Corruption, Accounting and Investment

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Declaration Page

I hereby certify that this material, which I now submit for assessment on the programmed of study leading to the award of '*Doctor of Philosophy'* is entirely my own work, and that I have exercised reasonable care to ensure that the work is original, and does not to the best of my knowledge breach any law of copyright, and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

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List of Presentations

- 'The Impact of Corporate Governance and Accounting on Corruption', presented at the Annual Doctoral Colloquium - Irish Postgraduate Research Conference (IPRC) Research Week, incorporating DCU Business School Doctoral Colloquium, 9th–14th April 2021.

- 'The Impact of Corporate Governance and Accounting on Corruption', presented at the Annual Conference and Doctoral Colloquium, organized by the Irish Accounting and Finance Association (IAFA), 12th–14th May 2021.

- **'**Do Accounting Standards and Investor Protections Moderate the Effect of Corruption on FDI?'**,** presented at ARC Spring Research Seminar, organised by the Anti-Corruption Research Centre, Dublin City University (DCU), 7th March 2023.

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List of Abbreviations

2SLS	Two-Stage Least Square Estimator
ABC	Anti-Bribery and Corruption
ACA	Anti-corruption Agencies
AICPA	The American Institute of Certified Public Accountants
AQ	Audit Quality
ASB	Accounting Standards Board
CC	Control of Corruption
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CG	Corporate Governance
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPI	Corruption Perception Index
EC	The European Commission
EU	The European Union
FCPA	Foreign Corrupt Practices Act
FDI	Foreign Direct Investment
FDI%GDP	Foreign Direct Investment as a Percentage of Gross Domestic Product
FDIPC	Foreign Direct Investment pec Capita
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GDPPC	Gross Domestic Product per Capita
GEI	General Environmental Institutional
GMM	The Generalised Method of Moments
GRI	Global Reporting Initiative
IAASB	The International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAEW	The Institute of Chartered Accountants of England and Wales
ICC	The International Chamber of Commerce

ICRG	International Country Risk Guide
ICT	Information and Communication Technology
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	The International Monetary Fund
INTOSAI	The International Organisation of Supreme Audit Institutions
IPSAS	The International Public Sector Accounting Standards
ISA	The International Standards on Auditing
KOF	Konjunkturforschungsstelle
KOFFI	KOF Financial Globalisation Index
M&A	Mergers and Acquisitions
ML	Money Laundering (ML)
MNE	Multinational Enterprises
NPM	New public Management
OECD	The Organisation for Economic Co-operation and Development
OLS	The Ordinary Least Square
PLC	The Product Life-Cycle Theory
PMI	Protection of Minority Investors
PRISMA	Preferred Reporting Items for Systematic Reviews and Meta-Analyses
Q1	Quartile 1
Q2	Quartile 2
RHS	Right Hand Side
RL	Rule of law
SAI	Supreme Audit Institutions
SARS	Strength of Auditing and Reporting Standards
SEA	Social and Environmental Accounting
SLR	Systematic literature review
SOEs	State-Owned enterprises
SOX	Sarbanes-Oxley Act
TI	Transparency International

UNCAC	The United Nations Convention Against Corruption
UNCTAD	United Nations Conference on Trade and Development
WB	The World Bank
WBES	The world Business Environment survey
WDI	World Development Indicators
WGI	World Governance Indicators

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Corruption, Accounting and Investment

By Shatha Alsalem

Abstract

Corruption poses a significant threat to economic development by eroding investor confidence, deterring foreign direct investment (FDI) and weakening institutional quality. A growing body of literature suggests that improving governance structures, such as accounting standards, and investor protection, can help mitigate corruption. This research explores the relationships between corruption, accounting, protection of minority investors (PMI), and investment through a systematic literature review (SLR) and empirical investigations.

Chapter One outlines the research objectives, contributions, key gaps in the literature. It introduces the concept of corruption, including its definitions, types, and anti-corruption measures. This provides the foundation for subsequent chapters linking governance tools to corruption control and investment outcomes.

Chapter Two presents a systematic literature review (SLR) of studies published between 2000 and 2023, sourced from Scopus using keywords related to 'Accounting', 'Auditing' and 'Corruption'. It examines how corruption relates to accounting, identifies recurring themes and gaps, and builds a solid foundation for the existing literature. The findings highlight international accounting and auditing standards, accounting education, accounting and audit quality, internal and external auditor roles, professional accounting bodies and New Public Management (NPM) as key mechanisms in combating corruption. However, the literature reveals inconsistencies in their effectiveness across institutional contexts, providing a strong foundation for the following empirical chapters.

Chapter Three extends the investigation by empirically examining the relationship between PMI and corruption using data from 185 countries (2006-2018). Although PMI is negatively and significantly associated with perceived corruption, the analysis unexpectedly reveals a positive and significant relationship between PMI and actual experiences of corruption and bribery suggesting that corporate insiders, i.e. directors, may strategically use informal payments to enhance firm value or signal stronger investor protection. The rule of law moderates this relationship. These findings are interpreted using several theories such as management hegemony, stewardship, the hidden cost of bribery, and coordination game and bribery theory.

Chapter Four examines whether PMI and accounting standards moderate the relationship between corruption and FDI, using panel data from 133 countries (2006-2017) with OLS and two-step GMM estimations. Findings indicate that stronger PMI or accounting standards can mitigate the negative effect of corruption on FDI, supporting agency theory.

This research contributes to the literature on corporate governance and corruption by combining conceptual, review-based, and empirical insights. It highlights the importance of accounting and investor protection in addressing corruption, and attracting investment, offering practical guidance for policymakers, regulators, managers, investors, business leaders and researchers in promoting better governance and economic growth.

Chapter One. Introduction

1.1 Research Problem and Significance

Corruption remains one of the most significant barriers to economic growth (Houqe and Monem, 2016; Malagueño *et al.*, 2010; Maruo, 1995; Nwabuzor, 2005), particularly in emerging and developing economies. It has political, economic and social implications (Everett *et al.*, 2007; Sneidere and Vigante, 2014), and is often regarded as an additional cost to economic activity (Andersen *et al*., 2017), which can undermine the effectiveness of institutions and misallocate or reduce of public investment in infrastructure, education and healthcare. In other words, corruption impedes the efficient allocation of resources and wastes enormous amounts of government resources that are supposed to be spent on health, education, and other social programs (Everett *et al.*, 2007, p.517; Neu, *et al*., 2013a, p.505), which is associated with adverse outcomes, e.g. poor healthcare, low levels of education, unemployment, and inadequate risk management mechanisms (Everett *et al*., 2007, pp.518-519). It hinders investment and economic growth, resulting in substantial social welfare losses (Asiedu and Freeman, 2009, p.212). The consequences of corruption extend broadly, affecting economic development, governance structures, and the overall investment climates (Lehman and Morton, 2017). Additionally, corruption undermines the rule of law and erodes investor confidence, thereby deterring foreign direct investment (FDI) (Wei, 2000), weakening public institutions, and distorting market competition (Everett *et al.*, 2007, p.517).

Although corruption is widespread in many countries, its hidden nature and legal penalties often prevent it from being accurately reported in official reports and statistics (Aidt *et al.*, 2020, p.1). Strong corporate governance practices, including transparent financial reporting, effective auditing mechanisms and the protection of minority investors, are essential for ensuring the efficient use of corporate resources, fostering trust in financial markets, and mitigating the risks associated with corruption (Paterson *et al.*, 2019). Corporate governance (CG) plays a critical role in shaping the investment climate and curbing corruption in any economy (Houqe and Monem, 2016; Malagueño *et al.*, 2010). However, in environments plagued by corruption, governance structures might fail to adequatly protect investors, particularly minority stockholders, who are vulnerable to expropriation by controlling interests.

Scholars have long debated the complex relationship between corruption, governance, and economic outcomes, with particular attention to the role of institutions in influencing investment decisions and limiting corruption (Quazi *et al.*, 2014). Understanding the interconnections among these factors is crucial for improving governance practices, attracting FDI, and advancing anti-corruption efforts.

Accounting and auditing create accounting practices that are essential in detecting and preventing corruption and bribery activities. Accounting is an information and communication system that reports financial transactions, whereas auditing is an internal control and monitoring tool. Improving the regulations and rules of accounting information reporting and disclosure can also support the company's internal control and monitoring system (Wu, 2005a). A stronger accounting and auditing environment could influence investors' confidence positively by reducing agency problems, information asymmetry and reporting uncertainties (Wu, 2005a; Zarb, 2008). Efficient accounting standards and CG can also allow the principals (owners) to monitor the agents' (directors') behaviour more effectively. In addition, an efficient accounting and auditing environment along with effective CG mechanisms, e.g. accountability and transparency, tend to enhance a company's operating performance and fight corruption by introducing more restrictions on both the corruptors and corrupt officials (Wu, 2005a).

Unauthorised payments or bribes are more likely to be discovered under a developed and improved accounting and auditing environment, where high accountability levels and effective internal control exist. Thus corrupt officials are deterred from engaging in bribery as they face a higher risk of being caught (Wu, 2005b; Houqe and Monem, 2013). A warning flag usually arises in the presence of potential bribery, such as excessive or unusual expenditure and uncommon financial transactions, which could also attract the attention of well-trained accountants. Therefore, accountants are more likely to be closer than other professionals in detecting corrupt practices, which encourages several international organisations, including the World Bank, to adopt international accounting standards such as the International Financial Reporting Standards (IFRS) and make it a financing condition of their reform agenda (Houqe and Monem, 2016, p.366). On the contrary, the disability of companies to prevent and notice bribery activities could be due to inadequate financial information reporting systems. Therefore, although accurate financial information reporting is essential to detect fraud and bribery, the manipulation and tempering of accounting reports have become common in some companies, such as some Asian companies (Wu, 2005b, p.61).

1.2 Research Objectives and Main Research Question

This research seeks to explore the relationship between corruption, accounting, investors' protection, and investment, with a particular focus on the influence of accounting and auditing on corruption, the role of the protection of minority investors (PMI) in the fight against corruption, and whether accounting and PMI can moderate the effect of the relationship between corruption and FDI. By examining the relationship between these key factors, the study aims to provide insights into how effective some governance practices, i.e. accounting and PMI, can restrict corruption and enhance the attractiveness of emerging markets to foreign investors, contributing to sustainable economic development. Thus, the main research question for this thesis is: *What is the association between corruption, accounting and investment?* This dissertation focuses on accounting and auditing and the protection of minority investors as important governance tools, and foreign direct investment as a vital investment tool. Understanding these relationships is expected to fill gaps in the corruption, accounting, and investment literature since research between accounting or PMI and investments or corruption is scarce.

1.3 Gaps in the Literature

It is worth noting that this research draws on suggestions from previous scholars. For instance, Philippou (2019) believes there is a need for further research to understand the diversity of definitions of both corruption and bribery across time and culture, as well as the effectiveness of transparency and accountability in reducing bribery. In addition, Changwony and Paterson (2019) suggest exploring the relationships between the quality of accounting practice and factors, such as democratisation and the strength of professional and government institutions and their influence on corruption. They also suggest using various corruption variables. According to Kurniawati and Achjari (2022), future research may use actual data for corruption and the strength of auditing and reporting standards (SARS) variables rather than perception data.

Although the literature linking corruption and accounting is sparse, the literature on corruption supports that applying developed and strong accounting and auditing standards or even mandatorily adopting IFRS could be viewed as a commitment by a government to better transparency, accountability and disclosure (Houqe and Monem, 2013). The strength of auditing and reporting standards of a country is affected by various factors, such as the existence of the Big Four in an economy, as it might decrease agency problems and improve the protection of minority investors (Agyemang *et al.*, 2019b). Improving accounting reforms and public policies within companies, for instance, though the adoption of IFRS and the use of external auditors, can serve as an effective anti-corruption strategy. Such measures also enhance prospects of growth, reduce the costs associated with poor financial reporting, and help minimise expenditures related to bribe payments (Wu, 2005b).

1.4 Contribution of the Thesis

This research highlights how stronger regulatory frameworks can foster a more transparent and accountable business environment by exploring how specific governance mechanisms can deter corruption. It also aims to identify the underexplored governance tools in the corruption literature. In addition, the study is expected to provide policymakers, investors, and businesses with a comprehensive understanding of how improvements in governance, such as improved investor protection and robust accounting and auditing environment, can create a more attractive environment for foreign investment. Thus, curbing corruption, improving institutional integrity, and enhancing long-term, sustainable economic growth. The study contributes to developing strategies that can be implemented to fight corruption and foster a more resilient and thriving economic ecosystem by focusing on the interplay between governance mechanisms, corruption and foreign investment. Moreover, the implications are discussed more fully in the concluding chapter.

1.5 Definitions and Types of Corruption

1.5.1 Definitions of Corruption

Corruption is a pervasive phenomenon worldwide that influences various outcomes, such as economic growth and FDI (Chen *et al.*, 2020; Ntayi *et al.*, 2013; Pilonato, 2022). There are several competing definitions of corruption. The most quoted definition of corrupt behaviour, used by several institutions and authors, such as the World Bank, the International Monetary Fund (IMF), the European Commission (EC) and the International Organisation of Supreme Audit Institutions (INTOSAI), is the abuse or misuse of public office, position, or power in the public sector for personal benefit (Chen *et al.*, 2020; Deb, 2018; El-Helaly *et al.*, 2020; Everett *et al.*, 2007; Farooq and Shehata, 2018; Gans-Morse *et al.*, 2018; Jeppesen, 2019; Jetter and Parmeter, 2018; Lehman and Thorne, 2015; Liu and Liu, 2017; Mazzi *et al.*, 2019; Neu, *et al*., 2013a; Ntayi *et al.*, 2013; Nwabuzor, 2005; Philippou, 2019; Picur, 2004; Pilonato, 2022; Rock and Bonnett, 2004, 2004; Yuan *et al.*, 2022). Notably, the World Bank and IMF define corruption broadly, focusing heavily on anti-corruption frameworks in developing countries (Everett *et al.*, 2007). Moreover, according to Jeppesen (2019), accountants use this definition.

However, others, such as Transparency International, consider corruption in an even broader way, offering a broader definition, such as “the abuse of entrusted power for private gain” (Duh *et al.*, 2020; El-Helaly *et al.*, 2020; Everett *et al.*, 2007; Houqe and Monem, 2016; Lehman and Thorne, 2015; Philippou, 2019; Pilonato, 2022; Zarb, 2011). Sneidere and Vigante, (2014) and Yuan *et al*., (2022) have also supported this definition. In addition, abuse is defined as improper behaviour that deviates from what is considered reasonable and necessary in business practices (Jeppesen, 2019). Although definitions of corruption often focus on individual gain, bribes given or received are not always explicity mentioned, even though they can indirectly serve private interests (Philippou, 2019). This research has adopted the second definition, which defines corruption as “the abuse of entrusted power for private gain”.

Corruption can be defined narrowly or broadly based on the research focus. It is not limited to the public sector. However, it has become increasingly prevalent in private-sector business relationships as well, even in more developed countries with developed government regulations and oversight mechanisms (Mazzi *et al.*, 2019). Corruption has five main features: the possession of power, the willingness to use that power, the opportunity to exercise it, the ability to conceal it, and the pursuit of personal benefit (Mazzi *et al.*, 2019).

Corruption can be considered an additional tax on economic activities, which destroys the expected returns on investments (Andersen *et al.*, 2018; Jalil *et al.*, 2016; Malagueño *et al.*, 2010), leads to a reduction in public investment (Kondyan and Yenokyan, 2019), impeds the efficient allocation of resources (Nwabuzor, 2005), and is expected to raise the cost of doing business by approximately ten per cent (Jeppesen, 2019; Kieschnick and Moussawi, 2018). It involves acts of illegal payments, bribery, fraud, money laundering, smuggling, extortion (Zarb, 2011), nepotism, tax evasion, cronyism, patronage or embezzlement in the accounting and investment field, thereby breaking investor confidence, deterring FDI and restricting economic development (Zarb, 2011). Moreover, corruption manifests in several ways, including abuse of power, trading in influence, conflicts of interest or revolving doors between the private and public sectors (Pilonato, 2022). In addition to fraud and treason, corruption can involve embezzlement (Everett *et al.*, 2007) of public funds and other forms of unethical behaviour or wrongdoing

(Nwabuzor, 2005). Such corrupt actions could be reduced through efficient government audits (Deb, 2018).

Studies have highlighted several factors that drive corruption within government offices, such as inadequate compensation, employees' greed and financial pressures, nepotism, opportunities for unethical promotions, and bribe payments to access better healthcare in public hospitals or secure higher exam marks (Deb, 2018).

1.5.2 Types of Corruption

Corruption is widely recognised as a significant global issue that affects countries worldwide (Transparency International, 2007). According to the definition, corruption is a transaction between two parties involving the misuse or abuse of public or collective responsibility for private gain. It affects the allocation of resources either sooner or later. This definition can encompass some types of corruption, such as economic, commercial and political, etc., where political and commercial corruption are the main two types (Malagueño *et al.*, 2010). Kinds of corruption might include:

Commercial corruption, where one side uses economic power for private benefit (Malagueño *et al.*, 2010a). The most popular kinds of commercial corruption are bribery kickbacks, bid rigging, economic extortion, illegal gratuities, and conflicts of interest. Economic extortion includes employees demanding kickbacks from the vendor for creating an order or receiving some advantages, such as a loan, permission, etc. Meanwhile, illegal gratuities include employees obtaining a present from a vendor, which violates the company's rules or policies (Jeppesen, 2019). Bribery, conflicts of interest, undisclosed revenue, fake costs, and classification errors tend to create misstatements in the financial reports and leave evidence for auditors to examine. This is because such practices involve the exchanges of tangible assets, and conflicts of interest typically arise in the procurement function when an individual purchases goods or services at inflated prices from a particular company (Jeppesen, 2019). For instance, as bribery is illegal in most nations, the company may reclassify paying bribes as a legitimate expense, e.g. consulting fee, commission, or payment for some intangible service.

Political corruption, where one side is a public official or politician using public office for private benefit (Jeppesen, 2019; Malagueño *et al.*, 2010). Unlike commercial corruption, which typically occurs within horizontal networks where equally powerful actors engage in trust-based, close-knit relationships, political corruption takes place within informal vertical networks, where the public official or politician holds more power than the client. This makes the client offer intangible assets, such as loyalty, respect, subordination, and political favours (Jeppesen, 2019). This type of corruption may occur in developed countries, but it is more common in developing countries, especially at the municipal and national levels (Jeppesen, 2019, p. 4). Political corruption includes favouritism (patrons favouring particular social groups), clientelism (patrons preferring individual clients), or nepotism (patrons favouring relatives), which is outside the expertise of financial auditors. It can leave little evidence for an auditor to examine, so it's difficult to be discovered by auditors. The relationship between the public official or politician and the client is vague, and corrupt transactions are often intangible or concealed (Jeppesen, 2019). However, political corruption can also lead to inaccuracies in financial reporting.

