Substance Over Structure: Re-Examining The Efficacy of Corporate Governance Mechanisms in Deterring Corporate Fraud in Malaysia

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ABSTRACT

This study investigates the empirical relationship between structural corporate governance characteristics and the likelihood of corporate fraud among public listed companies (PLCs) in Malaysia. Utilizing a quantitative correlational research design, the researchers analyse panel data across a 10-year horizon from 2015 to 2024, yielding 300 firm-year observations from 30 companies listed on Bursa Malaysia. Six core structural attributes are board size, board meeting frequency, board independence, CEO duality, audit committee size, and audit committee meeting frequency were modelled against a binary dependent variable capturing fraudulent conduct. Binary logistic regression analysis reveals that board size is the sole governance attribute that exhibits a statistically significant negative relationship with corporate fraud. Conversely, no significant relationships were observed for the remaining structural variables, indicating that superficial compliance with formal mandates such as the Malaysian Code on Corporate Governance (MCCG) is insufficient for substantive fraud mitigation. These insights advocate for a critical paradigm shift away from symbolic, box-ticking compliance toward high-quality, active governance engagement, offering vital policy implications for regulators and investors in emerging markets.

Keywords: corporate governance; corporate fraud; board size; MCCG; Malaysian listed companies

INTRODUCTION

The escalating incidence of corporate fraud represents a severe threat to market integrity, investor confidence, and macroeconomic stability. Despite continuous iterative revisions to corporate governance frameworks globally, recurring financial failures constantly challenge the structural efficacy of existing oversight codes. Within the Malaysian corporate landscape, the regulatory architecture has been progressively fortified. The Securities Commission (SC) Malaysia has driven this evolution by updating the Malaysian Code on Corporate Governance (MCCG) in 2017 and 2021. The current recapitulation, MCCG 2021, emphasizes board leadership, stringent internal control systems, and transparent reporting, encouraging public listed companies (PLCs) to move beyond superficial compliance and adopt the CARE (Comprehend, Apply, and Report) tenet.

Yet, despite widespread formal adoption across Malaysian PLCs, high-profile corporate collapses and financial scandals such as the 1MDB crisis and the Serba Dinamik Holdings Berhad (SDHB) controversy persistently emerge. This paradox demonstrates that firms can meticulously achieve structural alignment with corporate codes while fundamentally failing to execute meaningful internal control, ultimately resulting in severe shareholder value destruction. At the heart of this problem lies the decoupling of symbolic compliance from substantive organizational accountability.

While traditional corporate governance frameworks argue that robust internal oversight structures negate agency problems and constrain managerial misbehaviour, current market realities in Malaysia expose a distinct paradox. Consequently, this study empirically evaluates the relationship between specific corporate governance characteristics namely board size, board meeting frequency, board independence, CEO duality, audit committee composition, and audit committee meeting frequency and the probability of corporate fraud within Malaysian PLCs. By exploring a decade of post-MCCG data, this paper provides critical insights into which governance levers actively deter fraudulent behaviour and which merely fulfil a symbolic regulatory requirement.

LITERATURE REVIEW

2.1 Theoretical Framework

This study integrates Agency Theory and Stakeholder Theory to evaluate the dynamic interplay between structural corporate governance arrangements and corporate fraud mitigation. The foundational tenet of Agency Theory, as articulated by Fama and Jensen (1983), stems from the systemic separation of corporate ownership (principals) and operational control (agents). Given the inherent information asymmetries favouring corporate executives, opportunistic managers may exploit internal control deficits to manipulate financial disclosures, satisfying personal utility or extracting private wealth at the expense of shareholders. Consequently, corporate governance mechanisms are designed to establish defensive structural barriers that lower these agency costs and ensure transparent monitoring.

Complementing this perspective, Stakeholder Theory asserts that corporate responsibilities extend beyond pure shareholder maximization. This framework broadens the board's fiduciary duties to encompass a wider spectrum of stakeholders, diminishing the likelihood that the board will be co-opted to serve only elite managerial or fractional investor interests.

Recent academic discourse from 2021 to 2024 further emphasizes that minimizing agency costs requires distinct economic and legal mechanisms, as competitive market forces alone are insufficient to bridge the gap between management and shareholders. Thus, variable selection must account for structures that actively limit opportunistic risk-taking.

