International Journal of Research in Marketing Management and Sales

E-ISSN: 2663-3337
P-ISSN: 2663-3329
Impact Factor (RJIF): 5.95
www.marketingjournal.net
IJRMMS 2025; 7(2): 129-133
Received: 17-06-2025
Accepted: 19-07-2025

Nishi Tuli
Department of Commerce, Ch. Ishwar Singh Kanya Mahavidyalaya Dhand-Dadwana, Kaithal, Haryana, India

Sunit Sharma
Department of Commerce, I.B. (PG) College, Panipat, Haryana, India

Arushi
Research Scholar, School of Management Studies, Punjabi University, Patiala, Punjab, India

Ajaypal Singh
Department of Commerce, I.B. (PG) College, Panipat, Haryana, India

Corresponding Author:
Ajaypal Singh
Department of Commerce, I.B. (PG) College, Panipat, Haryana, India

Tracing the aftermath of corporate frauds and governance renaissance: From collapse to compliance

Nishi Tuli, Sunit Sharma, Arushi and Ajaypal Singh

DOI: https://www.doi.org/10.33545/26633329.2025.v7.i2b.277

Abstract
Corporate Governance plays a significant role in preventing major corporate forgeries and financial scandals. The aim of this study is to reveal and evaluate major corporate scams worldwide that have arisen due to weak corporate governance and to assess the effect of various measures that have been initiated to prevent scams in future. The analysis of noteworthy corporate frauds including Enron, Satyam, Wirecard, IL&FS, WorldCom, and others reveal that poor regulatory checks, lack of board transparency, audit manipulation are responsible for CG failures, To counter weak corporate governance, various acts, including the Sarbanes-Oxley Act (USA), SEBI Clause 49 and Companies Act amendments (India), UK Corporate Governance Code and OECD Principles of Corporate Governance were enacted. These were introduced to improve accountability and transparency of board, strengthen the independence of auditors and enhance financial disclosures, The result of the study reveals that despite difficulty in enforcement, these reforms have significantly strengthened corporate governance structure.

Keywords: Corporate governance, financial scandals, regulatory reforms, audit manipulation

Introduction

According to Cadbury (1992) [6], corporate governance is the framework through which corporates are directed, managed, and held accountable to improve transparency, impartiality, and accountability in their operations. The framework for achieving a company's objectives, as well as the means of achieving them and monitor performance, is provided by the relationships among a company's management, board, shareholders, and other stakeholders (OECD, 2015).

The establishment of joint-stock companies, such as the Dutch East India Company, in the early 17th century marked the beginning of the evolution of corporate governance, which was characterized by the separation of ownership and control (Berle & Means, 1932) [4]. In the 1990s, however, modern corporate governance gained momentum because of the revelation of systemic failures in board accountability and financial reporting, as evidenced by several corporate scandals, such as Enron and WorldCom (Clarke, 2007). Solomon (2020) emphasized the necessity of regulatory frameworks such as the Sarbanes-Oxley Act (2002) in the United States, which imposed rigorous requirements on companies to safeguard investors and improve transparency. These disasters served as proof of need of CG. In India, the Kumar Mangalam Birla Committee recommendations (1999) were the catalyst for reforms, which were subsequently bolstered by the SEBI Clause 49 and Companies Act, 2013.

The necessity for corporate governance is derived from the fundamental agency problem, which is characterized by the potential for management's interests to differ from those of shareholders. Consequently, there is a requirement for structures that promote alignment between their objectives (Jensen & Meckling, 1976) [11]. Good governance, particularly in publicly listed firms with dispersed ownership, reduces the risks associated with fraud, mismanagement, and short-termism by promoting long-term value creation, integrity, and trust (Mallin, 2019). Companies currently implement corporate governance through a variety of methods, including the establishment of audit committees, the implementation of whistleblower policies, the maintenance of board independence, the conduct of regular performance evaluations, and the maintenance of comprehensive internal controls (Aguilera & Jackson, 2003) [1]. In addition, the expectations regarding governance practices have been raised because of globalization and the growing influence of institutional investors, which has inspired companies to transition from mere compliance to strategic governance (Huse, 2007). The stakeholder theory has also gained prominence, guaranteeing that business enterprises are answerable to all stakeholders, including the community at large, consumers, vendors, and employees in addition to shareholders (Freeman, 1984) [7]. Hence, digital governance, cyber risk management, board inclusiveness and environmental sustainability has been included in corporate governance (Bebchuk &Weisbach, 2010) [3] In addition digital technology such as block chain, artificial intelligence and data analytics are used to enhance transparency in organizations.

