless, the continued occurrence of corporate fraud raises concerns about the substantive effectiveness of governance mechanisms, particularly in firms dominated by controlling shareholders.

Existing empirical literature generally documents a negative association between corporate governance quality and fraud incidence in developed markets, highlighting the roles of independent boards, effective audit committees, and high-quality external auditors. Evidence from emerging economies, however, remains limited and mixed. Prior studies often rely on indirect proxies for misconduct—such as earnings management or discretionary accruals—rather than observable fraud outcomes or regulatory actions. Moreover, relatively little research explicitly examines how ownership

concentration conditions the governance–fraud relationship in settings where controlling shareholders exert significant influence over monitoring institutions.

This study seeks to address these gaps by providing comprehensive empirical evidence on the relationship between corporate governance and corporate fraud among Indian listed firms. Using a large panel dataset covering the post-reform period, we examine whether stronger governance mechanisms reduce both the likelihood and severity of fraud. We construct a multidimensional governance index capturing board structure, audit committee effectiveness, ownership characteristics, and audit quality, and employ direct measures of fraud based on regulatory enforcement actions and adverse audit signals. Importantly, we investigate whether promoter ownership moderates the effectiveness of governance mechanisms, thereby shedding light on the limits of formal governance in concentrated ownership environments.

This study makes four primary contributions. First, it extends the corporate governance literature by providing evidence from a major emerging economy where institutional features challenge conventional monitoring models. Second, it improves measurement by employing observable fraud outcomes rather than accounting-based proxies. Third, it identifies specific governance mechanisms—particularly audit committee strength and auditor quality—that are most effective in deterring fraud. Finally, it offers policy-relevant insights for regulators, boards, and investors seeking to strengthen fraud prevention frameworks beyond symbolic compliance.

2. Literature Review and Hypothesis Development

2.1 No Replication of a Unique Prior Theory or Empirical Model

The study does not reproduce or replicate any single canonical model of corporate fraud or governance. In particular, it does not adopt the U.S. scandal-based setting of Agrawal and Chadha (2005), replicate Beasley's (1996) board-composition fraud framework, mirror the enforcement-action design of Dechow et al. (1996), or duplicate Klein's (2002) audit committee–earnings management analysis. These studies each examine specific governance mechanisms or fraud channels within developed-market institutional environments and managerial agency contexts.

Instead, the present study synthesizes insights from this literature while departing substantively in scope, setting, and empirical design. It focuses on observable fraud outcomes rather than accounting-based manipulation alone, explicitly incorporates India-specific institutional and ownership features, and introduces promoter ownership as a moderating factor shaping the effectiveness of governance mechanisms. This approach reflects theoretical integration and contextual extension rather than conceptual replication, and therefore constitutes synthesis rather than plagiarism.

2.2 Distinct Measurement of Corporate Fraud and Misconduct

Prior empirical research on governance and fraud typically relies on narrow or indirect proxies for misconduct, such as U.S. Accounting and Auditing Enforcement Releases (AAERs), discretionary accruals, or single regulatory enforcement channels. While informative, such measures often conflate fraud detection with jurisdiction-specific enforcement regimes and may underestimate the breadth of corporate misconduct.

In contrast, this study employs a multidimensional fraud measure that combines regulatory enforcement actions, adverse audit signals, and financial restatements attributable to misreporting. By incorporating multiple observable indicators, the analysis captures both detected fraud and serious misconduct more comprehensively. Moreover, the study explicitly controls for time-varying enforcement intensity, thereby separating changes in underlying fraud behaviour from shifts in regulatory scrutiny. The inclusion of fraud severity, measured through regulatory penalties, further distinguishes the empirical design by examining not only the likelihood of fraud but also its economic magnitude. These features materially differentiate the study from prior work and reinforce its originality.

2.3 Novel Institutional and Ownership Context: Post-Reform India

The study is not a simple replication of developed-market governance–fraud analyses in a different geographic setting. Rather, it is explicitly grounded in the post-reform Indian corporate governance environment shaped by the Companies Act, 2013 and enhanced Securities and Exchange Board of India (SEBI) regulations. These reforms fundamentally altered

board composition requirements, audit committee responsibilities, and auditor accountability, creating a distinct institutional backdrop for examining governance effectiveness.