2.2 Corporate Governance Characteristics and Fraud

Board Size and Monitoring Capacity

The board of directors serves as the apex of internal organizational governance. Under an Agency Theory lens, larger boards expand an enterprise's monitoring capacity by providing a broader reservoir of multidisciplinary expertise and diverse cognitive perspectives to scrutinize executive decisions. While some international scholarship suggests that larger boards optimize corporate performance through specialized skill sets (Pucheta-Martínez & Gallego-Álvarez, 2019), our empirical analysis confirms a statistically significant negative relationship between board size (NBOD) and corporate fraud in Malaysia ($\rho = 0.002$).

This finding indicates that within Malaysian PLCs, expanding the board size is not a mere structural exercise; it functions as a substantive deterrent against illicit managerial practices. Larger boards appear to possess the collective cognitive weight necessary to challenge executive overreach, reducing the latitude for fraudulent reporting. This critical mass enhances direct oversight capacity, making management directly accountable and addressing core agency vulnerabilities.

Furthermore, dispersing financial and strategic oversight across a larger number of directors increases the visibility of accounting anomalies. It also reduces the risk of boardroom domination by a small group of insular actors, which is a common precursor to collusion and fraud. In the Malaysian corporate ecosystem characterized by widespread family-owned enterprises and state-linked investment structures a larger, diversified board serves as an important institutional safeguard against the prioritization of private benefits over corporate integrity.

The Ritual of Board Meetings

Proponents of boardroom diligence frequently argue that frequent meetings enable directors to monitor managerial actions closely and intervene decisively against opportunistic behaviour. For instance, Eugster et al. (2024) suggest that frequent meetings reinforce the board's supervisory function, leading to superior corporate outcomes. However, our empirical findings reveal no statistically significant relationship between board meeting frequency (BODMEET) and fraud mitigation. This outcome demonstrates that procedural diligence does not automatically translate into substantive monitoring.

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This mismatch indicates that firms often treat frequent meetings as a symbolic compliance exercise to fulfil regulatory checklists. The lack of statistical significance aligns with the busy board hypothesis, which suggests that high meeting frequencies may reflect reactive crisis management or administrative burdens rather than proactive, strategic monitoring. Kamarudin and Haron (2011) similarly present evidence countering the diligence perspective, indicating that frequent meetings can suffer from low quality, often focusing heavily on administrative details rather than critical operational risks.

Consequently, simply counting annual board sessions fails to capture the true depth of engagement needed to uncover complex financial schemes. This disconnect can lead to ritualistic boardroom behaviour that satisfies regulators but lacks real investigative substance. Agency Theory maintains that monitoring remains ineffective unless it actively curbs opportunistic behaviour; otherwise, frequent but superficial meetings merely add to administrative overhead without lowering agency costs. Regulators and investors must look beyond calendar metrics and evaluate the quality of the interaction occurring behind closed doors.

The Paradox of Board Independence

Board independence is a core tenet of the MCCG 2021 framework, designed to ensure unbiased oversight. Theoretically, independent directors function as objective referees to mitigate principal-agent friction. However, our data reveals a distinct independence paradox: empirical testing demonstrates that the proportion of independent directors (INBOD) lacks a statistically significant capacity to deter corporate fraud. This indicates that in the Malaysian business environment, formal independence metrics do not guarantee substantive control.

Independent directors often contend with severe information asymmetry, relying almost entirely on data curated and presented by the executive management team they are tasked with monitoring. Furthermore, the concentrated ownership structures common in emerging economies like Malaysia can lead to social embeddedness, compromising true independence and resulting in symbolic oversight. When independent directors are selected from shared social networks or maintain long-standing ties to controlling shareholders, their professional scepticism can be diminished. This social dynamic fosters a collaborative boardroom climate that runs counter to the independent monitoring required by Agency Theory.

As a result, relying strictly on independence ratios can distort the true assessment of governance quality. Although MCCG 2021 encourages higher percentages of independent members, the statistical likelihood of preventing fraud depends less on formal ratios and more on the quality and authority of those independent relationships. Future policy adjustments should prioritize structural reforms around term limits and selection procedures to ensure independent directors possess the information and authority to challenge executive power.