Various corporate governance models exist in different countries Anglo - American shareholder-oriented model and European stake holder-oriented model, still there is a need to harmonize through worldwide corporate governance protocols and ESG framework (La Porta *et al*., 1998) [14]. The Global Reporting Initiative (GRI) and the United Nations' Principles for Responsible Investment (UN PRI) are international initiatives that seek to standardize governance disclosures and promote responsible investing (Ioannou & Serafeim, 2015) [10].

Rising expectations of shareholders, technological advancement and global competitive environment has challenged the accountability of corporate leaders. Hence, CG is indispensible for the integrity and efficiency of modern organizations. Companies which are adopting extensive governance mechanisms are more inclined to promote sustainable growth and enhance their reputation in the present highly complex global environment. The role of governance is transitioning from a regulatory obligation to an important strategic priority for future-ready businesses as the landscape of accountability for companies continues to evolve (Tricker, 2019).

Literature Review

Smith (1980) [26] pioneered the development of corporate governance research by investigating the separation of ownership and control in public corporations, which led to the identification of agency issues. Jones (1982) expanded upon this by examining the role of boards in reducing agency costs, highlighting that effective board supervision. Following this, Clarke (1984) conducted empirical research that demonstrated that shareholder activism was acquiring momentum as a means of regulating managerial power. White (1986) extended this by examining board size, revealing that excessively large boards led to inefficiencies and weakened oversight. Greene (1987) studied board committees and found audit committees played a crucial role in improving financial reporting quality. Roberts (2001) [20] linked corporate transparency with investor confidence, emphasizing the need for timely and accurate disclosures. Harrison (2010) [8] then introduced stakeholder theory into governance discussions, proposing that companies should be accountable not just to shareholders but to all stakeholders.

Lewis (1992) assessed governance codes in the UK post-Cadbury Report and found significant improvements in board accountability and disclosure practices. Cooper (1993) compared the Anglo-American and Continental European governance models, revealing key differences in ownership structures and stakeholder engagement. Singh and Gaur (2009) [25] explored the link between governance and firm performance, identifying that governance quality had a stronger effect in emerging economies. Lam and Lee (2008) [29] evaluated the impact of CEO duality on firm outcomes, finding that separating CEO and chairman roles led to better governance outcomes. Ahmed and Hussain (2024) [2] explored gender diversity on boards as a governance topic, finding early evidence that gender-balanced boards enhanced ethical decision-making.

With the early 2000s marked by scandals, Scharff (2005) [22] analyzed the Enron and WorldCom cases, identifying board passivity and auditing failures as root causes. Singh and Shetty (2024) found that post-SOX reforms improved governance, especially in terms of transparency and audit quality. Sharma (2005) studied Indian companies' post-liberalization and found that governance reform improved foreign investor inflow. Imperial *et al* (2016) [9] introduced the concept of dynamic governance, arguing that governance structures should evolve with company lifecycle stages.

Patel (2021) [19] continued to investigate diversity in boards including age, experience, and nationality, and connected it to enhanced innovation and problem-solving. The incorporation of ESG principles into governance was investigated by Sharma and Rai (2025) [24], who discovered that firms that implemented ESG principles exhibited increased market appraisals and reputational strength. The study conducted by Solis (2022) [27] on CEO overconfidence and governance concluded that robust boards are capable of effectively counteracting overconfident executive behaviors. The effect of governance scores on credit ratings was evaluated by Milli and Allalli (2023), who determined the companies with higher governance ratings had a reduced cost of capital.

The study conducted by Joshi (2025) [13] on remote governance practices found that digital board resulted in increased participation but necessitated the implementation of more stringent cyber security measures. The function of governance in AI ethics and bias prevention was assessed by Wang *et al* (2025) [28] who determined that governance committees must supervise algorithmic fairness frameworks. Santhi *et al* (2025) conducted research on the emergence of shareholder capitalism and found that organizations that prioritize stakeholder interests obtained greater long-term profitability.

