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CORPORATE FINANCIAL FRAUD FROM THE PERSPECTIVE OF INSTITUTIONAL THEORY: A SYSTEMATIC REVIEW

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Abstract: Purpose: Institutional Theory has been a useful theoretical lens for understanding the effects of the institutional environment as well as the motivation and behavior of companies regarding financial fraud. However, literature on this subject matter is still unclear, therefore the purpose of the systematic review was to answer the following question: What are the elements from Institutional Theory that could explain the behavior of organizations towards corporate financial fraud? **Design/methodology/study approach:** The study analyzed 11 scientific articles obtained from the database Web of Science (WoS) that met the following inclusion criteria: articles written in English, published between the years 2010 and 2023, that examined corporate financial fraud from the perspective of institutional theory, specifically employing Scott's Institutional Pillars Framework. Monographs, reports and academic papers that demonstrated lack of scientific rigor or information regarding the employed methodology were excluded. The search concluded on July 31st 2023. **Findings:** The institutional elements most commonly used by researchers as a theoretical basis for explaining the behavior of organizations regarding corporate fraud are: foundations of legitimacy, isomorphic mechanisms, logic, foundations of compliance and indicators, being legitimacy the most utilized element whose predominant application in emerging economies stands out. **Originality/Value:** The research provides a solid cognitive foundation from which effective solutions can be designed and implemented, aimed at strengthening corporate governance and preventing unethical financial practices in the business context.

Keywords: institutional theory - institutional pillars - legitimacy - financial fraud - corporate governance

JEL Codes: K42-M14

INTRODUCTION

Corporate financial fraud and misconduct in financial reporting have been widely addressed topics by authors such as Amat (2017); Amiram et al. (2018); Camfferman & Wielhouwer (2019); D'Aquila (1998); Hail et al. (2018); López et al. (2019); Mintz (2005); Nazarova et al. (2020); Ramos (2019); Suárez (2016) and Tett (2019). This fact reflects the growing interest among the scientific community regarding this issue that, according to the Association of Certified Fraud Examiners (AFCE) acutes mainly in the regions of Latin America and the Caribbean (17%), South Asia (15%) and Pacific Asia (11%) (AFCE, 2022).

According to Martínez et al. (2013) the trend towards the use of better accounting practices and reduced manipulation of results depends on the relation existing between the systems of corporate governance and the institutional environment of each economic and legal area, having also been pointed out that the concentration of ownership in companies, understood as one of the factors that characterizes systems of corporate governance, also asserts influence on the susceptibility to financial fraud. On this particular matter, the aforementioned authors assert that the Anglo-Saxon system presents a low concentration of ownership, different from the Germanic and Latin systems, which present a high concentration, as well as the Asian model, characterized by its high concentration (Martínez et al., 2013).

As an example of the above, the case of China can be mentioned, an emerging economy, where corporate financial fraud is frequently motivated by regulatory pressures, financial needs and the dynamic environment (Baucus & Near, 1991; as quoted by Chen et al., 2014). Thus, according to these authors, the strengthening of corporate governance and the managers' responsibility are essential for China's economic aspirations, as well as for other developing countries (Chen et al., 2014).

Another example is the case of Chile: a latin american country with an emerging economy, according to the Morgan Stanley Capital International database classification (MSCI, 2022), and member of the The Organisation for Economic Co-operation and Development (OECD), has also experienced various cases of corporate financial fraud in the last decades. After four years of discussion in the Congress, the New Law on Economic Crimes (Law N° 21.595) was passed, whose fundamental objective was to provide an appropriate response to “white-collar crimes”, by systematizing them and surpassing general regulations to avoid the feeling of impunity (Balmaceda et al., 2023; González, 2023).

Nevertheless, DiMaggio & Powell (1983) as well as Meyer & Rowan (1977, as quoted by Cruz et al., 2014), state that the groups that exert pressure on the organizations include not only the regulators, but also the professional associations, public opinion and any other group of interest; therefore, the role of the institutions is fundamental when analyzing the behavior of organizations. On that matter, Murillo et al. (2021) consider that some institutions diligently impose sanctions regarding non compliance, but these are so mild in comparison to the value of what was obtained by continuing with misconduct that, as incentives, they are insignificant for the ones involved to modify their conduct. In fact, individuals can elaborate laws and rules solely to promote their interests, seeking for their corresponding rewards or avoiding sanctions (Scott, 2014). From that same perspective, Hail et al. (2018) highlight that the effectiveness of the regulation is determined by the fundamental features of the countries, the market development and the legal tradition. Consequently, they argue that the current regulations could even predict an increase in corporate scandal figures.