Political corruption is more likely to undermine effectiveness, efficiency and economy due to the absence of free competition. Therefore, a high risk of political corruption should be a key consideration for public sector auditors when conducting performance audits (Jeppesen, 2019). There are incentives and reasons for keeping bribes hidden in the political sphere, such as preventing corruption penalties by political opponents (Aidt *et al.*, 2020). In addition, when mutual benefits are associated with corruption, the bribe givers and takers have reasons for secrecy, e.g. when paying bribes to gain preferential government-directed credits to evade import fees or to prevent payment or overpayment of income taxes (Aidt *et al.*, 2020). Also, cultural, social, and institutional norms that create expectations and incentives may significantly influence the propensity of people to abuse public office for private gain when the chance arises (Hammer and Hamilton, 2018).

Venal corruption, a type of political corruption, is defined as the unlawful use of public resources for personal advantage, particularly by government officials who trade favours and contracts with private interests for money or other benefits or by politicians who exploit public funds for their own gain (Mazzi *et al.*, 2019).

Institutional corruption is often more subtle. Although it is generally not illegal, it is a systemic manipulation of rules and principles to undermine their intended objective through legally permissible methods. In a business context, this corruption can involve companies violating private sector standards and codes of conduct, such as misinforming employees, customers and shareholders. In such corruption, managers tend to be seen as active rationalisers or guilty perpetrators who take these chances created by their business environment (Mazzi *et al.*, 2019).

Bureaucratic or administrative corruption involves appointed civil servants instead of elected officials. It can be in many forms, and each form may need different anti-corruption policies (Gans-Morse *et al.*, 2018).

In addition, Cuervo-Cazurra, (2008) introduces the following kinds of corruption:
Grand corruption, where the company provides elected politicians with sufficient bribes to allocate contracts or subsidies (Cuervo-Cazurra, 2008).

Petty corruption, where a small number of bribes complements the salaries of unelected bureaucrats in exchange for expediting permits or foregoing regulations (Cuervo-Cazurra, 2008).

Pervasive corruption represents the known cost of corruption or bribes, where the company will face corruption whenever it deals with government officials. For instance, a country with pervasive corruption is expected to continuously ask investors for bribes, either by politicians to receive government contracts or by public employees to process paperwork, which raises the operating costs in the economy. Therefore, due to the increased costs, which may render potential investment projects, unprofitable investors in countries with pervasive corruption may avoid or reduce their investments there (Cuervo-Cazurra, 2008).

Arbitrary corruption represents the uncertainty associated with corruption at the country level rather than at the transaction level, where the company encounters uncertainty regarding the kind and request for bribes and the delivery of the promised services. This type separates the two challenges that corruption creates for investors or FDI: additional costs and additional uncertainty of operation in the economy. For instance, a country with Arbitrary corruption may or may not ask a foreign investor for bribes. In addition, bribe payments to a government official or others do not necessarily lead to the promised services being delivered. Arbitrary corruption is also called 'disorganised corruption', where the bribe payment to one government official does not prevent others from asking for another kickback for the same service or blocking service delivery, unless an additional bribe is paid. As a result, foreign investors will reduce their investments due to the lack of knowledge of being asked for a bribe or delivery of services, which increases the uncertainty of operating in the economy (Cuervo-Cazurra, 2008).

1.5.3 Distinctions between Corruption and Fraud

Some authors argue that fraud and corruption are distinct offences, and whether they are considered separate depends on how fraud is defined. Fraud is defined by the International Standard on Auditing (ISA240) as an intentional behaviour comprising deception to receive an unjust or illegal benefit. This definition may cover corruption (Jeppesen, 2019). Thus, all forms of corruption may fall under the definition of fraud, but not all fraud constitutes corruption. Fraud can also be described as the intentional use of trickery, deceit, or any dishonest means to deprive additional legal rights, money, or property (Abdullahi and Mansor, 2018). In addition, ISA 240 primarily focuses on two categories of fraud: asset misappropriation, e.g. kickbacks, and fraudulent financial statements (Jeppesen, 2019).

The International Federation of Accountants (IFAC) and the external auditing profession tend to exclude corruption from their definition of fraud. Instead, they categorised corruption as non-compliance with laws and regulations rather than fraud, leaving it as a matter for law enforcement and an ethical issue for accountants in business (Jeppesen, 2019). The primary justification for this exclusion is that corruption does not typically result in significant errors in financial statements, nor does it give clear evidence to investigate by auditors. As a result of excluding corruption from fraud definition, private sector financial auditors are not required to consider corruption risks in their audit plans. In such cases, auditors are expected to understand the situation, discuss it with management, and determine if further action is needed. If necessary, this could involve reporting the matter to the relevant authorities (Jeppesen, 2019).

The exclusion of corruption from the ISA 240 definition of fraud is intentional, distinguishing it from the Association of Certified Fraud Examiners (ACFE) model. According to the ACFE, internal auditors explicitly include corruption in their definitions of fraud, and categorises fraud into three main types: asset misappropriation, fraudulent financial statements, and corruption. The ACFE further divides corruption into four types: bribery, conflicts of interest, economic extortion and illegal gratuities (Jeppesen, 2019). The motivation for committing fraud and risks of fraud differ depending on the kind of fraud and specific circumstances and vary across different organisations and departments. This variation is affected by the nature of business activities, the organisational structure and the strategies employed to reach objectives. However, to effectively control fraud, forensic accountants are needed to detect fraud with information system users (Akinbowale *et al.*, 2020) and public sector financial auditors must keep vigilant for signs of abuse throughout the audit process (Jeppesen, 2019).

1.6 An Overview of the Thesis Structure

The second chapter presents a systematic literature review (SLR) on how accounting and auditing can affect corruption. It aims to answer the following question: *How can accounting and auditing influence corruption?* It fills a research gap in accounting and corruption literature since it is the first systematic literature review to analyse this relationship using a series of published articles. The chapter gives an overview of accounting and corruption, describes the systematic literature review methodology, presents the results and identifies key accounting tools and practices that have been linked to anti-corruption outcomes.. It also reports the limitations and implications of this study and provides concluding remarks followed by future studies.

The search keywords used in the second chapter are synonyms of three main terms: Accounting, Auditing and Corruption. The Scopus database has been utilised, and articles published in peer-reviewed journals in English between 2000 and 2023 have been selected. These 1653 articles were then screened to identify duplicates and distinguish articles pertinent to the study objective by initially screening the titles and abstracts of the articles, which led to 303 articles. The full versions of these articles have been read, and the inclusion and exclusion criteria have been applied, followed by other appropriate steps, resulting in 58 appropriate articles. These articles have been carefully read and analysed thereafter. The findings suggest that the following factors are the most effective accounting techniques in the battle against corruption: developed accounting and auditing standards; accounting profession and education; external and internal auditors; accounting institutions; quality of accounting system and New Public Management (NPM) and decentralisation. By efficiently using these tools, governments and policymakers can assist in restricting corruption.

The third chapter extends this research to investigate how the protection of minority investors (PMI) is involved in reducing corruption at a macroeconomic level. Thus, the primary research question is: *To what extent does protecting minority investors (PMI) affect corruption?* This chapter uses cross-country data to empirically examine how PMI influences both perceived and experienced corruption, and how this relationship is moderated by the rule of law. It aims to make a significant contribution and bridge a gap in corruption and governance literature by addressing how PMI can play a vital role in restricting corruption. To the best of the researcher’s knowledge, it is the first to examine

the association between PMI and either perceived or experienced corruption among a large number of countries.

The protection of minority investors (PMI), a critical component of governance, can significantly affect the corruption level in a country. When robust legal frameworks sufficiently protect minority shareholders, there is less chance for controlling shareholders to engage in corrupt practices for personal benefit (La Porta *et al*., 1998). Safeguarding minority investors' rights is more likely to promote better transparency and accountability in both private and public sectors, and they tend to engage in economic activities that are aligned with international standards, which, in turn, foster a more transparent and competitive market environment and deter corrupt activities. PMI improves the integrity of financial markets, decreases the risk of economic manipulation and corruption, and attracts foreign investment. In other words, firms are less likely to engage in fraudulent behaviour when there are clear and enforceable safeguards for investors.

Houqe and Monem (2016) believe that countries with strong investor protection laws and enforcement mechanisms tend to have lower levels of perceived corruption, as these frameworks enhance market transparency and decrease the opportunities for illicit activities. They used the control of corruption (CC) index sourced from Kaufmann *et al*. (2012) to measure corruption as a dependent variable and the extent of the director liability index, the proxy for investor protection, sourced from the Doing Business Report, the World Bank, as one of the control variables, which motivates this research to extend their paper and examine both perceived and experienced corruption and the PMI relationship in the third chapter of this thesis.

In this chapter a cross-sectional dataset is constructed, comprising a sample of up to 185 countries from different data sources, for a more extended period (2006-2018). The results relating to the relationship between the protection of minority shareholders and the level of perceived corruption, which is negative, can be explained by agency theory. This indicates that countries with stronger PMI are perceived to be less corrupt. Surprisingly, however, the results also show a positive relationship between the protection of minority shareholders and experienced corruption and bribery. This indicates that the percentage of informal payments or gift requests during public transactions (Bribery Index) and firms that experienced at least one bribe payment request (Bribery Incidence) are positively and

significantly correlated with PMI, which shows that PMI predicts a higher rate of bribery and experienced corruption. By demonstrating the link between investor protection and perceived or experienced corruption, the research provides essential insights for policymakers seeking to strengthen governance frameworks and create a more stable, trustworthy economic environment.

In theory, when minority investors are well-protected by a robust legal system, it could curb corrupt behaviours that exploit investors and promote transparency. However, the effectiveness of the rule of law relies on consistent enforcement and the absence of legal loopholes that allow corruption to persist. In this study, the rule of law (RL) is introduced as an interaction variable, which moderates the relationship between PMI and corruption. It suggests that the effectiveness of investor protection reforms, such as PMI, depends on the broader institutional context. The findings show that while PMI might be expected to reduce perceived corruption, this effect disappears or weakens when the Rule of Law is strong. Interestingly, on the other hand, stronger legal environments lead PMI to be associated with more experienced corruption, i.e. bribery and gift-giving.

The fourth chapter, inspired by the previous chapters, expands on this research to examine whether PMI and accounting standards can moderate the relationship between corruption and FDI. It aims to answer the following question: *To what extent do accounting standards and PMI influence the relationship between corruption and FDI?* It investigates whether these governance mechanisms can mitigate the negative impact of corruption on foreign investment using panel data and advanced econometric methods. This matters because better accounting standards and stronger protection for minority investors (PMI) are expected to create a more transparent and secure environment for foreign investors, restrict corruption, and improve trust in the market to make it more attractive to FDI. According to agency theory, these mechanisms align the interests of investors and companies by

decreasing information asymmetry and the potential for opportunistic behaviour, which ultimately enhances economic growth and market efficiency.

Foreign direct investment (FDI) is important to international economic integration, offering technology, capital, and management expertise to host countries. FDI flow is strongly affected by both the quality of governance and the extent to which country's regulatory framework is perceived as transparent and fair (Paterson *et al.*, 2019). Several studies reveal that corruption is expected to impede FDI, which can negatively affect countries and restrict economic growth (Dornean *et al*., 2012; Xu *et al.*, 2021). Thus this research is expected to fill the expected gap in the literature and be the first to examine the effect of accounting and PMI on corruption-FDI relationship.

A panel dataset, comprising a sample of up to 133 countries worldwide, has been investigated at a macroeconomic level over the span of 2006-2017. The ordinary least squares (OLS) regression model with year-fixed effects and two-step generalised method of moments (two-step GMM) estimator have been used. The results suggest a significantly positive relationship between FDI per capita and either control of corruption or PMI, which indicates that economies with better control of corruption or stronger PMI can attract more FDI. However, there is an insignificant relationship between strong accounting standards and FDI. In addition, the interaction between either accounting standards or PMI and control of corruption is positive and highly significant with FDI, indicating that stronger PMI or accounting standards can boost foreign investments and restrict corruption, which is consistent with agency theory.

Overall, these chapters offer a layered response to the main research question. The systematic literature review in chapter two establishes the conceptual and empirical foundation for the role of accounting in anti-corruption. Chapter Three builds on this by empirically investigating the influence of investor protection on corruption, highlighting the moderating effect of rule of law. Chapter Four then connects these governance tools to corruption and FDI relationship, showing that PMI or accounting standards can help curb corruption and improve the attractiveness of a country to foreign investors. Collectively, the thesis demonstrates that effective governance can simultaneously fight corruption and stimulate investment, contributing to broader economic development objectives.

1.7 Anti-Corruption and Fraud Prevention Measures

Corruption is blamed for being an obstacle to consolidating democratic institutions and free market economies (Picur, 2004). It also affects poverty (Everett *et al.*, 2007; Pilonato, 2022). Nwabuzor (2005, p.124) believes that the most corrupt countries in the world are among the poorest. According to Changwony and Paterson (2019, p.1), the World Bank (2017) estimated that individuals and organisations pay approximately $ 1.5 trillion in bribes each year worldwide and that the wealthy tend to pay a lower percentage of their income than the poor. In addition, while wealthier societies seem less corrupt, corruption may also contribute to lowering income levels (Jetter and Parmeter, 2018). In wealthy economies, market corruption thrives when wealthy people establish legal agreements with politicians for personal benefit, often through donations of campaigns, job offers, or grants. These typically manipulate institutional systems rather than circumvent them, making corruption more mikely to be discovered. Because many of these practices are legal, deeply rooted, and often embedded in public policy, reformers face significant obstacles (Johnston, 2015).

In the Commission's report (2014), for example, over four in ten companies in Europe believe that corruption hinders entrepreneurship (Sneidere and Vigante, 2014, p.63). Survey results confirm that smaller companies are more likely to face disruptions in their operations due to corruption (ibid). Additionally, the European Commission released its Anti-Corruption Report in February 2014, offering a comprehensive overview of the situation in Europe, estimates that corruption costs approximately 120 billion euros annually (Pilonato, 2022, p.121). However, Jetter and Parmeter (2018, p.280) state that due to limited data availability, a wide range of potential contributing factors, and concerns about endogeneity, understanding why some countries experience higher levels of corruption than others is hindered.

No country has entirely prevented or eradicated corruption; it can only restrict it and maintain it at a certain level. Preventing corruption typically requires a series of actions taken at the international or local level across various sectors to limit, fight, or prevent corrupt actions (Sneidere and Vigante, 2014). Corruption is a major factor in government inefficiency. It occurs when public officials misuse their positions for personal gain, typically through bribes from corrupt individuals to bureaucrats. In situations where the actions and consequences of policymakers or bureaucrats are only partially visible to citizens, these officials are incentivised to appropriate a portion of the locals' income. This rent-seeking behaviour is influenced by the level of accountability demanded from the bureaucrats (Picur, 2004).

Anti-corruption is a significant and widely studied area in the research on financial crimes globally, particularly in developing and emerging economies (Liu and Liu, 2017). Criminology offers two main approaches to combating corruption: crime control, which focuses on deterrence through punishment, and regulation, which encourages self-regulation and cooperation. Both approaches have advantages, and a mix of the two is often the most effective strategy for tackling corruption. In the UK, regulators like the FCA use a self-regulation approach combined with penalties for non-compliance (Philippou, 2019, p.19). Interestingly, the language of anti-corruption discourse rarely mentions crime or criminal behaviour, as if corruption and crime belong to separate categories. This distinction raises questions about whether the focus on corruption is more about moral degeneracy than criminality. Moreover, the discourse often sets public officials as the primary villains while encouraging private businesses to be more self-interested, ignoring the role of greed and self-interest as primary causes of corruption (Everett *et al.*, 2007).

The main anti-corruption measures used at both international and national levels include anti-corruption agencies, international organisation, initiatives and campaigns, laws and principles, strategies and policies, and political engagement.

1.7.1 Anti-Corruption Agencies (ACA) and International Organisations

Since 2004, there has been growing global recognition of the dangers posed by corruption, especially in developing countries (Nwabuzor, 2005, p,130). Governments are increasingly committed to addressing this issue, with international organisations taking the lead (Nwabuzor, 2005, p.130). Independent anti-corruption agencies can play a key role in promoting integrity within government. These agencies, often created by law or

constitution, specialise in tackling political corruption. In several developing countries, such agencies are established to comply with international treaties to fight corruption. Their role is vital in enforcing, preventing, and investigating corruption. These agencies can hold even the most powerful individuals accountable when independent and empowered. Therefore, effective anti-corruption efforts, supported by good governance, are essential for promoting integrity, transparency, and development (Ferina *et al.*, 2021).

Large institutions, such as the World Bank, IMF, UN, OECD, and Transparency International, have dedicated significant resources to combat corruption globally over the past decade (Everett *et al.*, 2007). For example, the UN's Organisational Integrity Unit is working on mechanisms to promote corruption-free environments, and Transparency International (TI) is urging nations to ratify the UN Convention on Corruption and pushing EU countries to strengthen anti-corruption measures (Nwabuzor, 2005, p.130).

Transparency International has led the fight against corruption for over a decade, with its annual Corruption Perceptions Index widely recognised as a reliable source of global corruption data. Transparency International (TI) is a global non-governmental and non-profit organisation focused on combating corruption. TI releases a corruption index (CPI) annually derived from surveys of business professionals and country experts. The organisation focuses on long-term prevention and system reforms rather than exposing individual cases of corruption (Nwabuzor, 2005). According to Clarke (2020), TI suggests that corruption is more prevalent in developing countries than in Western states, although it is not exclusive to them. However, despite TI efforts, some users believe this index has limitations, such as lacking precision, especially in poorer countries (Everett *et al.*, 2007). The Organisation for Economic Co-operation and Development (OECD), established in 1960 (Pacini *et al.*, 2002, p.213), has been considered one of the most influential international organisations that aimed at fostering global economic growth and stability (Pacini *et al.*, 2002). It has emphasised the negative influence of corruption on socio-economic development, condsidering that law enforcement agencies and investigative bodies are crucial in establishing an efficient legal framework (Everett *et al.*, 2007). The OECD has drafted a Convention on Combating Bribery (Everett *et al.*, 2007), which is a global anti-bribery agreement, implemented by 40 countries, including the U.S. The OECD Convention aim to reduce global corruption, ensure fairer international business, and enhance transparency in financial reporting (Pacini *et al.*, 2002).

Moreover, the International Chamber of Commerce (ICC), representing global business, has also been active in anti-corruption efforts. Since 1977, it has worked to curb corruption in global business, with the recommendations of its committee laying the foundation for the 1997 OECD Convention on Combating Bribery (Nwabuzor, 2005, p.136). The ICC's anti-corruption committee encourages self-regulation within businesses and affects international anti-corruption conventions. Since many multinationals are ICC members, the organisation is well-positioned to manage the disclosure of payments to foreign governments and entities, making the information publicly accessible. Although self-regulation and voluntary codes are essential, they cannot replace government action in the battle against corruption. Furthermore, multinational executives should be aware that their corrupt activities could be exposed globally, which might deter them from engaging in bribery (Nwabuzor, 2005).