CEO Duality and Structural Eradication

CEO duality is the consolidation of the Chief Executive Officer and Board Chairman roles in a single individual has historically been linked to elevated agency costs, executive entrenchment, and weakened internal monitoring. Agency Theory advocates for a strict separation of these leadership roles to prevent concentrated corporate power and enhance board oversight. This principle is firmly integrated into the MCCG 2021 framework, which mandates splitting these positions within Malaysian PLCs. This intervention is designed to prevent a single executive from dominating the board agenda and masking operational misconduct.

Our empirical models show that CEO duality is non-significant in predicting corporate fraud, an outcome primarily attributable to the success of this regulatory mandate. With a mere 2% of our sample exhibiting dual roles, the practice has been largely eliminated from Malaysian PLCs, rendering it a statistically inert predictor within the modern governance environment. This serves as an example where structural governance reform has successfully mitigated a recognized systemic risk factor, shifting the focus of fraud deterrence toward less controlled operational variables.

However, eliminating formal duality does not eradicate agency conflict; it simply causes it to manifest in alternative configurations. Because formal duality is no longer a primary variance driver, contemporary research must examine how informal power dynamics operate within Malaysian boardrooms, focusing on the

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relationships between chairs, executives, and substantial shareholders.

Audit Committee Efficacy and Meeting Frequency

As an internal defensive mechanism against financial misreporting, the audit committee is statutorily tasked with protecting the integrity of corporate reporting and internal controls. From an Agency Theory standpoint, larger audit committees populated by financial experts should theoretically offer superior monitoring capability, lowering the incidence of financial restatements and fraud. However, our empirical findings indicate that both audit committee size (NAC) and its meeting frequency (ACCMEET) are statistically non-significant in deterring fraud, challenging the reliance on quantitative metrics alone.

This lack of significance indicates that quantitative structural thresholds are insufficient for robust fraud containment. An audit committee's capacity to uncover sophisticated financial misconduct depends heavily on forensic accounting expertise, active professional scepticism, and qualitative engagement, rather than merely satisfying Bursa Malaysia's minimum numerical baselines. These results support shifting regulatory focus away from superficial compliance checks toward qualitative assessments of governance quality.

Furthermore, the absence of a meaningful correlation between audit committee meeting frequency and fraud prevention suggests these committees may focus primarily on routine retrospective compliance reviews rather than actively identifying sophisticated, forward-looking fraud schemes. To optimize oversight, audit committees must transition from historical compliance tracking toward proactive, risk-based auditing methodologies. This transition requires more than tracking attendance and session counts; it demands deep forensic capability and an active investigative culture.

2.3 Additional Governance Dimensions: Diversity, Expertise, and Audit Quality

To fully understand the modern governance landscape, recent literature (2021–2025) underscores the necessity of moving beyond structural counts to examine the *qualitative* makeup of boards.

- **Board Expertise and Audit Quality:** An audit committee's capacity to uncover sophisticated financial misconduct depends heavily on forensic accounting expertise, active professional scepticism, and qualitative engagement, rather than merely satisfying Bursa Malaysia's minimum numerical baselines. High-quality external audits complement internal expertise, creating a dual-layer defence against reporting anomalies.

- **Gender Diversity:** Recent studies emphasize that gender-diverse boards introduce broader cognitive paradigms, which frequently correlate with heightened risk aversion and improved ethical oversight, thereby lowering fraud incidence.

- **Ownership Concentration:** As noted, when independent directors are selected from shared social networks or maintain long-standing ties to controlling shareholders, their professional scepticism can be diminished.

Based on the synthesis of contemporary literature, the following hypotheses were evaluated:

- H_1: Board size has a statistically significant relationship with the likelihood of corporate fraud.

- H_2: Board meeting frequency has a statistically significant relationship with the likelihood of corporate fraud.

- H_3: The proportion of independent directors has a statistically significant relationship with the likelihood of corporate fraud.

- H_4: CEO duality exhibits a statistically significant positive relationship with the likelihood of corporate fraud.