Now, based on the observations by the authors cited above, different facets of the same problem can be observed, which fragment the current knowledge regarding the factors underlying the phenomenon of corporate fraud. Thus, the problem has been approached individually from the perspectives of corporate governance along with the economic and legal environment, regulatory pressures, ownership concentration, institutional roles and the role of the market. However, the literature continues to demonstrate the absence of a cognitive foundation that sheds light on the factors that lead to committing fraudulent actions in business contexts, as well as the factors that determine the corporate responses to this phenomenon.

In this regard, since Institutional Theory, with its long and varied tradition in social sciences, has been a useful theoretical lens for understanding the effects of the institutional environment as well as the motivation and the behavior of companies towards it (Campbell, 2007; Irvine, 2008; Scott, 2008, as quoted by Nurunnabi, 2015), it is of profound scientific interest to integrate in only one corpus of knowledge the different facets that have been explored regarding corporate financial fraud. Therefore, and taking institutional theory as the epistemological foundation, the motivation behind this research was to provide an answer to the following question: What are the elements that, from the perspective of institutional theory, could explain the behavior of organizations regarding corporate financial fraud?

In order to enhance the theoretical understanding surrounding this subject matter, for the purpose of this research, the concept of institution is assumed in the terms proposed by Scott (2014), who regards it as a set of regulatory, normative and cultural-cognitive choices that, along with the operations and associated resources, provide stability and purpose to social life. In other words, every

institution is constituted by a system of rules that structure social interactions, which are upheld and transformed by human behavior.

For this reason, Scott—one of the founders of the institutional approach—argues that institutions can be defined by three pillars: regulative, normative and cultural-cognitive, which are described below.

REGULATIVE PILLAR

Following the postulates of Scott (2014), a first group of theorists (mainly economists) emphasize the relevance of regulatory processes, such as the establishment of rules, monitoring and sanctioning activities. Thus, within the institutional components of this pillar, the foundations of legitimacy associated with the legal sanctions are found (inasmuch the legitimate organizations are the ones that operate according to legal or quasi-legal requirements). On the other hand, the principal isomorphic mechanism is the coercive one, which originates from formal and informal pressures; on the matter, according to Scott, even though the concept of regulation evokes visions of repression and restriction, many types of regulations also enable and empower social actors.

Therefore, from the regulative standpoint, the individuals and organizations that construct rule systems act driven by an instrumental logic, as their own interests prevail in each situation and they act out of convenience in response to the incentives, aiming to avoid punishment or seeking for the corresponding rewards. It is here where the foundations of institutional compliance lie, sustained by a regulatory framework equipped with indicators, rules, laws, sanctions and even sentiments that arise as the product of fear of guilt and innocence (Scott, 2014).

NORMATIVE PILLAR

Concerning the normative pillar, a second group of theorists (mainly sociologists) consider that institutions rest upon a system which dictates how things should be done, defining goals or objectives and the appropriate ways to pursue them. In this regard, the normative systems are usually seen as imposing constraints on social behavior, yet also empowering and enabling social action (Scott, 2014).

Within the institutional components of this pillar, the foundations of legitimacy associated with a more profound moral basis are found. On its part, the main institutional mechanism is the normative isomorphism encouraged by the members of an organization through the definition of the conditions and work methods. Concerning logic, the scholars associated with the normative pillar argue that in this case, a logic of ‘appropriateness’ prevails over a logic of ‘instrumentality’, that is to say: the central imperative that actors face is not “what choice is favorable for my best interest?” but rather “given this situation, and my role within it, ‘which is the appropriate behavior for me?’”.

In regards to the foundations of institutional compliance that underlie the normative pillar, it has been documented that individuals act driven by a social obligation. Finally, it can be stated that the foundations of institutional order are stability and binding expectations; the indicators would correspond to certifications or accreditations; and the associated sentiment are shame, respect or honor.