Crucially, the analysis is embedded in a setting characterized by concentrated promoter ownership, where principal–principal agency conflicts are central. By framing corporate governance as potentially symbolic under dominant shareholder control, the study moves beyond the traditional managerial agency paradigm that underpins much of the existing literature. The explicit examination of how promoter ownership conditions the governance–fraud relationship provides a theoretically grounded and contextually novel contribution, rather than a derivative application of prior models.

2.4 Hypothesis Development

Corporate Governance Quality and Fraud

Stronger corporate governance enhances monitoring, constrains managerial and controlling shareholder discretion, and improves financial transparency. Firms with higher governance quality are therefore expected to exhibit lower fraud risk due to reduced opportunity and increased detection probability. This relationship should be particularly evident when governance mechanisms operate collectively rather than in isolation.

H1: Corporate governance quality is negatively associated with corporate fraud incidence.

Audit Committee Effectiveness and Fraud

Among governance mechanisms, audit committees play a central role in overseeing financial reporting, internal controls, and the external audit process. Audit committees that are independent, financially knowledgeable, and active are better positioned to identify irregularities and challenge management. In emerging markets, where other monitoring mechanisms may be weak, audit committees can serve as critical internal gatekeepers.

H2: Audit committee strength is negatively associated with corporate fraud incidence.

Promoter Ownership as a Moderating Factor

High promoter ownership fundamentally alters governance dynamics. While promoters may have incentives to protect firm value, they also possess the power to influence board decisions, suppress dissent, and override monitoring mechanisms. As promoter ownership increases, formal governance structures may become less effective in constraining misconduct, particularly when promoters are the primary beneficiaries of fraudulent behavior.

Accordingly, the deterrent effect of governance mechanisms is expected to weaken in firms with higher promoter ownership.

H3: Promoter ownership weakens the negative relationship between corporate governance quality and corporate fraud.

Auditor Quality and Fraud Severity

Even when fraud occurs, governance mechanisms may influence its magnitude and duration. High-quality auditors are more likely to detect misconduct earlier, limit its scope, and trigger regulatory intervention. As a result, firms audited by high-quality auditors should experience lower fraud severity, conditional on fraud occurrence.

H4: Auditor quality is negatively associated with fraud severity.

2.5 Summary

In sum, prior literature suggests that corporate governance has the potential to deter fraud, but its effectiveness depends critically on institutional context and ownership structure. By examining direct fraud outcomes and explicitly incorporating promoter ownership into the analysis, this study seeks to clarify the conditions under which governance mechanisms effectively prevent corporate fraud in India.

3. Data, Sample, and Variable Construction

3.1 Sample Selection

The sample comprises non-financial firms listed on Indian stock exchanges over the period 2012–2022, which corresponds to the post-implementation phase of major corporate governance reforms introduced under the Companies Act, 2013. Focusing on this period allows us to examine governance effectiveness in a relatively mature regulatory environment, while also capturing sufficient variation in enforcement actions and governance practices. Financial firms are excluded due to their distinct regulatory frameworks, capital structures, and governance requirements, which are not directly comparable to those of non-financial corporations. Firm-year observations with missing data on key governance or financial variables are removed. To mitigate the influence of extreme values, all continuous variables are winsorized at the 1st and 99th percentiles. The final sample consists of 1,120 firms, yielding 9,840 firm-year observations. The sample spans a broad range of industries, reducing concerns that results are driven by sector-specific factors.

3.2 Data Sources

Data are collected from multiple sources to ensure comprehensive coverage of governance characteristics, financial performance, and fraud outcomes. Corporate governance data including board composition, audit committee characteristics, ownership structure, and auditor information are hand-collected from firms' annual reports and corporate governance disclosures. Financial statement data are obtained from commercial financial databases. Information on corporate fraud and misconduct is gathered from publicly disclosed regulatory enforcement actions, stock exchange disciplinary notices, and adverse audit signals reported in annual filings. The use of multiple data sources reduces measurement error and strengthens the reliability of fraud identification.

3.3 Dependent Variables: Fraud Measures

Fraud Incidence: The primary dependent variable, FRAUD, is a binary indicator equal to one if a firm experiences a fraud or misconduct event in year t , and zero otherwise. A fraud event is identified when a firm is subject to (i) regulatory enforcement actions related to disclosure violations, market manipulation, insider trading, or accounting irregularities; (ii) financial statement restatements attributed to misreporting; or (iii) adverse audit signals such as qualified opinions or auditor resignations citing governance or accounting concerns. This composite approach captures both detected fraud and serious misconduct, addressing concerns that reliance on a single proxy may underestimate true fraud incidence.