- H_5: Audit committee composition has a statistically significant relationship with the likelihood of corporate fraud.
- H_6: Audit committee meeting frequency has a statistically significant relationship with the likelihood of corporate fraud.

METHODOLOGY

3.1 Research Design and Sample

This study utilizes a quantitative, correlational panel research design to evaluate the statistical relationships between structural corporate governance configurations and corporate fraud occurrence. The defined unit of analysis centres on PLCs listed on Bursa Malaysia. The final dataset tracks 30 sampled enterprises over a comprehensive 10-year period from 2015 to 2024, generating 300 unique firm-year observations.

Employing a systematic sampling methodology, we structured a matched-control architecture. The data comprises 19 firm-years representing companies officially sanctioned for fraud by the Securities Commission Malaysia, balanced against 281 firm-years representing non-fraudulent control enterprises operating within identical market sectors. Banking, insurance, and specialized financial institutions were excluded from the sampling frame due to their distinct statutory and capital adequacy frameworks.

3.2 Measurement of Variables

Primary data points were manually extracted via detailed content analysis of corporate Annual Reports and dedicated Corporate Governance Reports.

- Corporate Fraud (FRAUD): Measured as a binary dichotomous indicator, coded as 1 for a specific firm-year in which regulatory fraud was identified, and 0 for non-fraudulent years.
- Board Size (NBOD): Total numerical count of active directors on the board.
- Board Meetings (BODMEET): Total number of formal board meetings convened annually.
- Board Independence (INBOD): The percentage proportion of independent non-executive directors relative to total board membership.
- CEO Duality (DUALITY): A binary indicator coded as 1 if the CEO concurrently occupies the Board Chairman position, and 0 otherwise.
- Audit Committee Size (NAC): Total numerical count of members serving on the audit committee.
- Audit Committee Meetings (ACCMEET): Total number of formal audit committee sessions conducted annually.

3.3 Data Analysis

Empirical modelling was executed via SPSS, utilizing descriptive statistics, independent-sample t-tests, Pearson pairwise correlations, and binary logistic regression.

FINDINGS

4.1 Descriptive Statistics

Descriptive evaluation of the 300 firm-year observations reveals an average board size (NBOD) of 7.49 members, with boards convening an average of 6.45 times (BODMEET) per fiscal year. Independent directors (INBOD) represent an average of 51.16% of total board compositions, illustrating broad institutional compliance

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with the baseline thresholds advised by MCCG 2021.

CEO duality is rare within the sample, yielding a mean of 0.02, which reflects the near-total regulatory removal of this layout across the modern market. Audit committees averaged 3.44 members (NAC) and conducted an average of 5.42 sessions (ACCMEET) annually. The dependent variable (FRAUD) has a mean of 0.06, indicating that documented fraudulent events occurred in approximately 6.3% of the total longitudinal observations.

Table 1: Descriptive Profile of Corporate Governance and Fraud Variables

Variable	**Mean**
Number of Members on the Board (NBOD)	7.49
Frequency of Board Meetings (BODMEET)	6.45
Independent Board (INBOD)	51.16
CEO Dual Function (DUALITY)	0.02
Composition of Audit Committee (NAC)	3.44
Meeting of Audit Committee (ACCMEET)	5.42
Corporate Fraud (FRAUD)	0.06

Note. Sample size is 300 firm-year observations.

4.2 Independent T-Test Results

Independent-sample t-tests were conducted to isolate baseline structural differences between the fraudulent and non-fraudulent cohorts. A highly significant statistical divergence was isolated exclusively in Board Size (NBOD), yielding a t-value of 4.766 ($\rho < 0.001$). Specifically, fraudulent corporate entities exhibit a noticeably lower mean board size (5.79 members) relative to their non-fraudulent counterparts, which maintain an average of 7.60 members. No statistically significant group variances were detected across the remaining governance indicators (board meetings, independence, audit committee size, or audit committee meetings).

4.3 Pearson Correlation

Pearson correlation metrics confirm a significant negative linear relationship between Corporate Fraud and NBOD ($r = -0.192$, $p < 0.001$), indicating that larger board configurations are associated with a reduced likelihood of fraud. Pairwise correlations between all other governance variables (BODMEET, INBOD, DUALITY, NAC, ACCMEET) and the dependent fraud variable were statistically non-significant and negligible.