CULTURAL-COGNITIVE PILLAR

A third group of institutionalists (mainly anthropologists and sociologists) have turned their attention to the cultural-cognitive dimension of institutions. This vision points to the legitimacy that originates from adjusting to an understandable definition, a recognizable framework of reference for individuals or a structural template for organizations. On the

other hand, the main mechanism is the mimetic isomorphism which refers to organizational adjustment out of convenience. Regarding logic, theoretical sociologists argue that the predominant logic employed to justify compliance is orthodoxy, the perceived correctness and the solidity of the ideas underlying action. Regarding the foundations of institutional compliance, this occurs in many circumstances as other types of behaviors are inconceivable; routines are followed because they are taken as granted (“this is the way we do things”). Finally, it can be stated that the foundations of the cultural-cognitive institutional order correspond to a constitutive framework in which the indicators are common beliefs and shared logics, and where the generated sentiments are.

Based on the above and, given that the differences between perspectives correspond to the different conceptions of institutions, Scott considered that it was more useful to recognize the different assumptions and emphases that accompany each one of them, rather than combining them into one individual, complex and integrated model. In Table 1, the different arguments and assumptions that configure the “three-pillar framework” proposed by Scott (2014) are presented, including the mechanisms associated with each one of them, the logics employed by the actors, the appropriate indicators, the effects or emotions generated and the foundations of legitimacy.

Scott’s three pillars of institutions constitute the bases of Institutional Theory, whose central axis is legitimacy, which can be considered as the acceptance of the organization by its external group (Sánchez, 2014). In that sense, it is worth mentioning that organizations that operate in highly institutionalized environments will gain legitimacy as they become isomorphic with other organizations in their sphere, that is to say when they adopt organizational structures and behavior similar to their peers (DiMaggio & Powell, 1999, as quoted in Mateo, González & Zamora, 2021).

Having completed this journey through the conceptual foundations underlying Institutional Theory, the following section describes the methodological aspects that supported the literary review aimed at identifying and understanding the institutional elements that explain the behavior of organizations regarding corporate financial fraud.

METHODOLOGY

SOURCES OF INFORMATION AND SEARCH STRATEGY

With the purpose of addressing the research question, a systematic review of the scientific literature accessible through the database Web of Science (WoS) was conducted. The initial search terms were: “financial fraud” and “institutional theory” in the fields of title, abstract and keywords. Synonymous or terms directly related to the object of study were also employed such as: “accounting fraud”, “criminal liability”, “criminal law”, “ethics in finance”, “institutions” y “corporate governance”.

Moreover, in order to broaden the search coverage, increase the probability of finding relevant studies and obtain a more representative image of the existing corpus of literature, the following terms from the consulted publications were extracted: “corporate scandals”, “financial scandals”, “financial reporting” and “law and finance”, in every case using the boolean operators “AND” and “OR” so as to combine the terms and refine results. In no case were filters related to the quality index of the journal in which the article was published used. The search and article selection process concluded on July 31, 2023.

The research was exploratory in nature since its objective was to understand the current state of knowledge regarding the institutional elements that could explain the behavior of organizations concerning corporate financial fraud, in light of Institutional Theory,

Institutional elements	Regulative	Normative	Cultural-Cognitive
Bases of legitimacy	Legal sanction	Morally governed	Understandable, Recognizable, Culturally Supported
Isomorphic mechanisms	Coercive	Normative	Mimetic
Logic	Instrumental	Appropriateness, suitability	Orthodoxy
Basis of compliance	Convenience	Social obligation	Taken for granted Sharing understanding
Basis of order	Regulatory rules	Binding expectations, stability	Constitutive scheme
Indicators	Rules, laws, sanctions	Certification, accreditation	Common Beliefs, Shared Logic, Isomorphism
Feelings	Fear of guilt, innocence	Shame, honor	Certainty, confusion

Table 1. Institutional pillars and their components

Source: Elaboration based on Scott (2014).

without seeking to find possible cause-effect relationships among the different institutional perspectives and the propensity towards poor, or at least questionable, corporate actions regarding finance.