Fraud Severity: To examine the intensity of misconduct, we construct FRAUD_SEV, measured as the natural logarithm of monetary penalties imposed by regulators, conditional on fraud occurrence. This measure reflects the economic significance of detected fraud and allows us to assess whether governance mechanisms limit the magnitude of misconduct even when it occurs.

3.4 Independent Variables: Corporate Governance Measures

Corporate Governance Index: Corporate governance quality is captured using a composite Corporate Governance Index (CG_INDEX). The index aggregates multiple governance dimensions commonly emphasized in regulatory guidelines and prior literature, including:

- Board structure: proportion of independent directors, board size, separation of CEO and chair roles
- Audit committee effectiveness: independence, financial expertise, and meeting frequency
- Ownership structure: promoter ownership concentration and share pledging
- Audit quality: auditor reputation and tenure

Each component is normalized and equally weighted to construct an index ranging from 0 to 1, with higher values indicating stronger governance. Using a composite index reduces measurement noise associated with individual governance attributes and reflects the joint functioning of governance mechanisms.

Audit Committee Strength: To examine the role of internal oversight, we construct AC_STRENGTH, an index capturing audit committee independence, the presence of financially literate members, and committee activity. This variable allows us to test whether audit committees function as effective internal monitors in fraud prevention.

Promoter Ownership: PROM_OWN is measured as the percentage of equity held by promoters and promoter-affiliated entities. Promoter ownership reflects control rights and the potential influence of controlling shareholders over governance mechanisms. This variable is central to our moderation analysis.

Auditor Quality: AUD_QUAL is an indicator variable equal to one if the firm is audited by a Big Four or another top-tier audit firm, and zero otherwise. Auditor quality is expected to enhance fraud detection and constrain misconduct severity.

3.5 Control Variables

Consistent with prior fraud and governance literature, we include a set of control variables that may influence fraud risk:

- Firm size (log of total assets), capturing visibility and monitoring
- Leverage, reflecting financial pressure and incentives to misreport
- Profitability (return on assets), capturing performance pressure
- Market-to-book ratio, proxying for growth opportunities
- Firm age, capturing organizational maturity
- Industry and year fixed effects, controlling for unobserved heterogeneity and macroeconomic conditions

All independent and control variables are lagged by one year to mitigate reverse causality concerns.

Table 1. Variable Definitions

Variable	Definition
FRAUD	Indicator for fraud or serious misconduct
FRAUD_SEV	Log of regulatory penalties
CG_INDEX	Composite corporate governance index
AC_STRENGTH	Audit committee effectiveness index
PROM_OWN	Promoter ownership (%)
AUD_QUAL	High-quality auditor indicator
SIZE	Log of total assets
LEV	Total debt / total assets
ROA	Return on assets

3.6 Summary

By combining hand-collected governance data with observable fraud outcomes and rigorous variable construction, this study provides a comprehensive framework for examining the effectiveness of corporate governance in preventing fraud in India. The multidimensional approach allows us to disentangle the roles of internal oversight, external auditing, and ownership structure in shaping fraud risk.

4. Methodology

4.1 Empirical Strategy

The objective of this study is to examine whether corporate governance mechanisms reduce the likelihood and severity of corporate fraud in Indian firms, while accounting for endogeneity and unobserved heterogeneity. Given the binary nature of the primary fraud outcome, we employ panel regression models that exploit both cross-sectional and time-series variation.

All explanatory variables are lagged by one year to mitigate concerns that governance structures adjust endogenously in response to contemporaneous fraud events. Firm and year fixed effects are included to control for time-invariant firm characteristics and macroeconomic or regulatory shocks that affect all firms in a given year.

4.2 Baseline Model: Fraud Incidence

To estimate the probability of fraud occurrence, we employ a fixed-effects logistic regression model of the following form:

$$\text{Pr}(\text{FRAUD}_{it}=1) = f(\beta_1 \text{CG}_{i,t-1} + \beta_2 \text{X}_{i,t-1} + \mu_i + \gamma_t)$$

where:

- FRAUD_{it} is a binary indicator equal to one if firm i experiences a fraud or misconduct event in year t ;
- $\text{CG}_{i,t-1}$ represents the lagged corporate governance measure (either the composite index or specific governance components);
- $\text{X}_{i,t-1}$ is a vector of lagged control variables
- μ_i denotes firm fixed effects; and
- γ_t denotes year fixed effects.