In addition, two anti-corruption organisations, the World Bank (WB) and the United Nations (UN), are collaborating with IFAC and INTOSAI to develop standards. These accounting guidelines often reflect a conventional view (Everett *et al.*, 2007). The United Nations has focused on the serious consequences of corruption. The United Nations Convention Against Corruption (UNCAC), established in 2003, is the only legally binding international anti-corruption instrument with 140 signatories. It provides measures to prevent, criminalise, and fight corruption and money laundering (ML). UNCAC mandates countries to criminalise grand corruption offences such as bribery, embezzlement, and abuse of functions and outlines specific measures to criminalise money laundering activities (Clarke, 2020, p.165). On the contrary, the European Commission is exploring better ways to communicate organisations' economic, environmental, social, and governance performance, including positive and negative impacts (Sneidere and Vigante, 2014). In the EU, corruption costs approximately 120 billion EUR annually (Sneidere and Vigante, 2014, p.62).

Effective anti-corruption agencies (ACAs) require legitimacy, transparency, integrity, well-resourced, independent, and comprehensive strategies that integrate with other governance institutions. International standards, such as those from the United Nations (UN) and Transparency International (TI), suggest that effective ACAs should have political and operational independence, a comprehensive legal framework, adequate

resources, and robust political backing. ACAs gained attention due to the success of those in Hong Kong and Singapore in the late 20th century. Since the 1990s, ACAs have become central to global anti-corruption strategies that international financial institutions and development agencies promote. By 2008, nearly 100 countries had established ACAs, up from just 12 in 1990 (Gans-Morse *et al*., 2018, p.180).

Although anti-corruption agencies (ACAs) have spread globally, there is growing scepticism and a lack of studies evaluating their effectiveness in combating corruption. While some positive examples exist, clear-cut success stories, particularly beyond the first-generation ACAs remain rare (Gans-Morse *et al*., 2018, p.181). Some critics argue that these agencies rarely lead to substantial reductions in corruption (Gans-Morse *et al*., 2018, p.182). Krambia-Kapardis (2019) suggests that despite calls for stronger ACAs, several agencies have proven ineffective due to factors such as insufficient resources, limited authority, political interference, internal mismanagement, and a lack of public trust and cooperation with other government institutions. The widespread ineffectiveness of ACAs can be attributed to mismatched designs, dubious political motivations, and unrealistic expectations (Krambia-Kapardis, 2019). Thus, ACAs alone cannot solve corruption; they must be part of a broader effort to address systemic socio-economic issues (Krambia-Kapardis, 2019)..

In addition, international tools, such as the World Bank's blacklist of corrupt companies, have been developed to address corruption by multinational corporations (MNCs), but enforcement has been weak (Nwabuzor, 2005, p.135). Countries, including the UK and the US, have anti-corruption laws targeting MNCs, but they are rarely enforced effectively. Studies suggest that many companies in public procurement contracts in Eastern Europe engage in bribery. Notably, the one-size-fits-all approach to anti-corruption agencies (ACAs) has failed mainly due to external and internal factors, focusing on the need for a more integrated approach that includes legitimacy theory and a strong sense of purpose.

1.7.2 Anti-Corruption Initiatives and Campaigns

Corruption prevention and detection are serious concerns for many countries, with major anti-corruption efforts, such as anti-bribery actions, being undertaken internationally, including in Germany, Italy, France, China, and the USA. International companies face

increasing scrutiny as they navigate anti-bribery and corruption (ABC) laws across various jurisdictions. In recent years, new laws have been introduced in markets like Brazil, India, the UAE, and China, where fighting public official corruption has become a top priority (Peltier-Rivest, 2020). The literature highlights on the need for a comprehensive anti-bribery framework and Anti-bribery and corruption (ABC) implications. This framework should integrate insights from multiple disciplines, including economics, corporate governance, politics, ethics, criminology, global enforcement and commercial perspectivism, to efficiently evaluate and curb bribery. It is also vital to clearly define corruption and bribery, ensuring that policies and evaluations are consistent and well-defined (Philippou, 2019).

Organisational anti-corruption mechanisms aim to prevent corrupt practices by integrating major factors such as organisational culture, structure, and compliance systems. Organisational culture focuses on decision-making based on ethical principles, whereas organisational structure is designed to detect fraudulent activities. Compliance systems are developed to prevent corruption by creating anti-corruption programs and codes of conduct (Sudibyo and Jianfu, 2015). In addition, the literature on anti-corruption initiatives can be divided into two main groups: socio-economic factors, e.g. anti-money laundering measures, and political considerations (Liu and Liu, 2017, p.607). From a political perspective, government officials are often the main perpetrators, and politics plays a crucial role in anti-corruption efforts. In Singapore, for instance, strong political anti-corruption laws help the government rebuild trust and legitimacy (Liu and Liu, 2017, p.607).

Most anti-corruption discussions concentrate mainly on public officials and their institutions, ignoring the broader supply-side actors. Therefore, when addressing corruption, it is vital to consider the supply side, which involves public officials, business leaders, international lenders, civil society, foreign governments, and Non-Governmental Organisation (NGOs). Recognising this broader role, organisations like the OECD and the United Nations (UN) have focused on curbing bribery, with both institutions highlighting the need for robust accounting and auditing practices to restrict corruption.

The convention links accounting and auditing standards with effective anti-bribery enforcement, such as the US Foreign Corrupt Practices Act and emphasises that

maintaining proper financial records and enforcing effective penalties for violations are crucial tools in the fight against corruption. This includes maintaining books and records, accounting and auditing standards, and financial statement disclosures to avoid establishing off-the-books accounts for bribing (Everett *et al.*, 2007). Therefore, accounting, both as a practical activity and as a bridge between the theoretical objectives of anti-corruption efforts and their real-world implementation, has the potential to establish a new form of enhanced economic accountability. This expands the accounting role beyond its traditional functions (Kimbro, 2002), challenging the harmful dualism between society and the economy. Thus, the convention sets two key requirements: first, nations must maintain sufficient accounting records, financial disclosures, and auditing standards; second, they must impose effective penalties for falsifications and omissions in financial statements.

Auditors are now under pressure to detect and report fraud, including bribery, and must evaluate the risk that breaches of the Convention impact financial statements. They must also evaluate internal controls, including transaction authorisation, ethical policies and controls on accounting systems and ensure transparency in financial reporting (Pacini *et al.*, 2002). If they suspect a violation of the OECD Convention, they must investigate whether it significantly influences the financial statements. Moreover, regulatory guidelines from the European Union (UN) emphasise that auditors must meet increasing demands regarding compliance with legal requirements related to the prevention, detection, and reporting of bribery (Khalil *et al.*, 2015; Pacini *et al.*, 2002). Auditors should promptly communicate any suspicions of fraud to management and may be required to report them to third parties, such as the SEC in the US (Pacini *et al.*, 2002).

Example of China's anti-corruption campaign

Governments face more demands and scrutiny than businesses (Johnston, 2015). Jin *et al*., (2021) used a difference-in-differences approach, indicating that, following China's recent anti-corruption campaign in 2012 internal corporate governance improved more in state-owned enterprises (SOEs) than non-SOEs. However, SOEs were less likely to hire Big 10 auditors, with audit firms assigning less experienced auditors and charging lower fees (Jin *et al.*, 2021, p.153). These effects were more pronounced in SOEs with stronger governance improvements. Moreover, the study suggests that although the anti-corruption campaign strengthened governance in China's SOEs, it also decreased external audit

quality. This decline can be attributed to SOEs facing lower demand for high-quality accounting information. Therefore, the findings indicate that internal governance and external audits may be substitutes in this context (Jin *et al.*, 2021).

To evaluate whether these post-2012 measures enhanced their impact, Chen *et al*. (2020) conducted two analyses of the impact of corrupt officials' arrests on local corruption culture to compare the audit quality (AQ) of firms in affected jurisdictions before and after the event in China, against control firms. The results reveal that AQ was significantly higher in the post-2012 period, especially for firms with stronger ties to powerful officials (Chen *et al.*, 2020, p.5). These firms enhance AQ by switching to higher-quality auditors, improving internal controls, and issuing more management forecasts (Chen *et al.*, 2020). However, auditors typically charge higher fees to offset the risks associated with client corruption (Ruan and Zhang, 2021). Moreover, 174 high-ranking officials, including top executives and military officers, were arrested by June 2016, and corruption-related assets totalled around $292 million. This intensified anti-corruption effort likely increased the risks and penalties for corrupt firms, making it more likely that firms engaging in bribery would be audited by top-tier firms after 2014 (Ruan and Zhang, 2021, p.758).

1.7.3 Anti-Corruption Policies and Strategies

Gans-Morse *et al*. (2018) distinguish between policies and strategies. They believe that policies are actions with clear objectives, such as decreasing embezzlement through anti-corruption audits, whereas strategies involve broader plans combining multiple policies to curb corruption. A key takeaway is the importance of comprehensive, integrated anti-corruption campaigns. In societies with systemic corruption, reforms that target individual cases are unlikely to succeed long-term. Corruption becomes an alternative social order, where individuals face a collective action problem, and efforts to punish or reward behaviour often fail because the enforcers themselves are corrupt. Successful anti-

corruption efforts require assessing specific policies and understanding the broader political and social strategies needed (Gans-Morse *et al.*, 2018).

Gans-Morse *et al*.'s (2018) article provides an interdisciplinary review of anti-corruption policies, focusing on reducing corruption among civil servants. It synthesises insights from economics, sociology, political science, and anthropology, assessing seven policy areas: monitoring, rewards and penalties, screening and recruiting, anti-corruption agencies, restructuring bureaucracies, international agreements, and educational campaigns. Despite the prevalent use of these policies, empirical evidence of their effectiveness is limited (Gans-Morse *et al*., 2018, p.179). Furthermore, four types of anti-corruption policies focused on monitoring include (1) top-down audits, (2) grassroots civil society monitoring, (3) transparency initiatives, and (4) e-governance. Monitoring approaches, such as top-down anti-corruption audits, e-governance and financial disclosure laws have more consistent evidence of success. However, more research is needed to evaluate their long-term impact. Other research areas, including penalties, whistleblowing laws, bureaucratic restructuring and recruitment practices, remain limited (Gans-Morse *et al*., 2018, p.179). Notably, whistleblowing is a vital mechanism in anti-corruption strategies, whereas cultural barriers, e.g. reluctance to report wrongdoing and the bystander effect, can hinder its effectiveness (Philippou, 2019, p.20).

In general, while scholars agree on the need to fight corruption, there is little consensus on which policies are most effective. Gans-Morse *et al.*'s (2018) review of anti-corruption policies reveals a consensus that higher civil servant salaries are necessary but inadequate to curb corruption. Furthermore, the debates surrounding anti-fraud and anti-corruption policies shed light on the role of accounting, particularly through auditing and regulatory disclosure, in promoting accountability and transparency. These factors are vital for curbing corruption and fraud in the public sector (Paterson *et al.*, 2019).

On the other hand, according to Everett *et al*. (2007, p.520), anti-corruption strategies are mainly categorised into three groups: (1) Control strategy to enhance legal, educational

and other systems. (2) An exit strategy to decrease monopolies and discretionary power, decentralise government functions, and boost the accountability of public officials. This approach often focuses on decreasing government intervention and regulation, which are considered inefficient or counterproductive. (3) Voice Solution, which believes that members of civil society know corruption better than experts. From a civil society perspective, better-equipped local communities, empowering citizens, and promoting grassroots efforts are needed to understand, monitor, and restrict corruption (Everett *et al.*, 2007, p.521). Furthermore, although several researchers assume that administrative anticorruption strategies, including stronger internal controls and more intensive auditing, can significantly curb corruption, Neu *et al*. (2013a, p.1242) believe that internal auditors lack independence and are subject to political and bureaucratic influence.

In summary, there is a need for comprehensive, integrated anti-corruption strategies rather than focusing on individual policies. In corrupt societies, systemic issues often require systemic reforms. Literature suggests that practical anti-corruption efforts need the backing of influential stakeholders who benefit from controlling corruption (Gans-Morse *et al.*, 2018). Furthermore, governments in developing economies can apply anti-corruption clauses in significant contracts, ensuring fines for violators, barring corrupt firms from future contracts and arresting corrupted public official. Publicising corruption cases and reporting MNCs to their home governments could further pressure corporations to comply with ethical standards. Governments also should encourage societal moral education, supported by religious and non-governmental organisations, to promote ethical behaviour (Nwabuzor, 2005). Gans-Morse *et al*. (2018) called for future research on understanding the political economy of anti-corruption campaigns and how different stakeholders drive or hinder reform efforts.

1.7.4 Anti-Corruption Laws and Principles

In recent decades, there has been growing attention to corrupt business practices worldwide, which led to various regulatory changes and sparked a wave of research into corruption in international business transactions (Khalil *et al.*, 2015a). A more rigorous application of anti-corruption laws and stronger reporting by developing countries are needed to fight corporate corruption (Nwabuzor, 2005). International treaties, such as the United Nations Convention against Corruption (2003) and the OECD Convention on Combating Bribery (1997), require countries to adopt national anti-bribery and anti-

corruption laws. These laws criminalise bribing public officials abroad. The OECD Convention sets legally binding standards to criminalise bribery of foreign public officials in international business transactions. Each country must undergo a peer review process, with reports made publicly available (Holtzblatt and Tschakert, 2014; Neu *et al*., 2013a).

The Foreign Corrupt Practices Act (FCPA), enacted by the U.S. Congress in 1977 (Duh *et al.*, 2020; Holtzblatt and Tschakert, 2014) and revised in 1988, was introduced in response to corporate scandals uncovered in the 1970s, during which 400 U.S. companies acknowledged paying more than $300 million in bribes to foreign officials (Holtzblatt and Tschakert, 2014, p.38). It has three main components: anti-bribery, accurate record-keeping, and internal controls (Duh *et al.*, 2020; Holtzblatt and Tschakert, 2014). When facing FCPA risks, audit committee members should consider the following actions for an efficient corporate ethics and anti-corruption compliance program to decrease exposure to violations: apply enterprise wide FCPA compliance policies; develop a whistleblower program to encourage early reporting of potential violations, with protections against retaliation; offer FCPA compliance training for all employees, take prompt disciplinary action, including termination, for policy violations; minimise reliance on agents for business acquisition and ensure any remaining agents comply with FCPA standards; requires both the external auditor and management to evaluate and report on the effectiveness of the internal controls of companies over financial reporting; increase the frequency of internal audits in foreign jurisdictions (Holtzblatt and Tschakert, 2014).

There are two key types of criminal and Civil Penalties for FCPA Violations: 1. Criminal Penalties: Individuals might face fines of up to $100,000 and imprisonment for up to five years, whereas corporations might pay fines of up to $2 million per violation. 2. Civil Penalties: Individuals, including directors, officers, shareholders and agents of the company, may face fines of up to $16,000 per violation, with companies facing the same penalty amount (Holtzblatt and Tschakert, 2014, pp.54-55).

Despite the attention given to the OECD Anti-Bribery Convention, regional anti-corruption agreements, and the US Foreign Corrupt Practices Act (FCPA) in the early 2000s, particularly regarding their potential impact on investment patterns in corrupt

countries, research on their influence on corruption has been limited (Gans-Morse *et al*., 2018, p.180). In other words, according to Gans-Morse *et al*. (2018, p.182), a significant gap exists between the prominent role of international anti-corruption conventions and the limited empirical evidence regarding their effectiveness. Early studies were sceptical of the influence of FCPA on investment trends in corrupt countries. However, more recent research indicates that the OECD Convention and FCPA may have redirected investment flows. These studies have not directly evaluated the influence of international anti-corruption laws on corruption in developing countries (Gans-Morse *et al*., 2018). Moreover, research on other common-sense approaches, such as meritocratic recruitment, anti-corruption education and international anti-corruption conventions, is sparse (Gans-Morse *et al*., 2018, p.183).

The Sarbanes-Oxley Act (SOX) introduced reforms to strengthen internal control, requiring principal officers, i.e. CEO and CFO, to certify the accuracy of their company's financial reports (Holtzblatt and Tschakert, 2014, p.55). It also mandates public companies to provide whistleblower hotlines and requires external auditors and management to evaluate the effectiveness of internal controls over financial reporting (Holtzblatt and Tschakert, 2014, p.55). Moreover, the UK Bribery Act of 2010 applies to individuals and companies doing business in the UK without exceptions for small facilitation payments (Holtzblatt and Tschakert, 2014, p.55). It broadens the scope of bribery to include recipients beyond government officials and foreign persons (Holtzblatt and Tschakert, 2014; Neu, *et al*., 2013a).

A new development is adopting the first internationally recognised anti-bribery management standard, called ISO 37001 standard, in 2016, which was developed by 59 countries (Peltier-Rivest, 2020, p.435). It aims to assist organisations in enhancing their anti-bribery controls and can serve as evidence in court to show reasonable measures against bribery. ISO 37001 highlights seven main areas: context of the organisation and evaluating bribery risks; demonstrating leadership and ensuring top management commitment; planning and setting anti-bribery objectives; supporting and offering resources; operation and application processes; performance assessment and assessing effectiveness; and continual improvement (Peltier-Rivest, 2020, pp.435-436). However,

although ISO 37001 offers a comprehensive framework, assists in restricting fraud motivators and uncovers corruption, it does not address corruption red flags or employee assistance programs. In addition, employees should be informed about additional laws related to bribery and business ethics (Peltier-Rivest, 2020, pp.435-436).

1.7.5 Political Participation

Accounting practices enable actors to funnel money through legal entities, inflating costs or manipulating procurement to amplify corrupt proceeds. This requires collaboration between politicians, bureaucrats, and business actors, with accounting playing a vital role in circumventing anti-corruption measures (Neu *et al.*, 2013b), considering that business-politics relationships, which current accounting systems cannot quantify, reduce the effectiveness of accounting earnings in reflecting a company's economic performance. When a political connection is over due to anti-corruption practices, it decreases measurement noise and enhances earnings informativeness (Fan *et al.*, 2014).

Neu *et al*. (2013b) studied the interaction of accounting-based anti-corruption mechanisms with political influence in developed capitalist democracies. They shed light on the ability of accounting practices, such as internal controls, procurement regulations, anti-bribery legislation and campaign finance laws, to control corruption. Three main kinds of accounting-related anti-corruption barriers have been identified: Internal controls, e.g. competitive bidding for government contracts; Campaign finance regulation that restricts how political parties and candidates spend funds; Business-related financial reporting, which makes illicit payments harder to conceal (Neu *et al*., 2013b, p.508). These mechanisms restrict corruption by making financial flows more transparent and

encouraging actors to adjust their strategies within these rules. Although barriers are designed to limit the flow of political influence, such as competitive bidding or financial disclosure, they may not avoid corruption. Instead, they can shape it by encouraging collaboration among bureaucrats, politicians and businesses to circumvent these controls. In other words, despite strong anti-corruption barriers, corruption persists by manipulating accounting practices and structuring political influence discreetly (Neu *et al*., 2013b, p.506).