Finally, it is worth mentioning that the researcher’s intention was to explore the different theoretical and empirical contributions that could shed light on the institutional circumstances underlying poor practices; this so as to generate hypotheses that could undergo empirical trials to determine their validity. Consequently, given the nature and purpose of the research, it is classified as a documentary study, since in order to extract findings and reach conclusions, data obtained solely from secondary sources was used.

INCLUSION AND EXCLUSION CRITERIA

The review included articles and other documentary resources that explicitly addressed the factors associated with the analysis unit of the research; that is to say the institutional elements that could explain the behavior of organizations regarding corporate financial fraud. PhD thesis and presentations in congresses were also included, without restrictions regarding publication date or the country where they were conducted.

Undergraduate and master’s degree works were excluded, as well as monographs, reports and other academic works with little scientific relevance for the purposes of the review. The main reason for not considering these documents was the lack of guarantees regarding the methodological rigor with which they were conducted, according to the following criteria: (1) absence of information concerning the employed methodology, (2) lack of coherence between the employed method and the nature of the obtained results. In addition, articles that, although contained some of the search terms in the title or keywords, were not based on Richard Scott’s institutional approach; did not thoroughly address corporate financial fraud; or were the product of a literary review process were also discarded.

The process of selecting the primary documentary units involved an external information analyst that independently verified the included works, evaluated the risk of bias and did not find discrepancies that would require arbitration by a panel of researchers. The data were extracted independently without participation of other researchers who confirm the truthfulness of the contained information.

As a summary, the inclusion criteria used were:

- Studied published in English
- Theoretical and empirical studies
- Studies published from the year 2010 onwards

The exclusion criteria were as follows:

- Academic works not subjected to peer review
- Articles whose research was not sustained on Scott’s institutional theory (2014)
- Articles that lacked information regarding the methodology employed during the research
- Articles whose conclusions were not supported by the results

Figure 1 provides a summary of the search process and the selection of literature.

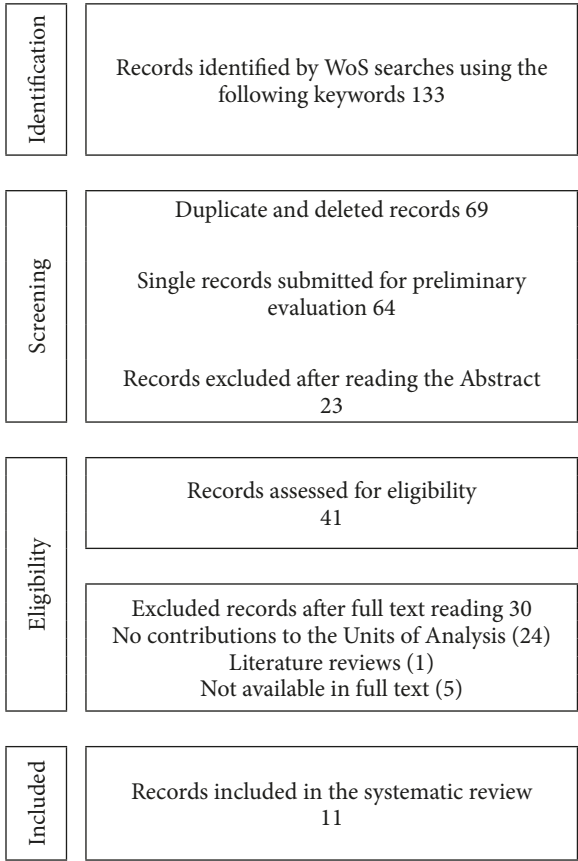


Figure 1. Flow of the literature search and selection process.

RESULTS

Once the inclusion and exclusion criteria were applied, the obtained records were individually analyzed considering “Scott’s Institutional Pillars Framework” and classified within the analysis unit described in the previous section (Table 2).

Below, the most significant findings extracted from the 11 studies included in the systematic review are described.

With the purpose of developing a theory of the “moral collapse” that contributes to research regarding the misconduct and morality of organizations, Shadnam & Lawrence (2011) turn to institutional theory due to their explicit concern regarding the relationship between individual beliefs and actions, the organizations in which they occur and the collective social structures in which norms, rules and beliefs are anchored [UOA-1].