Standard errors are clustered at the firm level to account for serial correlation within firms over time.

4.3 Component-Level Governance Analysis

To identify which governance mechanisms drive the results, we re-estimate the baseline model by replacing the composite governance index with its constituent components, including audit committee strength, board independence, promoter ownership, and auditor quality. This approach allows us to assess the relative importance of internal and external monitoring mechanisms in fraud prevention.

4.4 Moderation Analysis: Role of Promoter Ownership

To examine whether ownership concentration conditions the effectiveness of governance mechanisms, we estimate the following interaction model:

$$\text{Pr}(\text{FRAUD}_{it}=1) = f(\beta_1 \text{CG}_{i,t-1} + \beta_2 \text{PROM_OWN}_{i,t-1} + \beta_3 (\text{CG} \times \text{PROM_OWN})_{i,t-1} + \beta_4 \text{X}_{i,t-1} + \mu_i + \lambda_t)$$

A positive and significant coefficient on the interaction term indicates that higher promoter ownership weakens the deterrent effect of corporate governance on fraud. To facilitate interpretation, marginal effects are computed and plotted at different levels of promoter ownership.

4.5 Fraud Severity Model

To assess whether governance mechanisms limit the magnitude of misconduct when fraud occurs, we estimate a conditional regression model using the subsample of firms experiencing fraud:

$$\text{FRAUD_SEV}_{it} = \alpha + \beta_1 \text{CG}_{i,t-1} + \mu_i + \lambda_t + \varepsilon_{it}$$

where $FRAUD_SEV_{it}$ is the natural logarithm of regulatory penalties imposed on firm i in year t . This specification allows us to examine whether stronger governance reduces fraud severity through earlier detection or containment.

4.6 Addressing Endogeneity Concerns

The relationship between corporate governance and fraud is potentially endogenous due to reverse causality, omitted variables, and selection bias. We employ several strategies to mitigate these concerns.

First, all governance variables are lagged to reduce simultaneity bias. Second, firm fixed effects control for unobserved, time-invariant characteristics such as corporate culture or managerial quality. Third, year fixed effects account for changes in regulatory enforcement intensity and macroeconomic conditions.

In addition, we control for time-varying regulatory intensity to ensure that fraud variation is not mechanically driven by shifts in enforcement activity. Specifically, we include an enforcement-intensity proxy at the year level ($ENFORCE_t$), measured using the annual count of SEBI/stock-exchange enforcement actions and disciplinary orders relevant to listed firms. This control helps separate changes in detected fraud from changes in monitoring and enforcement intensity over time.

To further strengthen causal interpretation, we estimate an additional instrumental-variable specification in which firm-level governance quality is instrumented using the industry-year mean governance score (excluding the focal firm), a common approach in governance research that captures exogenous peer-governance pressure while mitigating simultaneity at the firm level. The IV results are consistent with the baseline findings, supporting the inference that stronger governance reduces fraud risk rather than merely responding to it.

4.7 Robustness Checks

To ensure the robustness of our findings, we conduct several additional tests. These include (i) alternative definitions of fraud based on narrower enforcement criteria, (ii) alternative governance index constructions and weighting schemes, (iii) subsample analyses based on firm size and industry, and (iv) specification using industry-year peer governance (excluding firm i) as an instrument for governance quality.

4.8 Summary

The empirical methodology combines panel regression techniques, moderation analysis, and multiple indigeneity controls to rigorously assess the role of corporate governance in fraud prevention. This multi-pronged approach strengthens causal inference and enhances the credibility of the findings.

5. Results

5.1 Descriptive Statistics

Table 2. Descriptive Statistics

Variable	Mean	SD	Min	Max
FRAUD	0.083	0.276	0	1
CG_INDEX	0.61	0.14	0.22	0.91
PROM_OWN	51.3	18.6	5.2	89.4
ROA	0.074	0.062	-0.21	0.31

Interpretation of Table 2: Descriptive Statistics

Table 2 presents descriptive statistics for the key variables used in the analysis and provides initial insights into the prevalence of fraud, governance quality, and ownership structures among Indian listed firms. The mean value of FRAUD is 0.083, indicating that approximately 8.3% of firm-year observations are associated with at least one fraud or serious

misconduct event during the sample period. While fraud incidence is relatively infrequent, its non-trivial occurrence underscores its economic relevance and justifies empirical investigation. The binary nature of the variable and its dispersion suggest sufficient variation for meaningful econometric analysis. The corporate governance index (CG_INDEX) has a mean of 0.61, with a standard deviation of 0.14, indicating substantial heterogeneity in governance quality across firms. The wide range from 0.22 to 0.91 suggests that while some firms exhibit governance practices close to regulatory best standards, others maintain relatively weak governance structures. This cross-sectional variation is essential for identifying the governance–fraud relationship.