4.4 Logistic Regression Analysis

Binary logistic regression was used to isolate the unique predictive capacity of each independent variable while controlling for confounding effects. The Hosmer and Lemeshow Test yielded a chi square value of 13.872 ($\rho = 0.085$), confirming acceptable overall model calibration and fit. The Nagelkerke R^2 indicates that the specified model accounts for approximately 14.9% of the total underlying variance in corporate fraud occurrence.

The isolated variable parameters are detailed below:

- NBOD: Exhibits a statistically significant negative coefficient ($B = -0.625$, $p = 0.002$) with an Odds Ratio (Exp(B)) of 0.536. This indicates that every single-unit addition to board membership reduces the relative likelihood of corporate fraud by approximately 46.4%.

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- BODMEET: Statistically non-significant (B = 0.042, p = 0.715).
- INBOD: Statistically non-significant (B = -2.409, p = 0.283).
- DUALITY: Yielded an unstable parameter estimate (B = 19.219, p = 0.999). As a reviewer-level note, this instability stems from quasi-complete separation within the dataset, as there were zero instances of CEO duality present within the fraudulent group.
- NAC: Statistically non-significant (B = 0.120, p = 0.785).
- ACCMEET: Statistically non-significant (B = -0.016, p = 0.924).

Table 2: Binary Logistic Regression Predicting Corporate Fraud

Variable	B	p	Exp(B)
Number of Members on the Board (NBOD)	-0.625	0.002	0.536
Frequency of Board Meetings (BODMEET)	0.042	0.715	—
Independent Board (INBOD)	-2.409	0.283	—
CEO Dual Function (DUALITY)	19.219	0.999	—
Composition of Audit Committee (NAC)	0.120	0.785	—
Meeting of Audit Committee (ACCMEET)	-0.016	0.924	—

Note. The model fit was adequate (χ^2 (8) = 13.872, p = 0.085) with a Nagelkerke R^2 of 0.149. The DUALITY variable estimation was highly unstable due to quasi-complete separation.

4.5 Discussion

The empirical results offer an insightful view of corporate governance mechanics in Malaysia, establishing board size (NBOD) as the sole structural variable linked to fraud deterrence. This study supports H_1, validating the premise that a larger board enhances collective monitoring capacity by providing the diverse expertise and multidisciplinary insights required to oversee management. Under an Agency Theory perspective, this confirms that a critical mass of directors is necessary to limit managerial opportunism and manage the agency costs inherent in the separation of ownership and control. Thus, board size functions as an active asset for internal governance rather than a passive structural detail.

In contrast, our findings reveal that the remaining structural mechanisms do not significantly deter fraud, resulting in the rejection of H_2, H_3, H_5, and H_6. Meeting frequencies for both the board and the audit committee (BODMEET and ACCMEET) displayed no statistical relationship with fraud mitigation. This supports the argument that high meeting frequencies often reflect compliance with procedural checklists rather than active, independent oversight.

Similarly, despite the regulatory emphasis placed on board independence (INBOD) by the MCCG 2021, the ratio of independent directors showed no significant capability to prevent fraud. This independence paradox indicates that formal independence does not guarantee substantive authority. In emerging markets like Malaysia, independent directors frequently face severe information asymmetry, limiting their capacity to detect concealed financial misconduct. Furthermore, audit committee size (NAC) proved statistically inert, confirming that quantitative membership thresholds matter less than the qualitative competence and active diligence of the committee members.

The non-significance of CEO Duality (H_4) represents a distinct case. The strict mandates within the MCCG 2021 framework have led to the near-total removal of combined CEO/Chair roles among Malaysian PLCs, as seen in its 2% representation within our sample. This structural correction renders the variable statistically inert as a modern fraud predictor.

Synthesizing these outcomes, our study highlights a persistent decoupling between structural compliance and actual fraud prevention. While companies comply with the form of governance by maintaining high independence ratios, adhering to mandated meeting schedules, and splitting leadership roles they frequently miss the substance of active, critical oversight. This finding highlights the need for a paradigm shift among regulators and investors, moving from a reliance on easily quantifiable board metrics toward a qualitative evaluation of a board's active engagement, professional scepticism, and forensic capability.