In a related study aiming at examining the effects of majority shareholders on the responsibility of chief executive officers (CEO) regarding corporate fraud, Chen et al. (2014) conclude that the CEO’s responsibility for corporate fraud is lesser in publicly traded companies, and greater among companies that are more willing to apply regulatory reform processes. This is consistent with institutional theory in that governance practices adopted by state-owned companies listed on the stock market may be suboptimal as a result of complying to state pressure rather than market forces [UOA-2].

This analysis is supported by the study of Law & Yuen’s (2016) when they examine professional skepticism among fraud auditors in the accounting forensic profession. These authors, whose works were developed in China and the United States, support the normative pillar of institutional theory (Scott 1995) that states that fraud auditors in institutions share common norms and beliefs in a social system because they are rooted in professional affilia-

Author(s)	Year	Article title	Analysis Unit-Author
Shadnam & Lawrence	2011	Understanding Widespread Misconduct in Organizations: An Institutional Theory of Moral Collapse	UOA-1
Chen et al.	2014	CEO Accountability for Corporate Fraud: Evidence from the Split Share Structure Reform in China	UOA-2
Law & Yuen	2016	Professional skepticism in two economies with cultural differences and the public interest: evidence from China and the United States	UOA-3
Juric, O'Connell, Rankin & Birt	2018	Determinants of the Severity of Legal and Employment Consequences for CPAs Named in SEC Accounting and Auditing Enforcement Releases	UOA-4
Yiu, Wan & Xu	2019	Alternative Governance and Corporate Financial fraud in Transition Economies: Evidence from China	UOA-5
Zhang, Xu, Chen & Jing	2020	Corporate Philanthropy After Fraud Punishment: An Institutional Perspective	UOA-6
Györy	2020	The institutional context of financial fraud in a post-transition economy: The Quaestor scandal	UOA-7
Okafor, Opara & Adebisi	2020	Whistleblowing and the fight against corruption and fraud in Nigeria: perceptions of anti-corruption agents (ACAs)	UOA-8
Okafor, Adebisi, Opara & Okafor	2020	Deployment of whistleblowing as an accountability mechanism to curb corruption and fraud in a developing democracy	UOA-9
Hu	2022	The dual role of state shareholders in disclosed corporate misconduct: Evidence from China	UOA-10
Saleh, Marei, Ayoush & Abu Afifa	2022	Big Data analytics and financial reporting quality: qualitative evidence from Canada	UOA-11

Table 2. Records included in the literature review, arranged by year

Source: Own elaboration based on the systematic review carried out.

tions [UOA-3]. Law and Yuen's findings appear to support the conclusions reached by Juric et al. (2018) after conducting research on the impact of the US SEC (United States Securities and Exchange Commission) on individuals with a CPA (Certified Public Accounting) certification, based on institutional and agency theory.

The study finds serious consequences for CPAs in terms of employment restrictions and actions taken by the SEC, incorporating suspension, which is often permanent. As with previous studies, Law and Yuen find that regulatory actions can have serious consequences for professionals, indicating that institutions such as the SEC may resort to vigorous action in order to maintain their legitimacy in front of coercive pressure by investors, politicians and society, as it occurs when important fraud cases take place [UOA-4], illustrating how institutional and agency theories can inform on power dynamics and responsibilities in the business sphere.

The governance mechanisms in transition economies, such as China, are the subject matter of Yiu et al. (2019). Their research contextualizes how these alternative governance mechanisms may provide protection against corporate financial fraud, linking corporate governance effectiveness with the institutional state of the country [UOA-5]. This approach emphasizes the importance of understanding the institutional context in which companies operate and how this influences their governance practices [UOA-5]. These appreciations coincide with the study by Györy (2020) on the Quaestor scandal, which went bankrupt at the beginning of 2015. Györy emphasizes the importance of addressing institutional deficiencies in order to prevent further scandals, arguing that the institutional context of the economic action on financial markets encourages fraud by creating different incentives and opportunities to commit financial crimes [UOA-7].

On the other hand, yet maintaining the approach taken in the case of China, Zhang et al. (2020) explore the institutional strategy of companies that were sanctioned due to fraud in that country. Their study reveals that the severity of the sanctions for fraud is positively associated with an increase in corporate philanthropy on the part of the convicted companies [UOA-6]. This dynamic depicts how companies can use philanthropy as a strategy to improve their public image and mitigate the negative effects of the sanctions.