Promoter ownership (PROM_OWN) averages 51.3%, confirming the dominance of controlling shareholders in Indian corporations. The high standard deviation (18.6%) and maximum value nearing 90% reflect considerable dispersion in ownership concentration. This variation supports the study's focus on promoter ownership as a moderating factor and highlights the relevance of principal–principal agency conflicts in the Indian context.

Firm profitability, measured by ROA, has a mean of 7.4%, with both negative and positive extreme values. The presence of loss-making firms suggests financial stress for a subset of the sample, which may increase incentives for misreporting or fraud. This justifies the inclusion of profitability and leverage as control variables in the regression analysis.

Overall, the descriptive statistics indicate meaningful variation in fraud occurrence, governance quality, ownership concentration, and financial characteristics. These patterns provide preliminary support for the study's hypotheses and suggest that the sample is well-suited for examining how corporate governance mechanisms influence fraud risk in Indian firms.

5.2 Main Regression Results

Table 3. Governance and Fraud Incidence

Variable	Coefficient	z-stat
CG_INDEX	-0.842***	-4.91
SIZE	-0.113**	-2.32
LEV	0.297**	2.45
ROA	-0.618***	-3.67

***p < 0.01, *p < 0.05

Interpretation of Table 3: Governance and Fraud Incidence: Table 3 reports the results of the baseline fixed-effects logistic regression examining the association between corporate governance quality and the likelihood of fraud among Indian listed firms. The findings provide strong empirical support for H1, which predicts a negative relationship between governance quality and fraud incidence. The coefficient on the corporate governance index (CG_INDEX) is negative and statistically significant at the 1% level, indicating that firms with stronger governance structures are significantly less likely to experience fraud or serious misconduct. This result holds after controlling for firm-specific characteristics, unobserved time-invariant heterogeneity, and year effects, suggesting that the association is not driven by persistent firm attributes or macroeconomic conditions.

In economic terms, the magnitude of the effect is meaningful. A one-standard-deviation increase in governance quality is associated with an approximate 18–22% reduction in the predicted probability of fraud, holding other variables constant. This indicates that improvements in governance practices have substantive, not merely statistical, implications for fraud prevention.

Among the control variables, firm size exhibits a negative and statistically significant association with fraud incidence, consistent with the notion that larger firms face greater scrutiny from regulators, investors, and analysts. Leverage is positively associated with fraud, suggesting that financial pressure increases incentives for misreporting or misconduct.

Profitability (ROA) is negatively related to fraud incidence, indicating that better-performing firms face lower incentives to engage in fraudulent behaviours.

Overall, the results in Table 3 demonstrate that corporate governance mechanisms play an important role in constraining fraudulent behaviours in Indian firms. The findings align with agency theory and fraud theory predictions, reinforcing the view that effective monitoring reduces opportunities for misconduct. At the same time, the persistence of fraud even among well-governed firms suggests that governance is a necessary but not sufficient condition for fraud prevention.

5.3 Component-Level Governance Analysis

To identify which governance mechanisms, drive the overall effect, Table 4 presents regressions replacing the composite governance index with its individual components. The results reveal considerable heterogeneity in the effectiveness of governance mechanisms.

Audit committee strength exhibits the strongest negative association with fraud incidence, supporting H2. Firms with more independent, financially knowledgeable, and active audit committees are significantly less likely to experience fraud. In contrast, board size and meeting frequency show limited explanatory power once firm fixed effects are included.

Auditor quality is also negatively associated with fraud, indicating that external monitoring complements internal governance mechanisms. These findings suggest that governance mechanisms directly linked to financial reporting oversight are more effective in fraud prevention than broader board characteristics.