In summary, this chapter provides a brief introduction to the thesis. It illustrates the research problem and its significance, followed by the research objectives, research main question, identified gaps in the literature, the contributions of the study, and an overview of the thesis structure, including the relationship among the three main chapters. In general, it introduces corruption, investment i.e. FDI and governance, particularly accounting and PMI and gives a brief summery about their effects. The definitions and main types of corruption have been provided, including commercial, political, venal, institutional, bureaucratic, grand, pretty, pervasive corruption and arbitrary corruption. The main anti-corruption and fraud prevention techniques have been explored, including anti-corruption agencies, international organisations, anti-corruption initiatives, campaigns, policies, strategies, laws, principles, and political participation. These insights are important going forward this thesis, which is mainly about the relationship between corruption, governance, and investment. It gives an overview of the coming chapters, which focus on the effect of accounting on corruption, the role of PMI in the fight against corruption, and whether accounting and PMI can moderate the relationship between corruption and FDI.

Chapter Two. The Effect of Accounting and Auditing on Corruption: A Systematic Literature Review

2.1 Introduction

Corruption is a significant issue on the agenda of supranational institutions (Changwony and Paterson, 2019) and a key concern for regulators, policymakers, standard-setters, and civil society worldwide. Various factors lead to the prevalence of corruption at the country level, including institutional elements such as the strength of legal systems, monitoring mechanisms, information processing, and audit quality. Countries with high levels of corruption are typically linked to institutional weaknesses or gaps (El-Helaly *et al.*, 2020). These weaknesses can result in the ineffective enforcement of laws and excessive government interference (Everett *et al*., 2007). In addition, corruption leads to a decline in infrastructure quality, inefficient public investment, and hampers economic and political progress (Everett *et al*., 2007, pp. 513-514). For example, public procurement systems can be vulnerable to corruption in economies where corruption is prevalent, with companies bribing officials to be selected as contractors or included as qualified bidders. Once involved, companies may bribe to decrease products quality or inflate prices. Corruption often involves multiple actors across public institutions, businesses, and audit bodies (Pilonato, 2022, pp. 132-133). Moreover, the most critical corruption cases in developing economies are typically carried out by top government officials and influential executives rather than the poor. These individuals hold powerful positions in government, business and industry (Nwabuzor, 2005, p.124).

Accounting and auditing can play a significant role in fighting corruption. Accounting is fundamental to any organisation and involves many procedures, methods and information systems. These techniques could assist firms in uncovering corrupt activities and preventing them. Because accounting is deeply embedded within the life of an organisation, it is often linked to incidents of corruption in numerous ways (Pilonato, 2022). Although several articles explore aspects such as financial transparency, auditing practices, and corporate governance, they are scattered across various disciplines and often emphasise narrow geographic or sectoral contexts, which restricts their generalisability. A systematic literature review (SLR) is appropriate for addressing this gap and providing a broader perspective of studies that have examined the relationship between corruption and accounting. It allows for a rigorous and methodical synthesis of the diverse and often fragmented research on the topic. Therefore, this chapter conducts an SLR using a series of selected articles from the Scopus database that focus on specific subtopics related to accounting, auditing, and corruption. The review also explores whether the strength of accounting and auditing systems influence levels of corruption. Accordingly, the main research question for this chapter is:

To what extent do accounting and auditing influence corruption?

An SLR can provide a more comprehensive and coherent understanding of the association between corruption and accounting practices by systematically identifying, evaluating, and integrating findings from a wide range of related studies. It can also highlighting effective research projects, methodologies, subject-matter experts, and key published sources to clarify current knowledge for professional practice. By analysing the lessons learned from previous papers, the SLR will clarify the existing knowledge and highlight gaps in the literature and empirical evidence. Thus, SLR allows the researcher to build on the prior literature to bridge any expected gaps. SLR also assists in identifying research questions, developing hypotheses, and revealing the main variables and measurement tools required for empirical investigation. Moreover, it can offer valuable insights or guidance, serving as a platform for academics, researchers and professionals to foster a change in attitudes regarding corruption. Undoubtedely, this SLR chapter establishes a strong theoretical foundation and insights into the relationship between accounting, auditing and corruption, which is crucial for informing the empirical chapters that follow in this thesis.

Contribution of the study

This chapter is expected to contribute effectively to the corruption-accounting literature in several ways. First, it presents an overview of the existing literature, including a discussion of the relationship between accounting, auditing and corruption, current limitations, and future research directions expected to enrich this area of study. Second, this research develops a conceptual and theoretical framework depicting the existing and potential research fields, which might be instrumental in guiding practitioners and researchers in developing this area. Third, to the best of the researcher's knowledge, this study is one of the earliest works to synthesise and analyse existing research and evidence on the relationship between accounting and corruption. This chapter extends Assakaf *et, al.* (2018)'s work, which presents a traditional literature review focused on the relationship between public sector accounting and corruption.

Although their paper provided a conceptual overview of this relationship, it did not systematically synthesise empirical evidence or examine the roles of other accounting and auditing factors. This research builds on their research by conducting an SLR that provides a more comprehensive and evidence-based understanding of how accounting and auditing tools influence corruption, thereby identifying gaps and directions for future research. Fourth, the following empirical chapters build on the current SLR by identifying the expected gaps in the research areas and extending the research to examine the relationship between corruption, governance, i.e. accounting and PMI, and investments, i.e. FDI.

For instance, studies by Farooq and Shehata (2018) and Jeppesen (2019) call for further studies that test the association between auditing and corruption, especially after auditing the financial reports for the first time (Farooq and Shehata, 2018). Philippou (2019) suggested exploring the effectiveness of transparency and accountability in restricting bribery. El-Helaly *et al.* (2020) also believe that future research is needed to explore the impact of corruption on the adoption of international accounting standards, such as the International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS). In addition, Khalil *et al.* (2015) call to examine whether the likelihood of bribery varies following the adoption of financial reporting standards. What is more, Changwony and Paterson (2019) state that future research is needed to use different determinants of corruption, which is considered in the next chapter, where various

corruption measures have been used to examine the impact of PMI on either experienced or perceived corruption.

This chapter is structured into six sections. The second section explains the methodology used in this systematic literature review (SLR) and presents the research profile of prior studies. The third section synthesises and analyses the findings from the reviewed literature, offering a detailed understanding of the research gaps and key conclusions. The fourth section provides concluding remarks, reaffirming the value and contributions of the research. The final section addresses the implications and limitations of this study and suggests directions for future research.

2.2 Methodology for Systematic Literature Review

Literature reviews are vital in academic research as they collect existing knowledge and evaluate the current state of a field. A traditional Systematic Literature Review (SLR) involves gathering, organising, and evaluating the literature within a specific research domain (Sauer and Seuring, 2023). Traditional, non-systematic reviews take a more informal or selective approach and are more subject to bias, as the processes for searching, selecting, and integrating studies are not predefined or transparently outlined. (Hardies *et al.*, 2024). Over the years, structured or systematic literature reviews (SLRs) have developed and become a well-established method in the management area, with approximately 90% of SLRs in management published in the last decade (Sauer and Seuring, 2023, p.1900). The objective of SLRs is to capture the existing knowledge in a specific area by gathering all relevant studies and evidence at a given point in time to answer predefined research questions and provide direction that guides future research, making subsequent research more productive and efficient. To prepare for future work, SLRs can summarise the current state of the literature, test hypotheses based on existing studies, extend the literature, and critique it (Sauer and Seuring, 2023). Moreover, with the structured methodology of SLRs, they provide the most reliable approach to collecting and synthesising all relevant studies on specific questions in an unbiased mannar. They should also be documented to ensure comprehensiveness and reproducibility (Hardies *et al.*, 2024).

SLRs can challenge existing assumptions, show critical errors or issues, and initiate new scientific debates. SLRs can address research questions that individual empirical or modelling studies cannot, assisting in developing, refining, and testing broader theories. Given their potential to make important contributions, SLRs highlight the importance of careful planning, execution, and transparent reporting. Furthermore, like other research methods, SLRs depend on the strict application of processes and rules to ensure the reliability and validity of the procedures. This rigour applies to each level of the research process, including defining the research question, gathering data, analysing it, and interpreting the findings. Systematically conducting literature reviews improves reliability, transparency, validity, quality and replicability. To assure these reviews are repeatable and dependable, it is necessary to document the process and maintain transparency throughout (Sauer and Suering, 2023).

Applying a systematic review is a multifaceted process that requires many decisions. For example, researchers must determine eligibility criteria, search strategies, information sources, methods for selecting and gathering data, criteria for evaluating the relevance and quality of studies, and the approach for synthesising the results. To avoid potential bias in the review process, these decisions should, whenever possible, be independent of the findings of the studies being reviewed (Hardies *et al.*, 2024).

The existing literature on the association between corruption and accounting practices often focuses on narrow contexts, limited variables, or certain geographic regions. While some research explores how transparency, auditing, and corporate governance influence corruption levels, there is a lack of comprehensive analysis across various contexts. This creates a gap in understanding how accounting mechanisms can affect corruption from a broader perspective. An SLR is an ideal way to bridge this gap. This is because it allows for a rigorous, comprehensive, and transparent synthesis of the diverse body of literature. By systematically gathering, evaluating, and analysing relevant studies, an SLR can identify common themes, contradictions, and gaps in the existing research, giving an obvious, consolidated understanding of the association between accounting and corruption. This overview will clarify theoretical insights and inform the following empirical chapters, helping to refine research questions, define variables, and shape hypotheses for subsequent data collection and analysis to provide the best available evidence, maximising its relevance and impact.

To the best of the researcher's knowledge, there is no SLR paper on the effect of accounting and auditing on corruption. Thus, the SLR approach is implemented in this chapter to systematically and comprehensively synthesise the existing knowledge base linking accounting and corruption in a structured and transparent way. Such a review is vital in understanding the broader governance dynamics and its influence on corruption and investments. It also assists in identifying consistent gaps, findings and contradictions in the literature regarding how accounting practices can enable or deter corrupt behaviour. This can support the thesis objective by clarifying the role of accounting as a mechanism for enhancing governance and institutional quality, which may influence corruption, investor confidence and FDI inflows.

According to the SLR protocol guided by Sauer and Seuring (2023) and Hardies *et al.* (2024), this research utilises a widely recognised six-step SLR process: (1) starting with the research question, (2) identifying the characteristics and criteria of the primary research articles, (3) selecting a sample of suitable literature, (4) chosen, (5) synthesised, and, ultimately, (6) the findings are reported. According to Sauer and Seuring (2023), implementing these guidelines should strengthen the rigour and robustness of many review papers and thus improve their contributions. Hardies *et al.* (2024) believe it is vital to discuss the implications and limitations of the study as the final, seventh step in the SLR.

2.2.1 Systematic Literature Review Research Questions

After searching and reviewing existing literature to identify the expected gap, limited existing literature has been found on accounting_corruption associations, which are typically focused on limited factors or certain countries. This chapter responds to scholars' calls for further research on the relationship between accounting or auditing and corruption, i.e. Khalil *et al. (*2015); Farooq and Shehata (2018); Jeppesen (2019); Philippou (2019); El-Helaly *et al.* (2020). It bridges the expected gap by applying an SLR methodology to evaluate and analyse selected papers to explore the expected effect of accounting and auditing on corruption.

The first step in conducting an SLR is to clearly define the question of the research that the review aims to answer. The systematic review should focus on a significant, well-defined, answerable question to contribute meaningfully to the specific topic and field. These questions can range from broad to more specific (Hardies *et al.*, 2024). Therefore, the research question for this chapter is:
To what extent do accounting and auditing influence corruption?

2.2.2 Inclusion and Exclusion Criteria

A key characteristic of a systematic review is the establishment and justification of predefined eligibility criteria, which sets it apart from other types of reviews. These criteria determine the inclusion and exclusion conditions: inclusion criteria defines the studies to be included, while exclusion criteria, specify the studies to be excluded. Eligible studies must meet the inclusion criteria and not meet the exclusion criteria (Hardies *et al.*, 2024). Sauer and Seuring (2023) emphasise the importance of excluding low-quality studies to maintaining the quality of the overall results. This can be achieved by, for instance, selecting papers only from journals indexed in reputable databases such as Web of Science or Scopus, or by focusing on journals ranked in the first quartile (Q1) and second quartile (Q2) of Scimago, a database that provides citation and reference data for academic journals.

Therefore, the inclusion and exclusion criteria for selecting relevant studies in the Scopus database have been determined for analysis. I used the following inclusion criteria: (1) studies related to corruption or accounting or both; (2) studies discussing the relationship between accounting and corruption; (3) empirical studies employing qualitative or quantitative research methodology; (4) articles published in English; (5) articles published in Q1 and Q2 journals in Scopus; (6) articles related to business, management and accounting and economics, econometrics and finance areas; (7) articles with full access. The exclusion criteria were: (1) articles with limited access; (2) articles published on other topics such as whistleblowing, tax evasion, tax audit, stock market reaction and effect, fraud risk assessment, financial reporting fraud, earning management (EM), fraud education, fraud cases, fraud detection, fraud brainstorming and tax fraud.

2.2.3 SLR Search Strategy and Retrieving a Sample of Potentially Relevant Literature

Once the eligibility criteria are established, researchers must define the strategy of their search, identify suitable bibliographic databases such as Scopus, Web of Science and EBSCO, determine suitable search terms and synonyms and wisely choose the studies to be included in the review (Hardies *et al.*, 2024; Nicolò *et al.*, 2024). In general, it is recommended to include a broad search to limit the risk of reporting bias and capture all relevant evidence. This includes searching published and unpublished evidence. Since there is no foolproof way to access unpublished sources, scholars can explore preprint repositories such as SSRN and ResearchGate and conference proceedings from relevant accounting conferences (Hardies *et al.*, 2024).

However, other authors recommend including high-quality studies only and omitting low-quality studies that could undermine the quality of the overall findings. Avoid including conference papers and other unpublished works, as they are often less developed and have not undergone rigorous quality verification. Considering that for emerging topics, it may be too limiting to focus solely on peer-reviewed journal articles and restrict the literature to just a few sources (Sauer and Seuring, 2023). When creating search terms, it is vital to ensure clarity and precision. Additionally, authors should consider synonyms and related terms. Balancing sensitivity with the ability to identify as many relevant and related studies as possible is crucial when creating appropriate search terms. It is advisable to prioritise sensitivity to avoid missing significant research (Hardies *et al.*, 2024).

According to Nicolò *et al*. (2024, p.179), the Scopus database is the most appropriate and widely used database for conducting literature reviews. It offers broader coverage compared to other databases like Web of Science. Therefore, the Scopus database has been chosen for this chapter. In addition, since the scope of this study surrounds the linkage between accounting and corruption, three main terms (i.e., accounting, auditing and corruption) have been identified as the primary keywords, and a thorough search was carried out using a range of synonymous keywords. The search words used are ("Accounting" OR “Audit*) AND ("Corrupt* OR "Bribe*" OR "Fraud*" OR "Extortion" OR "Embezzlement" OR "Favoritism" OR "Nepotism" OR "Graft") to search within the title, abstract, or keywords. The search of the Scopus database yielded 5,553 articles from

160 journals, and 4,210 documents were published between 2000 and 2023 in 160 journals. In step two, the subject areas were selected: business, management, accounting, economics, econometrics, and finance, which yielded 1,653 English articles from 160 journals. According to Sauer and Seuring (2023, pp.1918-1919), some scholars argue in favour of excluding lower-ranked journals and limiting the review to those in the top quartile to avoid undermining the quality of overall findings. Several studies also use specific journal quality lists to narrow down their sample. In step three of this study, papers published in the first and second quartiles are selected, which yielded 778 articles from 97 journals (see Table 2.1).

Table 2-1 The Systematic Literature Review Protocol

Protocol Elements	*Translation to this Systematic Literature Review*
Research Question	The effect of Accounting and auditing on Corruption
Sources Searched	Scopus
Search Terms	("Accounting" OR "Audit*) AND ("Corrupt* OR "Bribe*" OR "Fraud*" OR "Extortion" OR "Embezzlement" OR "Favouritism" OR "Nepotism" OR "Graft")
Search Strategy	Peer-reviewed journal articles; Date of publication restricted to 2000-2023
Inclusion Criteria	a) Articles published on topics within research disciplines of Business, Management and Accounting, Economics, Econometrics and Finance. b) Articles published in English c) Articles with full access
Exclusion Criteria	a) Articles published on topics such as whistleblowing, tax evasion and tax audit, stock market reaction and effect, fraud risk assessment, financial reporting fraud, earning management, fraud education, fraud detection, fraud cases, fraud brainstorming, tax fraud. b) Articles with limited access
Quality Criteria	Articles published in high-ranked journals (Q1 & Q2)

2.2.4 Screening and Selecting Studies

Once all potentially relevant evidence has been identified, scholars must screen them and select which study need to be included in or excluded from their review. All selected studies must be obtained or downloading for full-text screening. Afterwards, the authors assess the eligibility of each article through a screening process and decide whether to include it in the review (Hardies *et al.*, 2024). To streamline the search and selection process, and to track the screening stages, using a database or bibliographic software, e.g. Zotero, can be beneficial. Ideally, the search outcomes and selection process should be documented with a flow diagram, such as the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) flow diagram (Hardies *et al.*, 2024).

In this review, all abstracts of the 778 peer-reviewed papers from 97 journals were screened to ensure that they fit with the research purpose of the study. The overall steps used to conduct the systematic literature review are summarised in Figure 2.1, and the protocol of the application of SLR is illustrated in Table 2.1. In total, 475 articles were excluded at this stage as they were outside the scope of the research and not related to accounting and corruption topics. 'Zotero' bibliographic software was used to download and review the remaining 303 articles in detail to determine whether they contained information relevant to the research questions and aligned with the research purpose, thus qualifying them for inclusion in this SLR study. Articles that did not align with the purpose of the study or were unrelated to the research question were excluded, as they focused on topics outside the scope of the investigation, such as risk assessment, whistle-blowing and stock prices. Further reasons for excluding articles include their focus on the research question in ways that are unrelated to the scope of the study. This further narrowed the articles used in the systematic literature review to include only the most potentially relevant ones, 58 articles from 30 journals (see Figure 2.2).