Maintaining interest in that Asian country, Hu (2022) researches the double function that state ownership has on the misbehavior of companies in emerging economies, such as China, demonstrating that the effect of overseeing state ownership limits the real practices of state companies, producing fewer cases of misconduct. The author posits that the impact of state ownership on corporate misconduct is determined by two legitimacy mechanisms: legitimacy control and legitimacy sponsorship [UOA-10]. Hu's appreciations endorse the idea that institutional structures can affect corporate behavior in different economic contexts, a thesis sustained by Scott (2014) in his institutional theory.

Another view on financial fraud is the one provided by Okafor et al. (2020a) when they examine the effectiveness of reporting irregularities as an anti corruption mechanism in Nigeria. Their research emphasizes the operative and institutional challenges that whistleblowers and regulators face, as well as the lack of public awareness and the adverse perception of the legitimacy of the anticorruption agents, stressing the need to address institutional deficiencies in order to strengthen accountability and combat corruption [UOA-8]. The authors conclude that, even in the context of a developing country, reporting irregularities finds support on mechanisms such as accountability, but intervention presents a

high risk for whistleblowers and regulators, and it abounds in institutional and operative challenges. Indeed, according to Okafor et al. (2020b), knowledge of laws concerning the reporting of irregularities, operative challenges, and an institutional environment favorable for corruption undermine the efficacy of reporting such irregularities in that country [UOA-9].

Finally, the studies by Saleh et al. (2022) on the quality of financial reporting and the use of Big Data from an institutional theory perspective contribute a new dimension in understanding how organizations manage and present financial information. Their conclusion regarding the importance of Big Data in order to improve the quality of financial reporting emphasizes the relevance of new technologies on the evolution of corporate practices and they posit that, even though organizations build formal mechanisms, their real behavior can deviate significantly, resulting in separated institutional frameworks and methodologies [UOA-11].

DISCUSSION

In light of the findings obtained during the literary review, it can be observed how institutional dynamics assert influence on diverse areas of corporate management and more concretely on the financial sphere. From the corporate governance mechanisms in transition economies to the strategies of companies sanctioned for fraudulent activity, 'Scott's pillars framework' is fundamental to understanding the behavior of organizations and the role of institutions, recognizing the different assumptions and the emphases that have accompanied each of the institutional models proposed by several groups of theorists.

Moreover, research on the effectiveness of reporting irregularities as an anti corruption mechanism in Nigeria reveals the operative and institutional challenges that anti corrup-

tion agents face in environments with discredited government structures. This context emphasizes the importance of addressing institutional deficiencies in order to strengthen accountability and to encourage transparency regarding corporate management.

In this respect, the results allow to demonstrate that the foundations of legitimacy, isomorphic mechanisms, logic, the foundations of compliance and indicators have been the elements employed as a theoretical basis to explain the behavior of organizations regarding corporate fraud, being the foundations of legitimacy the most commonly used element by researchers (Table 3).

Institutional elements	Author(s) and year of publication	Analysis Unit-Author
Bases of legitimacy	Shadnam & Lawrence (2011)	[UOA-1]
	Chen et al. (2014)	[UOA-2]
	Law & Yuen (2016)	[UOA-3]
	Juric et al. (2018)	[UOA-4]
	Zhang et al. (2020)	[UOA -6]
	Hu (2022)	[UOA-10]
Isomorphic mechanisms	Saleh et al. (2022)	[UOA-11]
	Saleh et al. (2022)	[UOA-11]
Logic	Yiu et al. (2019)	[UOA-5]
	Okafor et al. (2020)	[UOA-9]
Basis of compliance	Györy (2020)	[UOA-7]
	Okafor et al. (2020)	[UOA-8]
Basis of order	No studies have been identified	-
Indicators	Shadnam & Lawrence (2011)	[UOA-1]
	Law & Yuen (2016)	[UOA-3]
Feelings	No studies have been identified	-

Table 3. Identification of institutional elements on studies included in systematic reviews [Ua].

Source: Own elaboration based on systematic review.

Thus, the foundations of order (such as regulatory rules, binding expectations and stability) and sentiments (such as fear of guilt, innocence, shame and honor) are institutional elements yet to be employed as theoretical foundations to explain the behavior of organizations regarding corporate fraud.