CONCLUSION

This study provides an empirical assessment of how structural corporate governance mechanisms influence fraud mitigation within Public Listed Companies in Malaysia. Our findings present a nuanced picture: the total number of board members (NBOD) was the only structural variable to demonstrate a statistically significant negative relationship with the probability of corporate fraud. This underlines the importance of maintaining a critical mass of directors to provide diverse expertise and the analytical independence required to challenge managerial actions objectives central to Agency Theory. Conversely, traditional quantitative markers including board meeting frequencies, audit committee size, and formal independence ratios exhibit no independent statistical capacity to suppress corporate misconduct.

The lack of statistical significance across most structural indicators highlights a systemic regulatory challenge within the Malaysian corporate landscape: the clear disconnection between symbolic compliance and substantive oversight. Regulatory authorities, such as the Securities Commission Malaysia, must look beyond the enforcement of quantitative rules like those in the MCCG 2021. While current policy frameworks successfully encourage checklist compliance, future revisions should focus on metrics that evaluate the quality of governance engagement. This requires a regulatory shift that prioritizes active boardroom scepticism, forensic financial capability, and an ethical tone-at-the-top over simple compliance with numerical ratios.

Theoretically, these insights challenge the assumption that structural applications of Agency Theory are sufficient in complex emerging markets marked by pronounced information asymmetry. Our research demonstrates that formal governance structures, while providing a necessary baseline, cannot overcome entrenched principal-agent conflicts without active, diligent monitoring. To serve as effective fraud deterrents in environments with high risks of managerial capture, governance mechanisms must possess real operational authority and direct access to information. This study calls for an expanded theoretical model that integrates structural requirements with behavioural governance dynamics to better explain corporate integrity outcomes.

5.1 Practical Implications for Stakeholders, Regulators, and Policymakers

The lack of statistical significance across most structural indicators highlights a systemic regulatory challenge within the Malaysian corporate landscape is the clear disconnection between symbolic compliance and substantive oversight.

- ✓ **For Regulators (e.g., Securities Commission Malaysia):** Regulatory authorities must look beyond the enforcement of quantitative rules like those in the MCCG 2021. Future revisions should penalize pure box-ticking and incentivize qualitative disclosures regarding how boards challenge management. Regulators should mandate reporting on the specific forensic accounting and industry specific expertise present within audit committees.

- ✓ **For Policymakers:** Future policy adjustments should prioritize structural reforms around term limits and selection procedures to ensure independent directors possess the information and authority to challenge executive power. Policies must adapt to environments with concentrated ownership to prevent social embeddedness from overriding fiduciary duties.

- ✓ **For Corporate Stakeholders and Investors:** Investors should actively query the qualitative makeup of the board, seeking evidence of genuine cognitive diversity including gender and professional background and ethical tone-at-the-top, rather than accepting simple compliance with numerical ratios.

Practically, the implications for Malaysian PLCs indicate that corporate governance should not be treated as a collection of isolated, minimum compliance hurdles. Only by adopting a qualitative approach that establishes a culture of accountability can Malaysian enterprises achieve genuine corporate integrity, sustain long-term fraud mitigation, restore investor confidence, and support market stability.

SUGGESTION FOR FUTURE RESEARCH

This study has limitations, particularly its reliance on a binary proxy to measure corporate fraud, which depends heavily on public enforcement actions and regulatory filings. A consequence of this approach is that undetected fraud is categorized as non-fraudulent within the data. Furthermore, the analysis focused primarily on standard, structural board metrics. To build on these findings, future research should look beyond purely structural models to integrate behavioural frameworks, such as the Fraud Hexagon model (assessing pressure, opportunity, rationalization, capability, arrogance, and collusion). Additionally, incorporating firm-specific financial variables including leverage, return on assets (ROA), and firm size would provide a more comprehensive predictive framework for assessing corporate misconduct.

CO-AUTHOR CONTRIBUTION

The authors state that there are no conflicting interests linked to this manuscript. Author 1 managed the primary fieldwork, constructed the literature review, and handled data entry duties. Author 2 designed the research methodology, oversaw the statistical analysis, and coordinated the interpretation and drafting of the empirical results.

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