Figure 2-1. The 6 Steps and 14 Decisions of the SLR Process

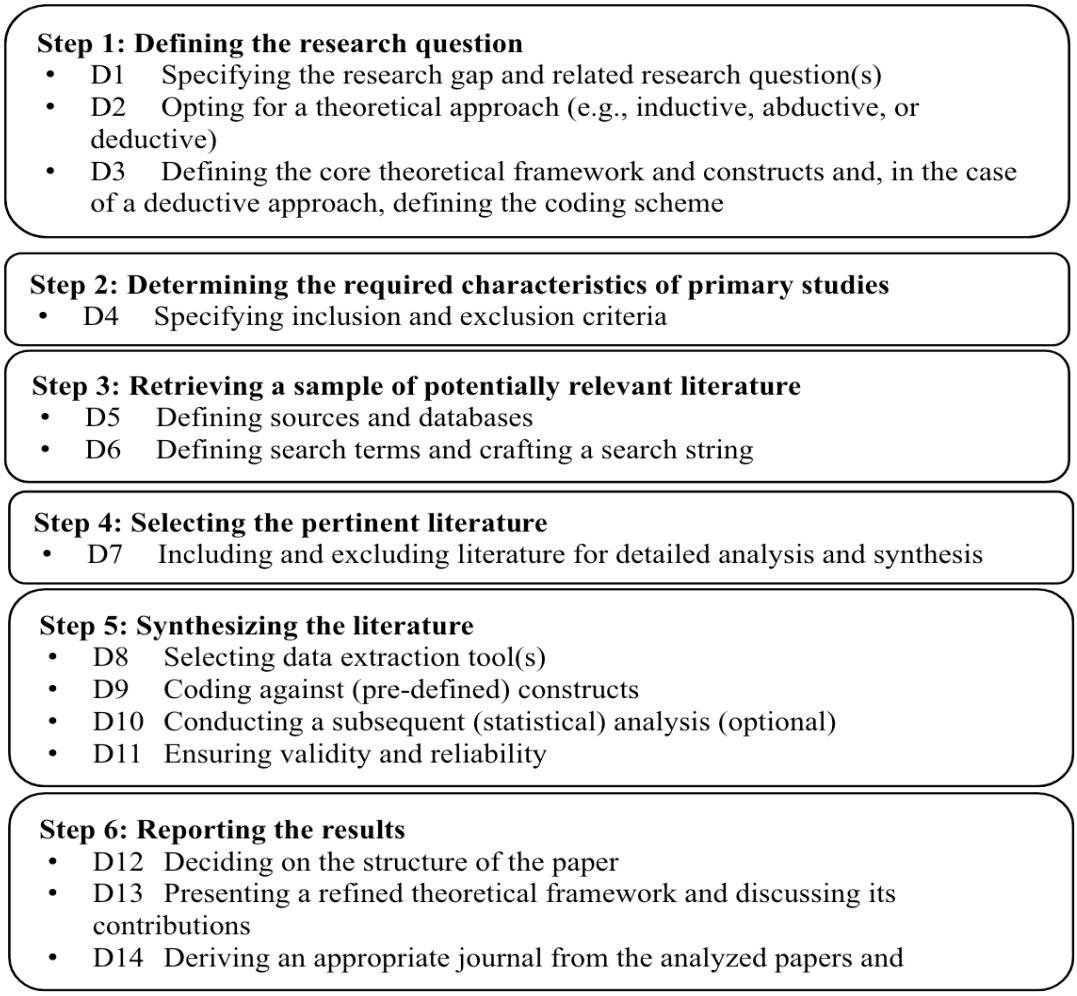


Fig. 1 The 6 steps and 14 decisions of the SLR process

(Source: Sauer, P. and Seuring, S., 2023)

2.2.5 Data Collection and Quality Assessment (synthesising the literature)

Once the evidence to be included in the SLR has been identified, the next step is to extract and summarise relevant data from each study using structured data collection forms. Several pieces of key information should be gathered and summarised for each included study, such as publication details, e.g. journal and year, main study design features and methodology, the research sample and findings. This data assists the reviewers in selecting the most appropriate methods for evaluation and analysis. Moreover, summarising the information for each article is important for assessing the quality of evidence provided. While all evidence in the review should be relevant to the research question, not all studies carry the same weight. Some studies provide more valid or reliable findings than others, so it is vital to evaluate the weaknesses and strengths of each study (Hardies *et al.*, 2024).

It is recommended to use data analysis software like MAXQDA or NVivo to import literature in PDF format and facilitate the manual coding by the researcher of selected papers (Sauer and Seuring, 2023). The software can create a permanent and editable reference linking coded text to specific codes, enabling quick generation of content summaries or statistics for individual codes. It can also assist in identifying qualitative and quantitative relationships between codes and papers (Sauer & Seuring, 2023). Systematic literature reviews (SLRs) often rely on content analysis, and these tools are particularly useful for such tasks. Therefore, NVivo software was used by the researcher in this research for self-reading, manually coding, and analytical purposes.

2.2.6 Reporting the Results

The next step in the SLR process is to synthesise the findings from all the identified evidence and provide a comprehensive report of all relevant information, followed by a final step that discusses the study's practical implications, limitations and directions for future reseacrh. While there is limited guidance in the accounting and corruption literature on SLRs, some reporting guidelines exist and are generally accepted in other scientific domains, such as PRISMA (Hardies *et al.*, 2024). PRISMA provides the most detailed guidelines and instructions for reporting systematic reviews (Hardies *et al.*, 2024). In this study, the relevant PRISMA guidelines have been applied, as shown in Figure 2.2. Review protocols should provide enough detail to explain the rationale and intended objectives of the review and the proposed methodological and analytical strategy. In addition, Table 2.2 shows a list of peer-reviewed articles included in this study from 30 journals.

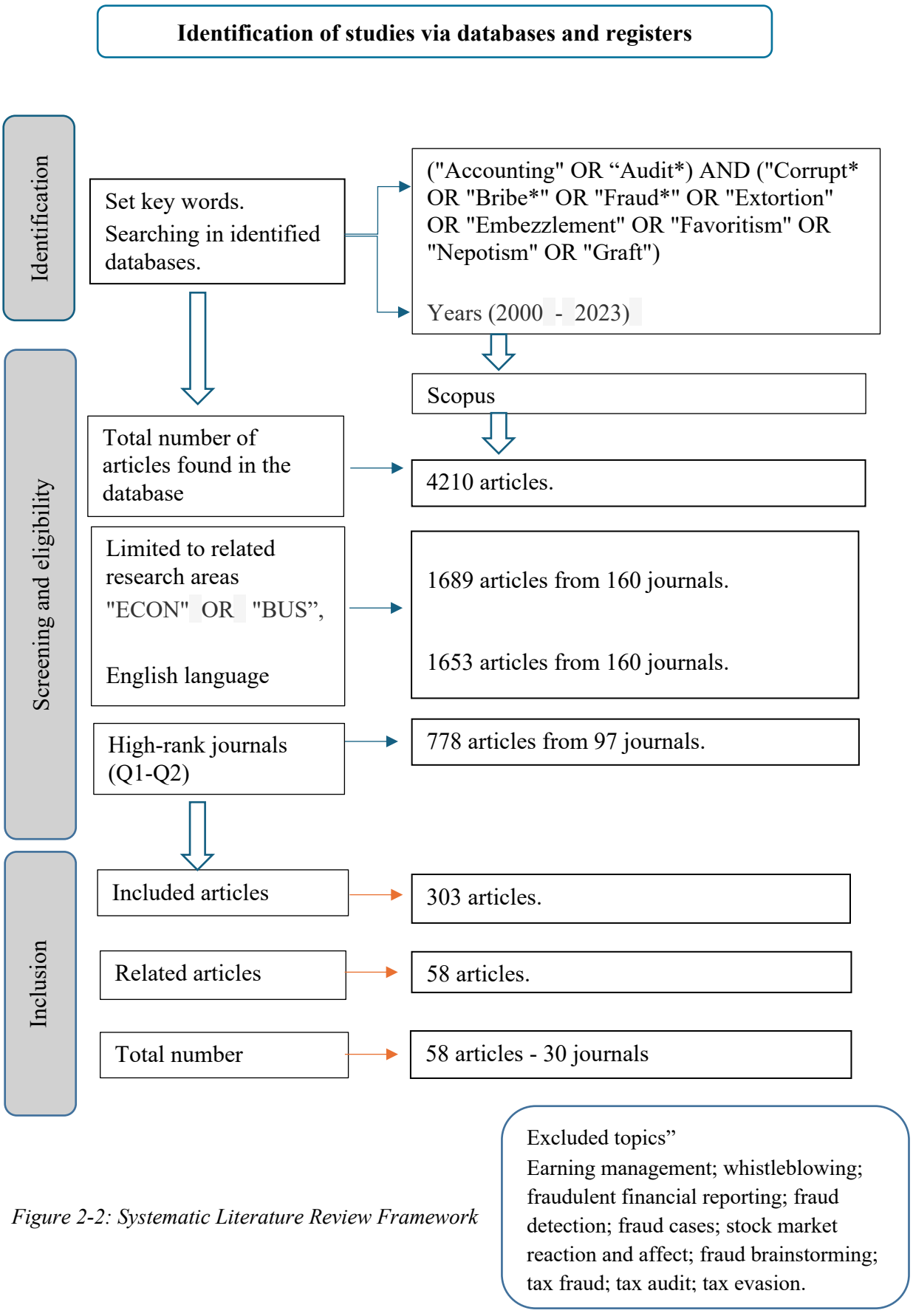


Figure 2-2: Systematic Literature Review Framework

Table 2-2 List of Articles Included in SLR

	Year	Author	Title	Journal
1	2021	Abdul-Baki, Z.; Uthman, A.B.; Kasum, A.S.	The role of accounting and accountants in the oil subsidy corruption scandal in Nigeria	*Critical Perspectives on Accounting*
2	2018	Abdullahi, R.; Mansor, N.	Fraud prevention initiatives in the Nigerian public sector: Understanding the relationship of fraud incidences and the elements of fraud triangle theory	*Journal of Financial Crime*
3	2020	Akinbowale, O.E.; Klingelhöfer, H.E.; Zerihun, M.F.	An innovative approach in combating economic crime using forensic accounting techniques	*Journal of Financial Crime*
4	2014	Al-Kassar, T.A.; Soileau, J.S.	New development: Accounting and accountability for government revenues in Iraq	*Public Money and Management*
5	2017	Bakre, O.; Lauwo, S.G.; McCartney, S.	Western accounting reforms and accountability in wealth redistribution in patronage-based Nigerian society	*Accounting, Auditing and Accountability Journal*
6	2019	Changwony, F.K.; Paterson, A.S.	Accounting practice, fiscal decentralization and corruption	*British Accounting Review*
7	2020	Chen, Y.; Che, L.; Zheng, D.; You, H.	Corruption culture and accounting quality	*Journal of Accounting and Public Policy*
8	2020	Clarke, A.E.	Is there a commendable regime for combatting money laundering in international business transactions?	*Journal of Money Laundering Control*
9	2018	Deb, R.	Financial Audit or Forensic Audit? Government Sector Panorama	*Indian Journal of Corporate Governance*
10	2020	Duh, R.-R.; Ye, C.; Yu, L.-H.	Corruption and auditor choice: a cross-country investigation	*Review of Accounting and Finance*
11	2020	El-Helaly, M.; Ntim, C.G.; Al-Gazzar, M.	Diffusion theory, national corruption and IFRS adoption around the world	*Journal of International Accounting, Auditing and Taxation*

12	2007	Everett, J.; Neu, D.; Rahaman, A.S.	Accounting and the global fight against corruption	*Accounting, Organizations and Society*
13	2014	Fan, J.P.H.; Guan, F.; Li, Z.; Yang, Y.G.	Relationship networks and earnings informativeness: Evidence from corruption cases	*Journal of Business Finance and Accounting*
14	2018	Farooq, O.; Shehata, N.F.	Does external auditing combat corruption? Evidence from private firms	*Managerial Auditing Journal*
15	2015	Fazzini, M.; Dal Maso, L.	The value relevance of firms' anti-bribery and corruption efforts the Italian evidence	*Corporate Ownership and Control*
16	2020	Feldman, D.L.	The Efficacy of Anti-Corruption Institutions in Italy	*Public Integrity*
17	2021	Ferina, I.S.; Afiah, N.N.; Poulus, S.	The effect of information technology innovation on good public governance: A case study in Indonesia	*Economic Annals-XXI*
18	2018	Ferry, L.; Lehman, G.	Trends in corruption, environmental, ethical and social accounting	*Accounting Forum*
19	2018	Ferry, L.; Zakaria, Z.; Zakaria, Z.; Slack, R.	Framing public governance in Malaysia: Rhetorical appeals through accrual accounting	*Accounting Forum*
20	2018	Gans-Morse, J.; Borges, M.; Makarin, A.; Mannah-Blankson, T.; Nickow, A.; Zhang, D.	Reducing bureaucratic corruption: Interdisciplinary perspectives on what works	*World Development*
21	2020	Grandes, M.; Coremberg, A.	Corruption accounting and growth: towards a new methodology	*Journal of Financial Crime*
22	2022	Hamed-Sidhom, M.; Hkiri, Y.; Boussaidi, A.	Does IPSAS adoption reduce corruption's level? New evidence from ODA beneficiary countries	*Journal of Financial Crime*
23	2019	Harun, H.; Mir, M.; Carter, D.; An, Y.	Examining the unintended outcomes of NPM reforms in Indonesia	*Public Money and Management*
24	2014	Holtzblatt, M.; Tschakert, N.	Baker Hughes: Greasing the wheels in Kazakhstan (FCPA violations and implementation of a corporate ethics and anti-corruption compliance program)	*Journal of Accounting Education*

25	2015	Hoskin, K.	"What about the box?" Some thoughts on the possibility of 'corruption prevention', and of 'the disciplined and ethical subject'	*Critical Perspectives on Accounting*
26	2019	Jeppesen, K.K.	The role of auditing in the fight against corruption	*British Accounting Review*
27	2018	Jetter, M.; Parmeter, C.F.	Sorting through global corruption determinants: Institutions and education matter – Not culture	*World Development*
28	2021	Jin, Q.; Jin, Y.; Tian, G.G.; Xuan, Y.	Does Internal Corporate Governance Complement or Substitute for External Auditing? Evidence from China's Anti-corruption Campaign	*Abacus*
29	2015	Johnston, M.	Making transparency real? Accounting and popular participation in corruption control	*Critical Perspectives on Accounting*
30	2015	Khalil, S.; Saffar, W.; Trabelsi, S.	Disclosure Standards, Auditing Infrastructure, and Bribery Mitigation	*Journal of Business Ethics*
31	2019	Krambia-Kapardis, M.	Disentangling anti-corruption agencies and accounting for their ineffectiveness	*Journal of Financial Crime*
32	2022	Kurniawati, E.P.; Achjari, D.	The impact of the adoption of international accounting and auditing standards on corruption perception	*Accounting Research Journal*
33	2021	Lassou, P.J.C.; Hopper, T.; Soobaroyen, T.	Financial controls to control corruption in an African country: Insider experts within an enabling environment	*Financial Accountability and Management*
34	2017	Lehman, G.; Morton, E.	Accountability, corruption and social and environment accounting: Micro-political processes of change	*Accounting Forum*
35	2015	Lehman, G.; Thorne, K.	Corruption, criminality and the privatised state: The implications for accounting	*Accounting Forum*
36	2017	Liu, G.; Liu, S.	Corruption crime and punishment: Evidence from China's state corruption audits	*Journal of Financial Crime*

37	2016	Liu, X.	Corruption culture and corporate misconduct	*Journal of Financial Economics*
38	2018	Madah Marzuki, M.; Abdul Wahab, E.A.	International financial reporting standards and conservatism in the Association of Southeast Asian Nations countries: Evidence from Jurisdiction Corruption Index	*Asian Review of Accounting*
39	2010	Malagueño, R.; Albrecht, C.; Ainge, C.; Stephens, N.	Accounting and corruption: a cross-country analysis	*Journal of Money Laundering Control*
40	2019	Mazzi, F.; Slack, R.; Tsalavoutas, I.; Tsoligkas, F.	Country-level corruption and accounting choice: Research & development capitalization under IFRS	*British Accounting Review*
41	2014	McLeod, R.H.; Harun, H.	Public Sector Accounting Reform at Local Government Level in Indonesia	*Financial Accountability and Management*
42	2013a	Neu, D.; Everett, J.; Rahaman, A.S.	Internal auditing and corruption within government: The case of the Canadian sponsorship program	*Contemporary Accounting Research*
43	2013b	Neu, D.; Everett, J.; Rahaman, A.S.; Martinez, D.	Accounting and networks of corruption	*Accounting, Organizations and Society*
44	2013	Ntayi, J.M.; Ngoboka, P.; Kakooza, C.S.	Moral Schemas and Corruption in Ugandan Public Procurement	*Journal of Business Ethics*
45	2005	Nwabuzor, A.	Corruption and development: New initiatives in economic openness and strengthened rule of law	*Journal of Business Ethics*
46	2002	Pacini, C.; Swingen, J.; Rogers, H.	The OECD Convention and bribery in international business transactions: implications for auditors	*Managerial Auditing Journal*
47	2019	Paterson, A.S.; Changwony, F.; Miller, P.B.	Accounting control, governance and anti-corruption initiatives in public sector organisations	*British Accounting Review*
48	2020	Peltier-Rivest, D.	Corruption at Rolls-Royce: can it happen again?	*Journal of Financial Crime*

49	2019	Philippou, C.	Towards a unified framework for anti-bribery in sport governance	*International Journal of Disclosure and Governance*
50	2004	Picur, R.D.	Quality of Accounting, Earnings Opacity and Corruption	*Review of Accounting and Finance*
51	2022	Pilonato, S.	Accounting can support a "sustainable" corruption network: a case analysis	*Journal of Public Budgeting, Accounting and Financial Management*
52	2004	Rock, M.T.; Bonnett, H.	The comparative politics of corruption: Accounting for the East Asian paradox in empirical studies of corruption, growth and investment	*World Development*
53	2021	Ruan, L.; Zhang, H.	Do auditors consider alleged bribery when accepting clients? Evidence from Chinese non-state-owned enterprises	*Accounting and Business Research*
54	2020	Sallaberry, J.D.; Quaesner, L.S.; Costa, M.C.; Flach, L.	Measurement of damage from corruption in Brazil	*Journal of Financial Crime*
55	2015	Sargiacomo, M.; Ianni, L.; D'Andreamatteo, A.; Servalli, S.	Accounting and the fight against corruption in Italian government procurement: A longitudinal critical analysis (1992-2014)	*Critical Perspectives on Accounting*
56	2014	Sneidere, R.; Vigante, I.	Importance of social and sustainability reporting in ensuring transparency and disclosure	*Economic Annals-XXI*
57	2015	Sudibyo, Y.A.; Jianfu, S.	Institutional theory for explaining corruption: An empirical study on public sector organizations in China and Indonesia	*Corporate Ownership and Control*
58	2022	Yuan, S.; Chen, H.; Zhang, W.	Impact of corruption on Chinese investment in African countries	*Chinese Management Studies*

2.3 Data Synthesis and Analysis

All potentially relevant papers were thoroughly reviewed to evaluate their suitability in explaining the impact of accounting and auditing on corruption. The researcher then manually created codes of the main themes and link them to related paragraphs within the articles in the sample, based on the key themes that emerged after establishing the focus of this SLR. These codes, developed manually by the researcher using NVivo software, highlight the primary accounting and auditing factors affecting corruption. Subsequently, additional sub-themes were created, to provide further insights into the influence of accounting and auditing on preventing corruption and to identify various anti-corruption techniques. Other unrelated themes or those not considered as accounting or auditing tools in the fight against corruption, were eliminated. Therefore, based on the synthesis and analysis, several themes and sub-themes were manually identified by the researcher using NVivo software, including theoretical frameworks and accounting and auditing mechanisms in the battle against corruption, i.e.accounting and auditing standards, accounting basis, external auditors and accounting firms, internal auditors and internal control, quality of accounting and auditing, New Public Management (NPM) and decentralisation, accounting education and profession, professional accounting bodies and government institutions.