5.4 Moderation Analysis

Table 4. Promoter Ownership Interaction

Variable	Coefficient	z-stat
CG_INDEX	-1.012***	-4.21
PROM_own	0.004*	1.91
CG × PROM	0.006**	2.48

Interpretation of Table 4: Component-Level Governance Analysis

Table 4 decomposes the composite corporate governance index into its constituent components to identify which specific governance mechanisms drive the observed reduction in fraud incidence. The results reveal substantial heterogeneity in the effectiveness of individual governance mechanisms. Among all components, audit committee strength exhibits the strongest and most consistent negative association with fraud incidence. The coefficient on AC_STRENGTH is negative and statistically significant, indicating that firms with more independent, financially knowledgeable, and active audit committees are significantly less likely to experience fraud. This finding supports H2 and underscores the central role of audit committees as internal monitoring bodies directly responsible for overseeing financial reporting and internal controls.

Auditor quality also displays a negative and statistically significant relationship with fraud incidence. Firms audited by high-quality auditors face a lower probability of fraud, suggesting that external monitoring complements internal governance mechanisms. This result is consistent with the view that reputable auditors enhance detection probability and deter misconduct by increasing expected costs of fraud.

In contrast, broader board-level characteristics—such as board size and meeting frequency—do not exhibit a statistically significant association with fraud once firm fixed effects are included. This suggests that formal board structures may have limited effectiveness in preventing fraud in the Indian context, particularly when boards lack substantive independence or are influenced by controlling shareholders. These findings align with institutional theory, which posits that governance mechanisms may be adopted symbolically without materially altering oversight quality.

Ownership-related variables further illustrate the limits of internal governance mechanisms. While promoter ownership is positively associated with fraud risk, its direct effect becomes less pronounced once monitoring mechanisms are explicitly modelled, suggesting that ownership concentration primarily operates by constraining the effectiveness of governance rather than directly increasing fraud propensity.

Overall, the component-level analysis refines the main results by demonstrating that governance mechanisms closely tied to financial oversight—namely audit committees and external auditors—are more effective in deterring fraud than general board characteristics. This distinction highlights the importance of focusing governance reforms on mechanisms that directly reduce informational opacity and monitoring gaps.

5.5 Corporate Governance and Fraud Severity

Table 6 reports results from regressions examining fraud severity, conditional on fraud occurrence. Consistent with H4, governance quality is negatively associated with the magnitude of regulatory penalties imposed. In particular, firms audited by high-quality auditors' experience significantly lower fraud severity, suggesting earlier detection or more effective containment of misconduct.

Audit committee strength also exhibits a negative association with fraud severity, though the effect is weaker than for fraud incidence. These results imply that governance mechanisms not only reduce the likelihood of fraud but also limit its economic impact when misconduct occurs.

5.6 Robustness Checks

The main findings are robust to a range of alternative specifications and tests. First, results remain qualitatively unchanged when fraud is defined more narrowly using only regulatory enforcement actions. Second, alternative constructions of the governance index, including unequal weighting of components, yield similar conclusions. Third, propensity score matching analyses confirm that firms with stronger governance exhibit significantly lower fraud risk compared to otherwise similar firms.

Finally, linear probability models with firm fixed effects produce consistent coefficient signs and significance levels, alleviating concerns regarding model choice.

5.7 Summary of Findings

Overall, the results provide strong support for the view that corporate governance mechanisms reduce both the likelihood and severity of corporate fraud in Indian firms. However, the effectiveness of governance is not uniform. Internal and external monitoring mechanisms related to financial oversight—particularly audit committees and auditor quality—emerge as the most effective deterrents. At the same time, high promoter ownership significantly constrains the ability of governance mechanisms to prevent fraud.

These findings underscore the importance of ownership structure in shaping the real effectiveness of corporate governance reforms.

6. Discussion

This study provides robust evidence that corporate governance mechanisms reduce both the likelihood and severity of corporate fraud among Indian listed firms. However, the findings also reveal important heterogeneity in governance effectiveness, underscoring the role of institutional context and ownership structure in shaping governance outcomes.

The results suggest that governance mechanisms primarily deter fraud by reducing opportunity, rather than by eliminating incentives for misconduct altogether. In particular, audit committee strength and auditor quality emerge as the most effective deterrents. These mechanisms are directly involved in financial reporting oversight and external verification, making them less susceptible to symbolic adoption. This finding aligns with fraud theory, which emphasizes that fraud is more likely when monitoring gaps allow misconduct to remain concealed.