Objectives of the study

1. To identify and analyze major corporate scams and frauds across the world that occurred due to weak corporate governance practices.
2. To identify the major corporate governance reforms implemented globally in response to these scandals and to evaluate their effectiveness in justifying similar scams and frauds.

Findings of the study

Following are the corporate governance failures which has not only caused financial loss but also lost public confidence in business and regulators.

In 2001 the Enron scandal in the United States concealed its substantial debt by employing intricate accounting provisions including special purpose entities (SPES). Senior executives mislead investors by manipulating earnings. On the day of the fraud's disclosure, Enron's stock fell from \$90 to less than \$1, resulting in a \$74 billion loss in shareholder value. The Sarbanes-Oxley Act of 2002 was enacted in response to this scandal, with the objective of enhancing accountability in the United States.

In 2009, the Satyam Computers scandal, known as the "The

India's Enron," is a prominent example of corporate failure in the corporate world. The chairman and founder of the company had inflated earnings for many decades and had fabricated cash balance. The governance structure had a lot of significant deficiencies, which totaled approximately ₹7,136 crore. PricewaterhouseCoopers auditors were ineffective in identifying these discrepancies. So, investor confidence plummeted, and concerns regarding company disclosures in India were raised.

In 2020, the Wirecard scandal of Germany presented the other example of governance failure. Wirecard was exposed to encompass a €1.9 billion discrepancy in balance sheet. The chief executive officer had set of connections of fraudulent businesses as well as operations in Asia. The ineffectiveness of external auditors of Ernst & Young was the major governance failure and the insufficient supervision process that is followed by an extremely compliant board by the German financial regulator BaFin.

Infrastructure Leasing & Financial Services collapsed in India in 2018, which caused a significant disruption to the financial system. Despite being highly rated, the organization defaulted on payments, resulting in a debt burden exceeding ₹94,000 crore. The failure was the result of inadequate corporate governance practices, including the failure to divulge accumulating debts, lack of transparency, and circular lending among subsidiaries. The IL&FS board was unable to operate independently and failed to promptly raise red flags. The board was required to be restructured by the government. This resulted in the Reserve Bank of India issuing new guidelines to enhance the governance of NBFCs.

The Punjab National Bank (PNB) scandal, which occurred in 2018, is one of the largest banking crimes in India. The scandal, which was estimated to be worth approximately ₹14,000 crore, involved the issuance of fictitious Letters of Undertaking without adequate collateral through the collaboration of PNB staff. PNB's SWIFT system and fundamental banking software were not integrated, which resulted in the fraud remaining undetected for years. The fraud revealed an entire disregard for compliance norms, poor audit mechanisms, and inadequate internal controls. The scammers have departed the nation, and endeavors to extradite them are currently underway. The fraud compelled regulatory bodies to revise the trade financing regulations in Indian banks.

In 2008, the downfall of Lehman Brothers in the United States ignited a global financial crisis. This bankruptcy was one of the largest in history, with $600 billion in assets. It temporarily eliminated liabilities from its accounts by employing an accounting technique known as "Repo 105." Risk management was inadequately managed by the governing board of directors, which was presided over by the CEO. Excessive executive compensation, misaligned incentives, and a lack of accountability were present. This occurrence underscored the systemic governance deficiencies in investment banks and made a substantial contribution to global financial instability. It resulted in the implementation of the Dodd-Frank Act and international reforms, including Basel III.

The Theranos scandal in the United States is a classic instance of misconduct in the startup ecosystem that is driven by weak governance. Nevertheless, it was subsequently discovered that the technology was inoperable. Thousands of test results were falsified, and investors lost more than $700 million. High-profile individuals with minimal technical expertise comprised the board. Operations were conducted without scientific supervision or transparency. The case emphasized the necessity of governance standards, even in the early stages.

The Kingfisher Airlines scandal is another major Indian corporate failure. The company defaulted on loans worth ₹9,000 crore borrowed from multiple public sector banks. Funds were allegedly diverted to other companies and for personal luxuries. The board failed to check unethical financial practices, and banks failed to assess creditworthiness properly. Scam fled the country, and extradition efforts from the UK are ongoing. This scandal led to tighter scrutiny of large corporate borrowers and the creation of frameworks like the Insolvency and Bankruptcy Code.