2.3.1 Theoretical Frameworks

Researchers need to adopt a theoretical framework or at least a theoretical starting point, based on the most appropriate theoretical approach for their study (Sauer and Seuring, 2023). For this SLR chapter, Table 2-3 summarises the main theories used in reviewed articles. Currently, there is no unified theoretical framework that effectively integrates accounting, auditing, and other economic or institutional factors to explain corruption (Jetter and Parmeter, 2018). This gap underscores the appropriateness of using an SLR approach to explore the relationship between accounting and corruption, especially given the absence of a strong, consolidated theoretical foundation in this area of literature.

Table 2-3 List of Related Theories

Theory	Description	Papers used the theory
Agency Theory	The most widely used theory to explain corruption. It posits that information asymmetry arises due to differing goals and interests between the agent and the principal, leading to unequal access to information and the potential for opportunistic behaviour by agents.	(Jin *et al*., 2021; Kurniawati and Achjari, 2022; Liu, 2016; Liu and Liu, 2017; Madah Marzuki and Abdul Wahab, 2018; Philippou, 2019; Pilonato, 2022)
Fraud Tringle Theory	The fraud triangle, comprising pressure, opportunity, and rationalisation, explains why individuals commit fraud.	(Philippou, 2019; Abdullahi and Mansor, 2018; Hamed-Sidhom *et al*., 2022)
Institutional Theory	It explains how organisations interact with their institutional environment, how social norms and expectations shape organisations, and how these expectations are embedded into organisational practices.	(Sudibyo and Jianfu, 2015a; Abdul-Baki *et al*., 2021)
Legal Process Theory	It refers to the role and capacity of formal institutions to operate effectively in coordination with other entities to achieve their goals, thereby gaining legitimacy by adhering to well-established and targeted procedures.	(Krambia-Kapardis, 2019)
Legitimacy Theory	It refers to an organisation's ability to meet societal expectations, its right to govern, and its justification for authority.	(Krambia-Kapardis, 2019)
Social Bonding Theory	Strong unethical relationships within companies can enhance the likelihood of financial crime.	(Philippou, 2019; Kurniawati and Achjari, 2022)
Diffusion Theory	Diffusion is the process by which an innovation is communicated through selected channels among the members of a social system over time.	(El-Helaly *et al*., 2020)

2.3.2 The Role of Accounting and Auditing in Restricting Corruption

Accounting is important to the operations of any organisation, involving various processes, techniques, and information systems. It can be defined as activities that support managers through traditional bookkeeping, setting financial standards, reporting organisational performance to stakeholders, evaluating costs and benefits, and developing internal controls (Pilonato, 2022, p.5). Given its integral role in an organisation's daily operations, accounting is also closely linked to corruption incidents in multiple ways. It exists in a grey area between corruption and anti-corruption efforts because it is unclear whether and how it can prevent or facilitate corrupt activities (Pilonato, 2022, p.6). Meanwhile, auditors occupy a unique position within organisations as representatives of the public interest. Their role involves overseeing and reporting on a company's adherence to established standards, ensuring transparency and accountability. Therefore, if universal criteria for fair and impartial practices are implemented, particularly within public sector organisations, auditors can play a crucial role in anti-corruption efforts. By integrating these criteria into the scope of audit responsibilities, corruption risks can be systematically identified, monitored, and addressed (Jeppesen, 2019, p.9).

Although accounting, as an information system, and auditing, as a mechanism for verifying the accuracy of that system, both hold strong potential to promote accountability and uncover corrupt practices (Everett *et al*. 2007, p.514; Jeppesen, 2019, p.1; Kurniawati and Achjari, 2022), accountants and auditors typically operate within the legal and contractual limits set by their clients. As a result, they are unlikely to expose abuses unless anti-corruption initiatives explicity integrate auditing mechanisms into their control frameworks (Johnston, 2015).

Accounting and auditing traditionally focus on profitability or budget balance rather than on identifying underlying financial issues or broader societal impacts. In market economies, where private interests are often prioritised in the pursuit of general prosperity, significant externalities, such as regulatory privileges or environmental pollution, frequently go unrecorded. High profile cases, like Enron, demontrate how accounting can be manipulated to obscure corruption and fraud, giving the illusion of financial health until the truth is exposed (Johnston, 2015). As a result, corrupt actors may exploit accounting instruments to conceal or distort their activities, undermining the potential of accounting to serve as a deterrent (Neu, *et al*. 2013a). In several societies, accounting has become a repetitive, procedural exercise, primarily serving the interests of companies and public agencies while narrow definitions of accountability. In practice, it often benefits those who pay for it, rather than the stakeholder groups. However, even though some firms and public agencies may be exceptions, wider societal scrutiny remains limited. The constrained approach to accounting is linked to broader systemic problems, including rising inequality, the coexistence of wealthy corporations and impoverished communities, and a growing disconnect between political, corporate, and administrative elites and the public.

Although economic gains or company survival could be the primary reasons for corruption and bribery practices, there are several hidden costs for the shareholders or the owners of the enterprise associated with such practices. First, substantial financial and legal risks are exposed to companies and their managers involved in bribery if the acts are caught. Second, companies that have experienced corruption and bribes may find it difficult to resist the requests for bribery payments by potentially corrupt officials in the future. For this reason, managers might concentrate on courting governmental officials rather than developing the companies' competitiveness by offering better products or services if this makes them win business. Therefore, companies should minimise or avoid bribery practices to protect the interests of shareholders or owners. Moreover, many bribery practices are initiated by managers who try to avoid the punishment for refusing to pay bribes, especially in a country with a high level of corruption where most companies are family-owned businesses that do not encounter principal-agent problems. Last, different interests and goals and information asymmetry between the principals and the agent regarding bribery make it more difficult for the shareholders or owners to solve the principal-agent problem of bribery through monitoring. This is because managers tend to hide any information they think reflects poorly on them (Wu, 2005a).

On the other hand, accounting can be seen as a neutral tool with the potential to detect and prevent corruption. for example, it can strengthen decentralised monitoring mechanisms by making financial activities more transparent. In criminal context, accounting transactions often leave detectable traces in financial record that can serve as indicators of illicit activity (Changwony and Paterson, 2019, p.1). Experts widely agree that preventing fraud and corruption is easier and better than detecting them. In theory, auditing has the potential to do both (Jeppesen, 2019). However, resistance within the auditing profession to assuming responsibility for uncovering fraud and corruption has often limited the scope of audit, despite such responsibilities being part of auditors' professional duties (Jeppesen, 2019).

Accounting also plays a crucial role in managing the financial resources that sustain corruption networks. To keep such networks functioning, precise control over cash flows and inter-organisational relationships is essential. While accounting often hides corrupt activities from the public, it also facilitates the growth of these networks by documenting financial transactions and allocating resources, making accounting records valuable for uncovering corruption (Pilonato, 2022). By analysing financial flows, accounting can trace corruption through transaction expenses, laundering costs, and price manipulation. Some scholars argue that the purpose of accounting is to provide structured economic and financial information to both external and internal stakeholders, and therefore it should play a proactive role in identifying financial crimes (Sallaberry *et al.*, 2020). To address the limitations identified, accounting practices could be reformed to better reflect the full range of economic and social costs, including vulnerabilities to corruption, and their impacts. These reforms should also be incorporated into regular audits to provide clearer insights into corruption risks, their consequences, and areas in need of systematic improvement (Johnston, 2015).

Auditors in both the public and private sectors should collaborate and share information, adopt auditing techniques designed to discover corruption, and the auditing profession should implement adequate preventive measures, e.g. anti-corruption certifications (Jeppesen, 2019, p. 1). Auditing in the public sector usually carries a greater degree of responsibility for detecting and preventing corruption and taking steps to identify and address fraudulent or corrupt activities. However, the effectiveness of auditing in detecting fraud and corruption is limited by the profession's focus on prevention rather than detection (Jeppesen, 2019, p.17). In addition, although financial auditing in the private sector has largely overlooked corruption as a potential cause of material misstatements in financial statements, external auditors are generally hesitant to take on a preventive role and, even more so, a detective role (Jeppesen, 2019, p.6). This is because corruption is typically classified as 'non-compliance' rather than fraud, as it often leaves no direct trace or material errors for auditors to detect (Jeppesen, 2019).

The exclusion of corruption from the definition of fraud in the International Standards on Auditing (ISA) 240 leads to addressing only two types of fraud: asset misappropriation and fraudulent financial statements, without mentioning corruption (Jeppesen, 2019, p. 4) or encouraging auditors to neglect the risk of corruption in their audit planning (Jeppesen, 2019). Some scholars challenge this view, arguing that most commercial corruption involves tangible asset exchanges, often leaving traceable evidence for auditors to investigate (Jeppesen, 2019). Commercial corruption can result in false entries in financial statements, which serve as a trace of such illicit activities. As a result, auditing can play a role in uncovering corruption when such activities have an impact on a company's financial records (Pilonato, 2022, p.6). In general, both political and commercial corruption can lead to misstatements in the financial statements of both the organisation offering the corrupt payment and the one receiving them (Jeppesen, 2019, p.6).

In general, the literature shows two trends regarding the roles of auditors against corruption: The first perspective suggests that while financial auditors are expected to identify and report material misstatements, and since corruption can lead to such misstatements, it is reasonable to hold auditors accountable for detecting fraud and corruption (Jeppesen, 2019). To enhance the role of auditing in combating corruption, tt is recommended that regulators should reconsider and expand the definitions of fraudulent and corrupt activities, explicitly incorporating corruption within auditing standards (Jeppesen, 2019). Scholars suggest that non-monetary and monetary sanctions for corrupt activities should outweight any financial benefits. Such public enforcement actions can enhance the perceived legitimacy of regulators actions and promote greater organisational compliance (Paterson *et al.*, 2019, p.3).

The second perspective suggests that auditors may, at times, find it difficult to prevent or detect political corruption, as it frequently involves the exchange of intangible assets, which leaves limited physical or financial evidence for examination. Public sector auditors, where political corruption is often prevalent, must assess the risk of material misstatements resulting from such corruption. It is important to note that materiality assessments in the public sector differ from those in the private sector, as public sector financial statements influence policy decisions with significant political, social, and security implications. As a result, misstatements caused by political corruption are likely to be considered qualitatively material, even if the monetary errors are not significant. Upon identifying the risk of material misstatements arising from political corruption, auditors are expected to develop targeted audit procedures to mitigate and address this risk effectively. These procedures ensure that standard business practices, such as competitive contract tendering processes, are followed. Examples of corrupt actions within an organisation include when a company purchases goods or services from relatives at inflated prices, sells items to relatives at below-market rates, or gives gifts to relatives without receiving anything in return (Jeppesen, 2019, p.4). According to IAS 24 and IPSAS 20, the nature and value of such transactions, along with any outstanding balances, must be disclosed in the financial statement notes (Jeppesen, 2019, p.7).

Since corruption generally involves both a payer and a recipient, it can result to accounting misstatements within the financial records of both parties. These wrong entries can leave traces of corrupt behaviour, which auditing could uncover when these activities influence a company's financial statements (Jeppesen, 2019). Examples of corrupt actions include the bribery of public officials by individuals, the abuse of a position within an organisation, or inducements by multinationals or other private sector entities to obtain private gain (Nwabuzor, 2005). Such practices result in distortions within the financial statements of the bribing organisation, including misclassification of transactions, unreported revenue and fabricated expenses often disguised as consulting fees or commissions. The reclassification of the bribe will initiate a classification error. Correcting these classification errors means that all transactions must be audited and recorded in the correct accounts.

For private organisations, paying the bribes is likely to result in recording large purchases of goods and services, purchases made at prices higher than the market value, or the delivery of low-quality goods. Although financial audits are designed to dedect material misclassification, organisations often attempt to conceal bribery payments by keeping them off the books. To achieve this, the company typically uses unrecorded funds, known as 'slush funds'. In summary, bribery frequently causes financial misstatements within private sector entities, while in public sector organisations, it erodes economic performance, impairs operational effectiveness, and reduce overall efficiency (Jeppesen, 2019).

Although criminal activities such as corruption and corporate fraud are inherently difficult to research due to their reliance on secrecy, two themes can illustrate how accounting contributes to corruption within an influence-market environment. The first is the skilful use of accounting, which demonstrate how accounting eases various aspects of the corruption process, such as initiating discretionary practices, lengthening the transaction chain to inflate proceeds, and generating invoices that make unusual financial activities appear legitimate. These practices require only a basic mastery of bookkeeping and entity-level accounting. The second relates to the organisational role of accounting in which accounting organises corruption (Neu *et al*. 2013b).

Although anti-corruption techniques based on accounting intend to restrict and control the exchange of political influence, the shared exercise of discretion and the collaborative use of accounting-related strategies increase and redirect government resources to business actors, while also enabling the repatriation of a portion of these funds back to political figures. Thus, accounting could assist in managing the corrupt network by establishing certain patterns of accounting practices and social interactions around them. In addition, accounting-based anti-corruption measures aim to structure the field of political influence. Government procurement controls, campaign finance laws, and anti-bribery regulations depend on accounting practices to restrict how political influence and power can be traded (Neu *et al*. 2013a).

In summary, several scholars are sceptical about the role of accounting in limiting corruption, and others argue that an expert use of accounting can actually facilitate corruption (Neu *et al*., 2013a). In such cases, accounting can be strategically employed to improve criminal activities, consolidating networks of corrupt public servants, politicians and businesspeople and thereby eroding economic and political systems (Lehman and Thorne, 2015, p.369). Examples of situations where accounting can actively facilitate corruption are: First, in cases of financial fraud, the misuse of bookkeeping practices enables white-collar crimes. Second, accounting practices can be misused within public bodies (Neu *et al*., 2013a, p.521). Moreover, accounting practices are essential in shaping how bureaucratic, political, and business actors manage their activities and strategies around barriers (Neu *et al*., 2013a, p.521). Accounting-related strategies enable networks of corrupt actors to facilitate the exchange of political influence and the repatriation of illicit proceeds (Neu *et al*., 2013a, p.521). In addition, the repeated use of accounting practices and the valorisation of their skilful application can lead to the creation or reconfiguration of a corrupt network, as these practices become valued as a form of symbolic capital. Furthermore, accounting exploits institutional regulations gaps to conceal resources within these criminal networks (Neu *et al*., 2013a, p.520).

Economies aiming to fight corruption and improve their accountability systems should shed light on some accounting techniques. Examples of such techniques are: First, applying an effective and integrated financial information system. Second, strengthening a skilled workforce of auditors and accountants. Third, developing the legal framework to support modern accounting practices. Fourth, adopting and implementing internationally recognised accounting standards. The last of these four components, which is the international accounting standards, is particularly significant, as it is consistently emphasised in the literature examined within this systematic review, and will be discussed in detail in the next section.

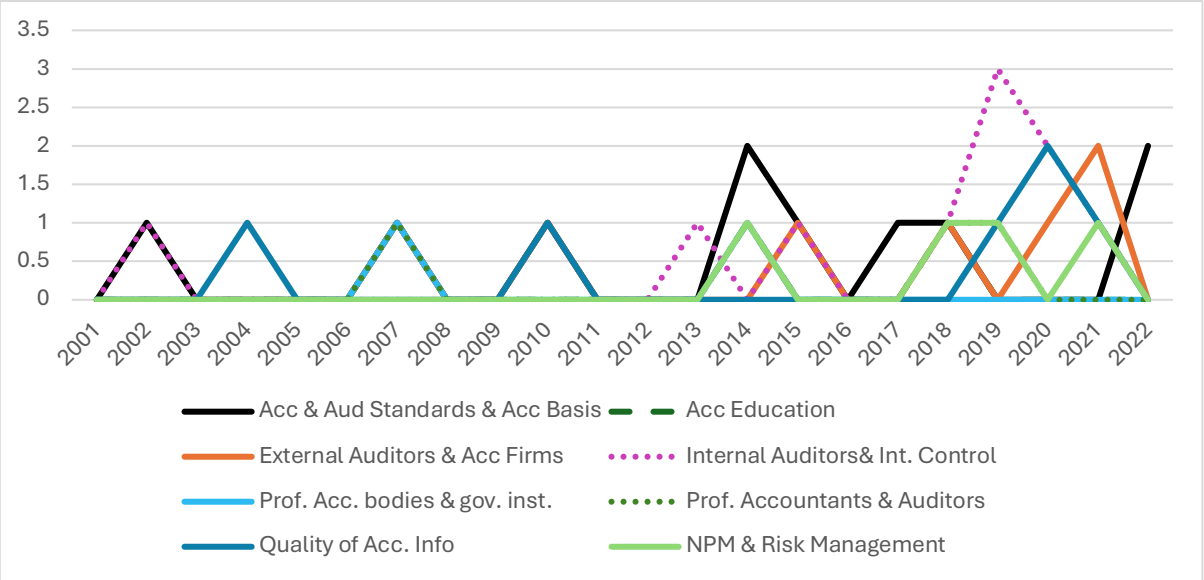
While accounting can assist in restricting corruption, it also has limitations. Corruption is not always a large-scale, national problem but can be hidden in small, localised actions. Reformers often struggle because they may not know where or how corruption occurs or how it is concealed. Accounting and well-designed controls, however, can assist in exposing corruption by offering a detailed, granular view of the issue (Johnston, 2015). In addition, the implementation of accounting-based anti-corruption measures presents significant challenges, particularly in public procurement, where corrupt politicians and public officials often possess a deep understanding of regulatory frameworks. This enables them to circumvent control or manipulate them to serve their interests. Thus, accounting-based controls alone are inadequate, particularly in the absence of proper oversight of board members' practices. This highlights the need for stronger governance structures that ensure an appropriate distribution of power and effective control among those involved in public procurement. In additional, special focus should be given to managing exceptional situations, as crises and unusual needs can initiate opportunities for corruption when extraordinary accounting and governance systems are put in place (Pilonato, 2022).