The fact that the foundation of legitimacy is the most employed element by researchers may originate from its equivalence to legal sanctions, given that legitimate organizations are the ones established and they operate in compliance with legal or quasi legal requirements (regulatory pillar); that relate to a profound moral foundation (normative pillar) and; that translate into a recognizable framework of reference for individuals or a structural template for organizations (cultural-cognitive pillar).

In that regard, it is noteworthy that legitimacy and the associated benefits that act as a key mechanism, affecting organizations and individuals (Suchman, 1995; as quoted by Shadnam & Lawrence, 2011) and corporate misconduct are determined by the control and sponsorship of legitimacy. On this matter, the economic incentives become relevant in order to promote the deterrence of corporate fraud, especially in emerging economies (Chen et al., 2014; Hu, 2022).

In addition, it is likely that, to maintain legitimacy and avoid new punishment by different groups when important fraud cases occur, the regulatory organisms adopt vigorous measures that allow investors, politicians and society in general to deal with coercive pressure, encouraging sanctioned companies to employ strategies to regain the public and government’s legitimacy after being punished due to fraud (Juric, et al., 2019; Zhang et al., 2020). In any case, the deep moral foundations of the executives involved in fraudulent acts also reflect weaknesses associated with legitimacy.

Finally, from a pragmatic point of view and within the context of an emerging economy, such as Chile, its legitimacy crisis as the central axis of institutionality has generated that organizations become isomorphic facing the lack of severe regulation to prevent this type of conduct. In this case, it is clearly evidenced that individuals elaborate laws and rules solely to promote their interests, seeking for the corresponding rewards and avoiding sanctions, as pointed out by Scott (2014).

CONCLUSIONS

Even when existing literature based on institutional theory addressing the problem of corporate financial fraud has been scarce in the last 13 years, the results of the systematic review indicate that the foundations of legitimacy, isomorphic mechanisms, logic, foundations of compliance and indicators are the institutional elements that have been most commonly employed as a theoretical foundation in order to explain the behavior of organizations regarding corporate financial fraud, being legitimacy the most usually utilized element by researchers and emphasizing its practical application in countries emerging economies, such as China. Therefore, once the interpretation of results is completed and having highlighted that the prevalence of legitimacy indicates the importance of public perception and social pressure regarding organizational compliance, two hypotheses emerge:

- *First hypothesis.* As organizations that operate in emerging economies seek legitimacy and compliance to institutional norms, they adopt isomorphic mechanisms based on logic to mitigate the risk of corporate financial fraud.
- *Second hypothesis.* The strategies for preventing fraud may be influenced by the need to maintain a favorable reputation in dynamic and competitive environments.

Nonetheless, it is possible to appreciate a void in the study of corporate financial fraud based on institutional theory, as well as in the elements of “Scott’s pillars of institutions framework” that are essential for understanding the various aspects of financial fraud, and these may contribute to understanding the behavior of individuals, to strengthening corporate governance and to the diversity of responses regarding corporate financial fraud, specially in countries with emerging economies.

In this respect, and in agreement with Chen et al. (2014), the experiences of countries such as Nigeria and China —the latter being ever so influential in matters of development— offer useful conclusions for countries with emerging economies also having diverse institutional and cultural environments, such as the case of Latin America, which presents the highest corporate financial fraud figures (17% of cases according to the Report to the Nations (ACFE, 2022), and concretely Chile, a country that has experienced several financial fraud cases in the last decades and which, after four years of discussion in the congress, has recently passed a New Law on Economical Crimes (Law N°21.595) whose fundamental objective was to provide for an appropriate response to “white collar crimes”, by systematizing them and surpassing general regulation so as to avoid the feeling of impunity.

SUGGESTIONS FOR FURTHER RESEARCH

In light of the foregoing, it is of utmost interest to expand and deepen the knowledge through qualitative research methodology based on the most commonly studied institutional elements in order to understand the behavior of organizations regarding corporate fraud, with the aim of enhancing corporate governance in countries with emerging economies, such as Chile.

CONFLICT OF INTEREST STATEMENT

No economic interests or personal relationships that could have influenced the results presented in this article are declared.

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