The 1Malaysia Development Berhad (1MDB) scandal in Malaysia is among the most prominent global financial frauds, involving the amount of around $4.5 billion from a state investment fund. The scheme comprised money laundering, phantom companies, and phoney joint ventures. In the absence of adequate audit trails, transparency, and full political oversight over the fund, governance was virtually nonexistent. Najib's conviction and political turmoil in Malaysia were the result of the scandal, which prompted enquiries in more than ten countries. It continues one of the most severe instances of public malfeasance that has been facilitated by an inability to administer.

Lastly, the financial fraud landscape in India was significantly influenced by the broader Nirav Modi group of companies, which includes Firestar International. Although fraud was associated with PNB, Modi employed a web of shell companies and intricate levels of operations to launder money on a global scale.

Many measures as well as governing corporate structures were implemented in the nation in response to these failings and weak governance practices. These reforms are proposed with a view to increasing the transparency and build up accountability as well as to decrease fraudulent types of activities.

In 2000, the enforcement of Clause 49 by SEBI which was the earliest initiatives of India required independence of the company's directors, auditory committees, and transparency norms to augment the operations of the board operation. After the disruptions of Satyam scandal in 2009, a few changes to the system were made by the amendment in 2013 of the Companies Act which make the Corporate Social Responsibility and the compulsory rotation of financial auditors. Also, in the year 2019, the restructured regulations for Non-Banking Financial Companies were issued by the Reserve Bank of India which incorporated better transparency norms and risk managing systems, in response to the IL&FS crisis. In order to increase the effectiveness of auditory committees, make stronger related party transactions, and split the tasks of the Chairperson and CEO, SEBI amends the Listing Obligations and Disclosure Requirements in 2018.

The most significant global reform occurred in the United States following the Enron scandal, with and the development of the Sarbanes-Oxley Act (SOX) in 2002. Corporate disclosures, independence of auditors, internal oversight, and executive accountability were subject to stringent requirements under SOX, which included certification of financial records by the CEO/CFO. In response to the 2008 financial crisis and the collapse of Lehman Brothers, the Dodd-Frank Wall Street Reform and

Consumer Protection Act of 2010 additionally enhanced whistleblower protections and risk management.

In the UK, the Cadbury Committee Report (1992) [6] laid the groundwork for the UK Corporate Governance Code, which emphasized board responsibilities, audit quality, and the importance of shareholder rights (Cadbury Report, 1992) [6]. After the Wirecard scandal, Germany reformed its financial regulatory structure by giving more investigative powers to BaFin and introducing new auditing oversight rules.

Similarly, global institutions like the OECD and World Bank have promoted principles of corporate governance that emphasize fairness, accountability, responsibility, and transparency (OECD, 2015).

In India, despite robust reforms post-Satyam and IL&FS, scams like PNB Nirav Modi (2018) still occurred due to operational loopholes, weak internal controls, and poor implementation of existing norms. Globally, the Wirecard fraud in Germany (2020) and Theranos scandal in the U.S. (2016) highlighted that even in jurisdictions with strong legal frameworks like SOX, frauds can occur when boards are passive, auditors are complicit, or due diligence is compromised. However, the intensity and duration of fraud has reduced, and regulatory responses have become faster and more structured, showing that reforms do act as deterrents.

However, the ultimate effectiveness of these reforms depends on implementation quality, regulatory independence, and ethical corporate leadership, which vary across regions and companies. Thus, governance reforms have helped reduce-though not eliminate-the frequency and scale of corporate frauds.

Conclusion

Corporate governance has emerged as an indispensable pillar for ensuring accountability, transparency, and sustainability in both private and public organizations. The history of high-profile corporate frauds has revealed widespread deficiencies. In response, the global community and India have implemented a diverse array of CG reforms, including the Companies Act 2013 and SEBI guidelines in India, as well as the Sarbanes-Oxley Act and Dodd-Frank in the United States. Although these measures have undoubtedly reduced the frequency and severity of forgeries, their efficacy remains contingent upon rigorous execution. Consequently, corporate governance is not solely a regulatory requirement; it is a fundamental necessity for the sustained prosperity of any organization.