This chapter, based on a Systematic Literature Review (SLR), seeks to clarify the role of accounting and auditing in the fight against corruption and to identify effective mechanisms and practices within these fields that contribute to limiting corrupt activities. After reviewing and carefully analysing the papers included in this SLR, several themes and sub-themes were manually identified by the researcher using NVivo software (see Figure 2-3). The evidence reveals that accounting and auditing standards, along with accounting basis, are the most frequently discussed tools in the fight against corruption, appearing in 14 papers. These are followed by external auditors and accounting firms, each featured in 7 papers, as well as internal auditors and internal control, also discussed in 7 papers.

Next, the topics of accounting and auditing quality and the New Public Management (NPM), each appear in 6 papers. Following these, accounting profession and decentralisation (as a part of NPM in Figure 2-3), are each covered in 4 papers. Lastly, accounting education and political participation are each discussed in 3 papers, while the topic of professional accounting and government institutions appears in a smaller number of sources. Figure 2-4 shows the number of articles published per year, by accounting tool Category, during 2003–2023. In addition, these factors will to be explored in more detail in the following sections, or sub-sections, to examine their significant and impact in combating corruption.

Figure 2-3 Number of Documents Examining the Effectiveness of certain Accounting and Auditing Tools in Combating Corruption

Figure 2-4 Annual Number of Publications by Accounting Tool (2000–2022)



2.3.2.1 Accounting and Auditing Standards

Some scholars argue that accounting is central to addressing corruption. Therefore, greater efforts are needed to develop standards specifically aimed at restricting corruption (Everett *et al*., 2007, p.535). The accounting literature indicates that the adoption of higher-quality accounting standards strengthens financial reporting, enhances accountability (Hamed-Sidhom *et al.*, 2022; Kurniawati and Achjari, 2022), and ensures the provision of reliable information about firm performance. This, in turn, makes it more difficult for insiders to manipulate financial data or misappropriate stockholder wealth without facing reputational or legal consequences. On the contrary, opaque financial reporting permits insiders to conceal their diversion of resources (Khalil *et al.*, 2015).

Everett *et al*., (2007, p.535) used a meta-analysis method and believe that despite the ongoing calls for global standards implementation, initial efforts should focus on developing standards that directly address the supply side of corruption. First, implementing high-quality accounting and auditing standards can reflect the government's commitment to combating corruption (Everett *et al*., 2007, p.535; Kurniawati and Achjari, 2022). Secondly, improved record-keeping systems and ensuring that these systems are tailored to local environment are vital to tackle corruption especially in low-income countries (Everett *et al*., 2007, p.535), which would improve the business environment, attract both domestic and foreign investments, and boost overall productivity and GDP (Malagueño *et al.*, 2010). This includes addressing the practices of both domestic and foreign businesses and the influence of multilateral and bilateral lenders and foreign governments, who are key contributors to the corruption issue (Everett *et al*., 2007, p.532).

In addition, according to Khalil *et al.* (2015) countries that implement more rigorous disclosure standards tend to decrease the occurrence of bribery by restricting management's ability to hide corrupt activities. Thus, applying higher standards makes it difficult to conceal large-scale or grand bribery from public scrutiny (Khalil *et al.*, 2015, p.382). Disclosure standards play a significant economic role by reducing information asymmetry between managers and external users of financial statements, thereby limiting managerial discretion in financial reporting. They help prevent the misappropriation of corporate assets by subjecting managerial decisions to public scrutiny, which increases the probability of legal penalties or reputational damage. These standards also influence the quality, timeliness, and informativeness of earnings and accruals for investors, providing important information for investors and creditors to monitor and evaluate managerial performance (Khalil *et al.*, 2015, p.382). The European Commission recommends large businesses to disclose key information related to social, environmental, employee, human rights, and anti-corruption issues in their management reports. Firms can base these disclosures on national, EU, or international standards, such as the UN Global Compact, OECD Guidelines for Multinational Enterprises, ISO 26000, and the Global Reporting Initiative (Sneidere and Vigante, 2014, p.62).

Globalisation allows principals and agents to operate across countries with varying accounting and auditing standards, increasing information asymmetry. Thus, harmonising international accounting and auditing standards can help provide relevant and reliable financial information to users and markets (Kurniawati and Achjari, 2022). Implementing internationally recognised accounting and auditing standards can generate high-quality, transparent, and comparable financial information (Khalil *et al.*, 2015; Kurniawati and Achjari, 2022). However, while corruption and accounting may be theoretically connected, this view lacks empirical support. An alternative perspective states that the accounting quality or the choice of accounting standards is more likely a consequence of corruption than its cause (El-Helaly *et al*., 2020, p.7).

Although organisations fighting corruption, such as Transparency International and the Hills Program on Governance, continue to advocate for stronger and more consistent international accounting standards, these standards often remain insufficient, especially in countries with weaker regulations. Even in developed countries, corruption and regulatory failures continue to be concerns as illustarted by high profil cases such as the Enron scandal and the 2008 global financial crisis. Such issues often stem from shefts in legislation, political pressure, or public indifference, rather than solely from accounting errors or acts of bribery (Johnson *et al.*, 2013).

In addition, even though Supreme Audit Institutions (SAIs) and INTOSAI have developed various auditing standards and frameworks to promote good governance and gain legitimacy, several scholars call for more studies that could investigate how auditing standards and institutional cultures can be adjusted to reduce fraud and corruption (Paterson *et al*., 2019). It is argued that exploring ways to incorporate corruption detection into the audit profession could provide valuable insights for improving accountability in the public sector (Paterson *et al*., 2019). However, others believe that auditors may fail to uphold the expected standards in corrupt environments, prioritising long-term relationships and fees over robustly challenging management. This can leads to institutional corruption, where auditors weaken their fiduciary duty and become compromised. Such situations impair auditing quality, as seen when inflated fees or capitalised costs distort financial reporting (Mazzi *et al.*, 2019).

Accounting technologies are already well-suited for implementing exit strategies, as financial, managerial accounting, and auditing have long been designed with for-profit, competitive organisations. The main challenge is implementing an effective accounting system to support exit or ensuring the current system aligns with the latest accounting standards. One such shift involves the trasition from cash-basis accounting to full accrual-basis accounting in the public sector (Everett *et al.*, 2007). This trasformation, along with the key features of accrual-based accounting, will be discussed later in this section.

Overall, in this SLR chapter, the evidence shows that international accounting and auditing standards, as well as the accounting basis, are the most frequently discussed measure in the selected literature, highlighting their importance in the fight against corruption. The International Financial Reporting Standards (IFRS) for the private sector and the International Public Sector Accounting Standards (IPSAS) for the public sector are recognised globally as the most reliable and widely adopted international accounting standards. These standards have been examined in several papers within this SLR to assess their impact on corruption. In addition, three papers specifically address the effect of Social and Environmental Accounting reporting (SEAR) on corruption, namely, Sneidere and Vigante (2014), Lehman and Morton (2017), and Ferry and Lehman (2018). These contributions will be discussed in more detail in the following sub-sub-sections. These sub-sub-titles have been generated manually in NVivo by the researcher and aim to explore the effect of applying several international standards, namely IFRS, IPSAS, and Social and Environmental accounting (SEA), and the transition from a cash-based to an accrual-based basis in the public sector.

a) The International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA)

The International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB) and supported by the non-profit IFRS Foundation, aim to establish high-quality, transparent, and globally accepted accounting standards (Kurniawati & Achjari, 2022, p.739). These standards are designed to enhance the comparability and transparency of financial reporting and improve efficiency and accountability in global financial markets. Thus, reducing information asymmetry (Khalil *et al*., 2015; Kurniawati & Achjari, 2022). The European Union's 2005 directive, which required IFRS adoption for all listed companies across its 28 stock exchanges, is a vital milestone for the IFRS initiative. Since then, the number of countries adopting IFRS has significantly increased, and IFRS has become a globally recognised set of accounting standards (El-Helaly *et al.*, 2020, p.1). IFRS have been widely adopted worldwide, but substantial evidence exists on the firm-level economic impacts of IFRS adoption. However, fewer studies explore the national factors influencing its adoption at the country level (El-Helaly *et al.*, 2020, p.2).

The International Standards on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC (2018), defines the role of auditors in financial statement audits. Adopting and complying with ISA strengthens the reliability of financial statements, particularly for multinational corporations, and enhances the quality of disclosures (Kurniawati and Achjari, 2022, p.740). ISA adoption promotes better communication among auditors, investors, and companies, boosting transparency, confidence and audit quality. It demonstrates a country's commitment to unified auditing practices, assisting to limit information asymmetry and reduce corruption perceptions (Kurniawati and Achjari, 2022, p.740). According to (ISA), auditors play a significant role in planning and performing audits to achieve reasonable assurance that material misstatements and fraudulent acts are identified and reported. While detecting bribes can be particularly difficult, as they may be reported as fees or commissions, auditors should assume that detecting bribes is also material to the financial reports. In addition, despite the fact that international auditing standards do not require auditors to review each transaction, auditors are expected to design a strategy that detects errors, omissions, and irregularities with a material effect on financial reports (Pacini *et al.*, 2002).

SARS, the strength of auditing and reporting standards within a country, is a main element of institutional transparency, which is important for investors, businesses, and governments. According to the IFRS (International Financial Reporting Standards) and ISA (International Standards on Auditing**)** literature, the adoption and implementation of stricter financial reporting and auditing standards are expected to improve the perception of SARS (Khalil *et al.*, 2015; Kurniawati and Achjari, 2022, p.741). Adopting IFRS and ISA can strengthen the comparability of disclosures, thus decreasing information asymmetry between principals and agents in different countries. According to agency theory, decreasing information asymmetry includes lowering secrecy, improving transparency, and enhancing disclosure, which ultimately leads to a more favourable perception of corruption (Kurniawati and Achjari, 2022, pp.739-740).

The adoption of IFRS and ISA is positively linked to improved corruption perceptions in a country. By adopting these international standards, a country commits to stronger auditing and accounting practices, strengthens financial accountability (Kurniawati and Achjari, 2022, 748). This strengthens the role of accounting in addressing corruption by enhancing the detection and disclosure of corrupt practices, which, in turn, can influence public and institutional perceptions of corruption. Additionally, IFRS adoption limits shareholder expropriation risks, which corrupt countries may oppose (El-Helaly *et al*., 2020, p.2). Nations that adopt rigorous international standards tend to exhibit more favourable perceptions of corruption. Auditing standards and reporting systems play a mediating role in shaping these perceptions and enhancing country's effectiveness in controlling corruption (Kurniawati and Achjari, 2022). In addition, the quality of accounting and auditing is significantly associated with public perceptions of corruption (Malagueño *et al*., 2010, p.2). Therefore, adopting IFRS and ISA effectively are expected to improve corruption perceptions, with SARS serving as a key mediator in this relationship.

Although several articles use the perception of corruption or SARS in their examinations (Changwony and Paterson, 2019; Kurniawati and Achjari, 2022, p.741), several scholars call for future research that use actual data for corruption and SARS variables rather than perception data. This might be due to (1) the weak or inconsistent correlation between the subjective perceived corruption indexes and objective experience-based indicators and (2) perception indexes can be affected by many factors, e.g. media coverage, public opinion, or cultural attitudes, which might not always reflect actual experiences (Kurniawati and Achjari, 2022, p.752). Thus, using variety measures of corruption is more likely to provide a more precise and clearer picture of corruption, which have been considered in the coming chapter to examine the impact of PMI on either experienced or perceived corruption.

While adopting robust accounting standards can foster transparency, accuracy, and comparability in financial reporting (Malagueño *et al*., 2010, p.3), this may not align with corrupt officials' interests (El-Helaly *et al*., 2020, p.7). A corrupt individual in a position of authority may manipulate national policies or application processes to benefit personally (Malagueño *et al*., 2010, p.12-13). Despite that IFRS require more comprehensive disclosures and stronger enforcement, which can reduce information asymmetry, these benefits are often resisted in countries with weak institutions and high corruption, where powerful multinational corporations, corrupt officials and executives, may lobby against full adoption. In such environments, the cost of adopting and enforcing IFRS is higher due to weak legal systems. Therefore, IFRS adoption decisions depend heavily on a country's institutional environment (El-Helaly *et al*., 2020, p.7). Corruption harms economic growth and development, making it a crucial issue for policymakers and regulators (El-Helaly *et al*., 2020, p.2).

In countries with high levels of corruption, powerful politicians and officials who benefit from weak accounting standards may resist adopting IFRS. They may either delay the adoption or limit its scope. This opposition can take two ways: (1) corrupt officials, influenced by lobbying from multinational corporations, may attempt to block the adoption of IFRS entirely, thereby slowing down the implementation process; and (2) if full adoption is unavoidable, they may push for voluntary or partial implementation, undermining the standards' effectiveness.

Some might conclude that harmonising accounting and auditing standards should be a high priority for accountants aiming to combat corruption (Everett *et al.*, 2007). In addition, others such as El-Helaly *et al.*, (2020) a suggest that corruption is negatively linked to the speed and extent of IFRS adoption. Their imperical study includes 89 non-European Union countries over the 2003–2014 period and found that countries with higher corruption tend to adopt IFRS more slowly and partially, whereas the adoption is faster and more comprehensive in stronger anti-corruption environment. These findings have important implications for both researchers and standard-setters. The IASB should improve its communication strategies, focusing on three key objectives: (i) examining the extent to which weak governance in certain countries hinders IFRS adoption; (ii) exploring how a country's institutional environment can obstruct the acheivement of IFRS objectives; and (iii) providing guidance to help these countries navigate the challenges of IFRS adoption and establish the conditions necessary for successful implementation (El-Helaly *et al.*, 2020).

Some scholars have found that IFRS convergence enhances conditional conservatism while decreasing unconditional conservatism between 2008 and 2014 in certain ASEAN countries with code-law systems, namely, Malaysia, Thailand and Singapore, where traditional levels of conservatism are relatively high. Corruption has been shown to diminish conditional conservatism in more corrupt environments. They suggest that IFRS can mitigate the negative effect of corruption on financial reporting quality, especially in countries with higher corruption levels. Therefore, regulatory bodies should ensure that companies comply with IFRS to maximise its benefits (Madah Marzuki and Abdul Wahab, 2018). Overall, the findings highlight the importance of IFRS in improving financial reporting quality and transparency (ibid). Other scholars have examined the influence of corruption on capitalisation of development costs under IFRS in firms globally. They find that in highly corrupt contexts, capitalised development costs are associated with inflated signals of future profitability, as evidenced by weaker long-run associations with profitability. A company's international exposure moderates these effects. In the short term, businesses in corrupt nations may have similar stock returns to those in less corrupt nations, but long-term abnormal returns are lower for capitalisers in corrupt environments (Mazzi *et al.*, 2019).

b) The International Public Sector Accounting Standards (IPSAS)

The International Public Sector Accounting Standards (IPSAS), developed by the International Public Sector Accounting Standards Board (IPSASB), have emerged as a global high-quality accounting standard used by public-sector entities for preparing general-purpose financial reports, improving transparency and accountability in managing public resources and evaluating public sector accounting practices. As a result, several developing countries have adopted IPSAS in an effort to strengthen public confidence, enhance the credibility of financial reporting, attract foreign investment and decrease the perception of corruption (Bakre, *et al.*, 2017; Hamed-Sidhom *et al.*, 2022).

Accounting literature argues that adopting IPSAS is linked to greater transparency and accountability, which in turns helps to lower corruption perceptions. The announcement of IPSAS adoption in developing countries significantly associated with improved corruption perception scores, reflecting enhances transparency, accountability and disclosure of financial reporting under IPSAS. This in turn reduces opportunities for corruption and limits the ability to conceal corrupt activities, making corrupt activities more detectable. Therefore, corrupt activities are more likely to be detected through high-quality financial reports that adhere to strengthened accounting standards (Hamed-Sidhom *et al.*, 2022). The theory behind this is supported by fraud triangle and agency theories, which argue that better accounting systems boost government accountability and reduce opportunities for corruption (Hamed-Sidhom *et al.*, 2022).

On the contrary, other evidence indicates that the adoption of Western accounting reforms, such as IPSASs, often fails to reflect the desired levels of transparency and accountability in public resource management, particularly in economically disadvantaged countries. Moreover, while Western accounting reforms i.e. IPSASs are promoted by powerful nations and international financial institutions to improve accountability, corrupt countries have manipulated them. This problem is especially pronounced in patronage-driven and corrupt economies, where IPSASs may be used to legitimise historically cost-based accounting practices shaped by socio-politically interests, thereby concealing corruption within economic policies (Bakre, *et al.*, 2017, 1289). Therefore, although IPSASs are intended to improve transparency and accountability in public resource management, their implementation may be constraint by limited technical capacity, weak institutions, and poor enforcement mechanisms. In some cases, governments may adopt IPSASs symbolically to meet certain expectations, without genuine commitment to reform. Such superficial compliance can create the illusion of transparency while masking ongoing corruption and mismanagement of public funds (Kondyan and Yenokyan, 2019, p.209).

In Nigeria, for example, IPSASs were used to legitimise the continued use of historical cost accounting, masking patronage and corruption in wealth redistribution (Bakre, 2007). In addition, IPSAS was exploited by corrupt accountants and politicians to conceal fraudulent practices, instead of fulfilling their intended goal of evaluating and managing government properties. To cambat corruption in Nigeria, for instance, there is a need for comprehansive socio-political and cultural reforms, alongside accounting mechanisms tailored to the country's unique economic and political context. Such reforms are essential for improving the management of public resources, promoting quitable wealth distribution and fostering investment and employment opportunities (Bakre *et al.*, 2017).

c) Social and Environmental Accounting (SEA) and Sustainability reporting

Sound governance principles, ethical codes of conduct, and suitable guidance are vital to reduce corruption. By considering a broader civil society framework, accounting and accountability practices can more efficiently solve corruption issues (Lehman and Morton, 2017, p.285). Within this context, Social and Environmental Accounting Reporting (SEAR) positions corporations as agents of change and embraces the broader impact of corruption on the lives of citizens. In other words, SEAR is better positioned within civil society to fight corruption and bribes (Lehman and Morton, 2017, p.287). However, although the voluntary nature of Social and Environmental Accounting (SEA) reporting can potentially introduce opportunities for corrupt activities, enhancing accountability can restrict such risk (Lehman and Morton, 2017, p.285).

Social and sustainability reporting is increasingly used by businesses and public organisations to improve transparency and provide more information to stakeholders. The purpose of sustainability reporting is to assist stakeholders make informed decisions by presenting transparent and comprehensible data on business transactions and their social and environmental impacts. Businesses are responding to stakeholder issues by adjusting their practices and being clearer about their performance in ethical, social, and environmental contexts. Sustainability is based on balancing various interests over time, with the stakeholder theory suggesting that firms should establish value for all stakeholders, including suppliers, customers, employees , and local communities (Sneidere and Vigante, 2014).