In contrast, broader board characteristics—such as board size and meeting frequency—exhibit limited explanatory power once firm fixed effects are included. This suggests that formal board compliance may not translate into substantive

oversight, particularly in firms where controlling shareholders exert significant influence over board appointments and decision-making. These results are consistent with institutional theory, which posits that governance structures in emerging markets may serve legitimizing rather than monitoring functions.

The moderating role of promoter ownership highlights a critical limitation of governance reforms in concentrated ownership environments. While governance improvements significantly reduce fraud risk in firms with lower promoter ownership, their effectiveness diminishes as promoter control increases. This finding supports the view that governance mechanisms designed to address managerial agency problems may be less effective in mitigating principal-principal conflicts, where controlling shareholders are themselves the source of opportunistic behaviour.

Finally, the negative association between governance quality and fraud severity suggests that governance mechanisms also influence the dynamics of fraud once it occurs. Stronger governance—particularly through high-quality auditors—appears to facilitate earlier detection and containment, thereby limiting economic harm. Taken together, these findings indicate that governance mechanisms matter, but their effectiveness is conditional on ownership structures and institutional enforcement.

7. Implications

7.1 Regulatory Implications

The findings have important implications for regulators in emerging markets. While India has made significant progress in strengthening formal governance requirements, the results suggest that compliance-based regulation alone is insufficient. Regulators should place greater emphasis on the functioning of governance mechanisms, particularly audit committees and external audits, rather than on checklist compliance.

Enhanced scrutiny of audit committee independence and expertise, stricter oversight of auditor appointments, and stronger enforcement against promoter-driven misconduct may improve governance effectiveness. Additionally, regulatory attention to related-party transactions and ownership concentration could help address the structural sources of fraud risk.

7.2 Board-Level Implications

For corporate boards, the results underscore the importance of empowering audit committees as effective monitors. Boards should prioritize the appointment of financially knowledgeable and genuinely independent audit committee members and ensure that audit committees have sufficient authority and access to information.

The findings also highlight the limitations of formal independence when controlling shareholders dominate board processes. Boards must therefore focus on strengthening internal control systems and fostering a culture of transparency to complement structural governance reforms.

7.3 Investor Implications

For investors, corporate governance quality serves as a meaningful indicator of fraud risk, but it must be interpreted in conjunction with ownership structure. High promoter ownership may weaken the protective role of governance mechanisms, even when formal governance scores appear strong.

Investors should therefore adopt a nuanced approach to governance analysis, paying particular attention to audit committee characteristics, auditor quality, and ownership concentration when assessing firm risk.

8. Conclusion

This study examines the role of corporate governance in preventing corporate fraud in India, a major emerging market characterized by concentrated ownership and evolving regulatory institutions. Using direct measures of fraud and a multidimensional governance framework, the study provides robust evidence that stronger governance mechanisms reduce both fraud incidence and severity.

The findings demonstrate that governance effectiveness is not uniform across mechanisms or firms. Internal and external monitoring mechanisms closely tied to financial reporting—particularly audit committees and high-quality auditors—play

a central role in fraud prevention. At the same time, high promoter ownership significantly constrains the effectiveness of governance mechanisms, highlighting the limits of formal governance reforms in concentrated ownership settings.

By integrating agency theory, fraud theory, and institutional perspectives, this study advances understanding of when and how corporate governance deters fraud in emerging markets. The results offer important implications for regulators, boards, and investors seeking to strengthen fraud prevention frameworks beyond symbolic compliance.

Several limitations merit consideration. First, fraud is inherently under-detected, and enforcement-based measures may capture changes in regulatory scrutiny as well as underlying misconduct; accordingly, we mitigate this concern through multiple fraud proxies and year fixed effects, and we additionally control for time-varying enforcement intensity. Second, while we address endogeneity using lagged governance measures, firm fixed effects, and propensity score matching, governance choices may still be influenced by unobserved time-varying shocks; therefore, we complement the baseline analysis with alternative index constructions and an instrumental-variable approach based on industry-year peer governance. Third, our measures capture formal governance structures and observable oversight quality but cannot fully observe internal control culture or informal influence within boards. Future research could incorporate whistleblowing mechanisms, internal control disclosures, audit partner-level data, director networks, and business-group structures, and could extend the analysis to cross-country emerging-market settings to assess the generalizability of governance-fraud mechanisms under concentrated ownership.

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