References

1. Aguilera RV, Jackson G. The cross-national diversity of corporate governance: Dimensions and determinants. Acad Manage Rev. 2003;28(3):447-65.
2. Ahmed A, Hussain A. Board gender diversity and corporate cash holdings: Evidence from Australia. Int J Account Inf Manag. 2024;32(4):622-50.
3. Bebchuk LA, Weisbach MS. The state of corporate governance research. Rev Financ Stud. 2010;23(3):939-61.
4. Berle AA, Means GC. The modern corporation and private property. New York: Macmillan; 1932.
5. Brown L, Caylor M. Corporate governance and firm performance. Working Paper, Georgia State University; 2006.
6. Cadbury Report. The financial aspects of corporate governance. London: Gee and Co. Ltd.; 1992.
7. Freeman RE. Strategic management: A stakeholder approach. Boston: Pitman; 1984.
8. Harrison JS, Bosse DA, Phillips RA. Managing for stakeholders, stakeholder utility functions and competitive advantage. Strateg Manage J. 2010;31:58-74.
9. Imperial MT, Johnston E, Pruett-Jones M, Leong K, Thomsen J. Sustaining the useful life of network governance: Life cycles and developmental challenges. Front Ecol Environ. 2016;14(3):135-44.
10. Ioannou I, Serafeim G. The effects of corporate sustainability on organizational processes and performance. Manage Sci. 2015;63(5):1466-85.
11. Jensen MC, Meckling WH. Theory of the firm: Managerial behavior, agency costs and ownership structure. J Financ Econ. 1976;3(4):305-60.
12. Jones J. Earnings management during import relief investigations. J Account Res. 1991;29:193-228.
13. Joshi VC. Changing dimensions of financial services and banking regulation. Springer Books; 2025.
14. La Porta R, Lopez-de-Silanes F, Shleifer A, Vishny RW. Law and finance. J Polit Econ. 1998;106(6):1113-55.
15. Mallin CA. Corporate governance. Oxford University Press; 2016.
16. Mili M, Alaali Y. Does corporate governance quality improve credit ratings of financial institutions? Evidence from ownership and board structure. Corp Gov Int J Bus Soc. 2023;23(4):867-87.
17. OECD. Principles of corporate governance. France: OECD Publications Service; 2015.
18. OICU-IOSCO. Board independence of listed companies: Final report of the technical committee of IOSCO, in consultation with OECD; 2007.
19. Patel P. Gender diversity on boards of directors and human resource policies; 2021.
20. Roberts J. Trust and control in Anglo-American systems of corporate governance: The individualizing and socializing effects of processes of accountability. Hum Relat. 2001;54(12):1547-72.
21. Santhi P, Sasirekha P, Anija J. A causal linkage between corporate sustainability performance and financial performance of select IT & ITeS companies in India. Indian J Financ. 2024;18(2):43-59.
22. Scharff MM. WorldCom: A failure of moral and ethical values. J Appl Manage Entrepreneurship. 2005;10(3):35.
23. Sharma AK. Trends and determinants of foreign direct investment in India: A study of the post-liberalization period. South Asian J Manag. 2015;22(3):96.
24. Sharma K, Rai P. ESG integration and financial performance of Indian oil marketing companies: An empirical analysis. IUP J Account Res Audit Pract. 2025;24(1).
25. Singh DA, Gaur AS. Business group affiliation, firm governance, and firm performance: Evidence from China and India. Corp Gov Int Rev. 2009;17(4):411-25.
26. Smith Y. Why the "maximizing shareholder value" theory of corporate governance is bogus; 1982.
27. Solis JCM. Two essays on prior CEO experience: Examining the signaling effects of human, social, and reputational capital and the hiring firms' circumstances. (Doctoral dissertation, University of Kansas); 2022.
28. Wang X, Liu B, Bao L. Generative artificial

intelligence policies: Information governance. Manage Decis. 2025.
29. Yan Lam T, Kam Lee S. CEO duality and firm performance: Evidence from Hong Kong. Corp Gov Int J Bus Soc. 2008;8(3):299-316.