Several studies reveal that sustained business success is frequently associated with a company's ability to address stakeholders' interests, ensuring both improved quality of life and long-term profitability for them. Sustainable development reports show a company's performance in social, economic and environmental contexts, reflecting its contribution to sustainability. By boosting transparency in these areas, businesses can restrict corruption risks, initiate fair competition, and improve public awareness of anti-corruption efforts. In some countries with robust transparency policies, civil society has played an active role in monitoring key processes that carry a high risk of corruption. This underscores the need for consistent transparency standards that are tailored to each country's context, ensuring more effective oversight of both the private and public sectors in the fight against corruption (Sneidere and Vigante, 2014, p.64).

d) Accrual Basis Accounting

Public corruption is prevalent in many developing countries and often worsened by weak governmental accounting practices (Neu, *et al*., 2013a). Criticisms of public accounting highlight its failure to meet the needs of users, especially its inability to discover fraud and its role in hiding corruption scandals (Neu, *et al*., 2013a).

Many developing countries have traditionally used cash accounting in their public sector financial management, which only follows cash transactions, giving limited visibility into the whole transaction history and impairing effective stewardship and performance management. The shortcomings of cash accounting led to the implementation of accrual accounting in the public sector, highlighting the ability of accrual accounting to provide a more comprehensive and systematic method of recording and managing transactions, address certain problems, and improve trasparency, accoutability, performance, stewardship and decision-making, boosting credibility of accrual accounting as a measure for fighting corruption (Ferry *et al*., 2018). Therefore, many developing nations are transitioning to accrual accounting, shifting public sector organisations away from the traditional cash-basis approach to improve governance and support anti-corruption efforts. This aligns with recommendations from the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA), which emphasise the importance of accrual accounting in the public sector for more efficient financial reporting and restricted corruption (Ferry and Lehman, 2018; Lehman and Thorne, 2015).

Accrual accounting is a key component of public sector financial reforms that contribute to the environment by reducing corruption and enhancing public accountability. It enhances asset management, supports better decision-making on maintenance and replacement, and decreases risks, e.g. theft or damage. It offers a more transparent and accurate financial overview of government operations, enhances the efficiency of government performance reports, measures policy outcomes more effectively through management accounting, and provides better indicators of sound financial management. It also highlights liabilities, such as pension expenses, which are not visible under cash accounting. For instance, a key improvement is the Statement of Financial Position (Balance Sheet) under accrual accounting, which outlines the assets and liabilities of the

government. It allows the government to optimise asset use and evaluate its ability to meet short and long-term obligations, making financial responsibilities more transparent, particularly in the aftermath of the 2007–2009 financial crisis and ongoing public corruption scandals (Ferry and Lehman, 2018). In addition, accrual accounting fosters a greater ability for the government to attract foreign direct investment (FDI) and enhance its credit rating, strengthening its credibility.

However, in developing nations, limited resources, institutional capacity, the need for modernisation, and competing priorities can make implementing accrual accounting challenging. While accural-based accounting offers significant benefits, its effective implementation depends on a rage of contextual and institutional factors. For instance, the success of accrual accounting in reducing fraud and corruption in public sector organisations, depends on several governance mechanisms. In addition, the effectiveness of accrual accounting in building credibility depends on better management information and accountability, affected by socio-political factors. Therefore, in the broader international context, there is growing recognition of public financial management's role in promoting good governance and fighting corruption. (Ferry and Lehman, 2018).

Overall, the more detailed information offered by accrual accounting boosts accountability, transparency, and credibility, and strengthens public service delivery. Therefore, the possibility of concealing corrupt practices is lower under accrual basis of accounting. Although accrual accounting can make financial misstatements more difficult to conceal, it is not a cure for all types of corruption (Ferry and Lehman, 2018). It is vital to understand that accrual accounting is just one component of governance and anti-corruption efforts and must be integrated with other strong institutions (Ferry and Lehman, 2018). Ferry and Lehman (2018) suggest that further research is needed to explain the effect of accrual accounting in improving governance and anti-corruption, particularly in various contexts with different institutional strengths (Lehman and Thorne, 2015).

In summary, prior literature on accounting and corruption shows complex views shaped by contradictory empirical findings, divergent theoretical frameworks, and context-specific results. Some studies, such as Khalil et al. (2015) and Kurniawati and Achjari (2022), find that the adoption of IFRS or ISA can limit perceived corruption. This is because international accounting standards are expected to improve in disclosure, audit

quality, and governance. However, this assumption is increasingly critiqued for ignoring socio-political and institutional realities complexities.

Everett et al. (2007) applied a meta-analysis in their study and recommended giving greater attention to accounting standards, training accountants and auditors, improving record-keeping systems, all of which can assist in restricting corruption especially in poorer countries. Similarly, El-Helaly et al. (2020) reverse the assumed causal relationship in their empirical study by revealing that high corruption levels can impede the adoption of accounting reforms, such as IFRS, highlighting the deep institutional entrenchment of corrupt actions that cannot be resolved merely through technical interventions. However, the institutional context concerns are highlighted by Marzuki and Wahab (2018), who show that despite that the IFRS adoption strengthens reporting conservatism in clean governance environments, such improvements are not replicated in more corrupt jurisdictions. Thus, the effectiveness of accounting reforms is conditional on broader governance and institutional integrity. These results complicate the optimistic narrative that accounting standards alone can curb corruption, demonstrating an association between the efficacy of accounting and institutional quality.

The literature also expands to consider how social and environmental accounting (SEAR) can serve as an anti-corruption mechanism. Sneidere and Vigant (2014) state that transparency in social and environmental disclosures can promote civil society and strengthen market competition environments. They believe that, in some EU countries, strong transparency requirements have activated civil society monitoring of corruption-prone sectors. This argument is developed further by Lehman and Morton (2017), who critique the market-based assumption that corporations are natural agents of positive change and reframe SEAR within a civil society paradigm. They believe that accounting should serve public interests by holding power to account beyond managerial boundaries. Thus, accountability is considered a social process that engages the lived experiences of citizens influenced by corrupt practices. This argument aligns with Everett et al. (2007)'s critique by reasserting the significance of local agency and social justice in accounting contexts.

Another important view focuses on accrual accounting in the public sector as a tool for promoting transparency and curbing corruption. Accrual-based accounting gives a more comprehensive picture of public sector financial information when recording assets and liabilities, offering a stronger basis for decision-making, stewardship, and performance management compared to cash-based systems (Ferry et al., 2018). However, Ferry et al. (2018) believe that accrual accounting focus more on improving governance rather than fight corruption.

In general, most studies state that the effectiveness of accounting as a mechanism for anti-corruption depends on much more than standard adoption. Whether discussing international financial reporting standards, social and environmental accounting, or accrual accounting system, the literature increasingly emphasises the assumption that accounting is a neutral and inherently progressive force is increasingly challenged. Additionally, several scholars call for more critical and reflexive approach to explore the potential and the limits of accounting in addressing corruption. They also call for a multi-dimensional perspective that considers regulatory frameworks and institutional integrity, socio-political discourse, civil society engagement. Accounting is expected to contribute effectively to anti-corruption strategies when integrated within broader systems of transparency, accountability and public legitimacy. Moreover, some other accounting tools can effectively be used in the battle against corruption, including accounting education and profession and internal and external auditors.

2.3.2.2 Accounting Education and Accounting Profession

The development of accounting education and profession is important in empowering accountants and auditors in the battle against corruption. The accounting literature has highlighted that the profession and academia acknowledge the need to improve the understanding and awareness of ethical issues among accounting students and practitioners (Ferry and Lehman, 2018). Both sectors recognise the importance of ethics education in accounting, focusing on the collaborative link between academia and the profession. Scholars should identify the main problems, offer empirical insights, and propose changes to the view of ethical matters within the field (Ferry and Lehman, 2018).

Currently, there is a broader concentration on stakeholder theory, where moral and social obligations are integrated into decision-making and reflected in practices. Accounting students are expected to master technical skills, boost strong ethical principles and understand the broader social effect of accounting. Moreover, ethical reasoning ability in accounting is more likely to be affected by certain factors such as the accountant's area of education, employment and expertise (Ferry and Lehman, 2018, pp.1-2).

From an operational side, three main issues have been highlighted. The first issue concerns the crucial need to develop record-keeping systems, especially in developing nations where reliable and accessible transactions are often non-existent (Everett *et al.*, 2007). The profession are required to evolve beyond traditional educational models, as research articles recommend that conventional bookkeeping education no longer sufficiently equips students for the current workforce demands (Ferry and Lehman, 2018). The issue may worsen as organisations transition to electronic systems (E-Systems) (Everett *et al.*, 2007). Accounting technology can benefit public education, as accountants are responsible for providing comprehensive and independent reports on government spending and activities. Accountants are expected to boost transparency and ensure that business expenses, commissions, taxes, and personal assets are sufficiently disclosed (Everett *et al.*, 2007). Therefore, improving the record-keeping system can be helpful in reducing corrupt actions.

Since the 1980s, there has been a growing interest in the role of accounting in addressing social, environmental, and economic liabilities instead of the old view that focuses solely on maximising stockholder wealth. The scope of accounting has extended beyond traditional bookkeeping to include the disclosure of social and environmental impacts, especially in environments influenced of corruption. This allows companies and governments to act in the public interest and fight corruption (Ferry and Lehman, 2018, pp.1-2).

The second issue concerns the development of a professional accounting workforce (Everett *et al.*, 2007). Although developing professional accountants is essential in the fight against corruption, this effort faces challenges that go beyond improving reporting standards, training initiatives, and enhancing the authority of Supreme Audit Institutions (SAIs). These challenges are aften linked to broader systemic and strategic reforms. Firstly, it remains a serious obstacle, especially in developing nations, where training programs

are either underfunded or lacking (Everett *et al.*, 2007). Secondly, although training systems for accountants and auditors need improvement, they must go beyond equipping students with the abilities to overcome business issues, understand the business operation system, develop communication and problem-solving skills, and focus on critical thinking and reflection. This ongoing need for critical questioning and self-reflection is particularly important in the context of anti-corruption efforts. Accounting often lacks reflexivity, following established norms rather than challenging them. This leads to a narrow view of concepts, such as objectivity, integrity, and the public interest, which ignores the real information needs of those most affected by corruption (Everett *et al.*, 2007).

The third issue concerns anti-corruption measures in a country that could be ineffective or merely symbolic, serving only to restore public trust and political legitimacy without solving the root causes of corruption (Everett *et al.*, 2007). A global survey by Ernst & Young revealed that many executives are not engaging with ABC training or risk assessments, which can leave corruption risks unaddressed. To curb this, organisations must create a culture that associates ethical behaviour with business success. This requires effective ethics training and support programs. Even though it is impossible to avoid misconduct entirely, organisations must focus on identifying and mitigating its impact (Peltier-Rivest, 2020).

Furthermore, the Foreign Corrupt Practices Act (FCPA) has three main elements: anti-bribery, internal controls and accurate record-keeping. A case surrounding FCPA could give students a comprehensive understanding of these components and their implications for reporting in financial statements, international business, ethical conduct and compliance. It assists students in recognising possible FCPA violations, such as red flags, and understanding auditor responsibilities in discovering fraud. It can be incorporated into several business ethics and accounting and auditing modules, e.g. forensic accounting, international accounting and auditing. The FCPA mandates accurate record-keeping, requesting publicly listed companies maintain comprehensive books that reflect transactions. Businesses must also apply robust internal controls to ensure accurate financial statements and transactions align with management's approval (Holtzblatt and Tschakert, 2014).

Everett et al. (2007) and Jeppesen (2019) critically challenge the role of accounting profession in anti-corruption efforts using different perspectives. Everett et al. (2007) highlight that, although accounting could theoretically serve the interests of the victims of corruption, its performative and ideological limitations, along with its alignment with global governance institutions, e.g. IFAC and INTOSAI, render it complicit in reproducing an ineffective and narrow picture of accountability. Jeppesen (2019), on the other hand, is more concerned with auditing standards and institutional incentives, calling out the failure of profession to integrate corruption into the definition of fraud and fraud detection. Both papers call for a more reflective and engaged profession, Jeppesen (2019) is more optimistic about reforming auditing practices and proposing actionable plan that can assist in curbing corruption. Furthermore, although both critiques implicate IFAC, Everett et al. (2007) are far more sceptical of its public interest claims, raising concerns about the organisation's narrow representation of foreign investors. Despite that both studies focus on the inadequacy of current professional training, Everett et al. (2007) highlight the need for developing accounting education. Whereas Jeppesen (2019) highlights the need for professional training in detecting fraud and corruption. The contrast in these approaches shows that there is growing recognition that accounting must contribute to address corruption.

In addition, an audit committee member is vital in addressing potential FCPA violations. They can raise an issue with the senior management and the whole board, follow up on the progress of the investigation, and ensure that the concern is appropriately documented in the meeting minutes, as well as monitor both internal and external audits to ensure the financial reporting of a company is transparent and precise (Holtzblatt and Tschakert, 2014). Internal auditors and internal control are discussed in greater detail in the following sub-section, highlighting their roles, effects, benefits, and limitations in the anti-corruption process, based on the studies reviewed in this SLR.

2.3.2.3 Effective Internal Auditors and Internal Control System

External and internal audits are vital in ensuring the reliability and transparency of accounting information. Internal audits, for instance, as part of the broader internal control system, help ensure that the revenue and expenditures of a firm or government comply with financial regulations and guidelines. They can also assist in evaluating the effectiveness of the accounting system. Thus, audits play a critical role in promoting financial accountability and identifying areas for improvement (Duh *et al.*, 2020). Internal auditors are considered as professionals who protect organisations against the misapplication or leakage of assets, funds, or actions. Although auditing may appear technical, it relies significantly on professional judgment and social environment in which it operates. This context influences the understanding and independence of auditors. As a result, the ability of auditors to exercise independent professional judgment is closely tied to their boarder context (Neu *et al*., 2013a). However, the focus of internal audits has developed over years, with increasing emphasis on restricting the misappropriation of government funds. Previous studies indicate that country-specific factors, such as the level of investor protection and a conservative national culture, also influence the role and effectiveness of internal auditing (Duh *et al.,* 2020, p.176).

In most corporate governance frameworks, management is responsible for building internal control systems that satisfy board policies. These internal control systems may not always be effectively executed as management may override or ignore internal controls to facilitate fraud and corruption (Jeppesen, 2019). Therefore, internal controls, especially those overseen by the audit committee and designed to prevent such overrides, are crucial for maintain accountability and integrity (Jeppesen, 2019). Independent oversight of internal controls is important to ensure that policies are understood and followed, controls are appropriately designed and implemented, and breaches are properly addressed (Jeppesen, 2019). Monitoring internal control systems has become an important part of internal auditing, where internal audit is vital for preventing corruption (Jeppesen, 2019; McLeod and Harun, 2014), ensuring effective resource allocation (Philippou, 2019) and improving ethical practices in organisations (Neu, *et al*., 2013a). Without such monitoring, anti-corruption measures are less likely to be effective (Jeppesen, 2019).

An effective internal audit system is a critical component of efficient governance and a strong internal control framework, both in the public and private sectors (McLeod and Harun, 2014). When the effectiveness of internal audits is undermined, an ongoing corruption issue exists at the local government level (Harun *et al.*, 2019). In addition, the audit committee can build a system for (1) collecting feedback from auditors and others about internal control violations and fraud risk management, (2) conducting regular interviews with external and internal auditors and the compensation committee (Jeppesen, 2019), and (3) establishing a whistleblower hotline to permit both insiders and outsiders to report the overrides of management or corruption suspicions (Jeppesen, 2019).

The Internal Control-Integrated Framework, commonly known as the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework, is widely used to assess internal controls over financial reporting. Since anti-bribery compliance programs are an important part of internal control, understanding the COSO framework is essential. According to the COSO Executive Summary, an effective internal control system comprises five components. First, the control environment, which includes ethical values, integrity, and an effective control structure. Second, risk assessment, which involves identifying and analysing risks that may hinder the achievement of the organisation's goals. Third, control activities, which consist of procedures and policies implemented to reduce the identified risks. Fourth, information and communication, which ensure that relevant information and timely information is communicated efficiently across all levels of the organisation. Fifth, monitoring, which involve regular evaluation of the effectiveness of the internal control system for improvement purposes (Holtzblatt and Tschakert, 2014).

In commercial corruption, internal control systems must be designed to deter and detect the misappropriation of money used in bribery schemes (Pacini *et al.*, 2002). Bribery can cause inventory valuation errors, as products received through bribery are often priced above market value, leading to inflated inventory costs. Although services-related bribery typically does not influence financial statements directly, auditors can discover bribes by checking service procurement entries and occurrence, and inquiring with higher management (Jeppesen, 2019). Corruption can minimise effectiveness, leading to poor delivery of services, public dissatisfaction and a lack of performance metrics. Performance auditors, including internal auditors and SAIs, can fulfil these issues through asset inspection, benchmarking, surveys, and whistleblower mechanisms (Jeppesen, 2019).

However, some scholars argue that internal control and auditing alone are insufficient to effectively curb corruption to secure government contracts, especially when the organisation itself facilitates corrupt practices within the process (Abdul-Baki *et al.*, 2021). Abdul-Baki *et al.* (2021) conduct a case study of Nigeria's oil subsidy scandal, revealing how internal auditors and accounting firms, became complicit in systemic corruption, instead of acting as safeguards. The study challenges the assumption that auditors inherently resist corrupt environments, by showing how institutional pressures can lead auditors to conform to rather than resist corrupt norms. Their study is consistent with Neu, *et al.* (2015) and Sikka and Lehman (2015), who argue that internal control systems often fail to curb corruption when companies themselves are the source of unethical practices, especially in contexts involving government contracts. These studies suggest that internal auditing mechanisms may be rendered ineffective in deeply corrupt institutional environments. Therefore, although auditors are often seen as a key player in preventing corruption (Everett *et al.*, 2007) internal auditors are not always independent, political and bureaucratic structures and pressures can influence them and boost corruption (Neu *et al*., 2013a).

Government procurement processes are regulated by various internal controls and auditing mechanisms intended to decrease the risk of resource misappropriation and misuse. These auditing practices operate within environments where political discretion and influence are often embedded in the system, even alongside formal anti-corruption measures and democratic governance structures. In some cases, however, these practices can be manipulated or bypasses, ultimately contributing to systemic corruption (Neu *et al*., 2013a). In addition, political corruption is often difficult for auditors to discover because there is little tangible evidence to examine. The connections between corrupt officials and clients are often vague, and the corrupt transactions are typically intangible or hidden. In some situations, politicians may actively obstruct audits during corruption investigations or influence auditor appointments through nepotism or clientelism. As a result, auditors often collaborate with the media to raise attention of corruption cases and apply pressure on other investigative institutions to act. Undoubtedly, the motivations of subordinates to satisfy those in power, or their normalisation of corrupt practices, can increase corruption (Jeppesen, 2019).

In general, auditing efforts to curb corruption are hindered by many challenges, including disorganised administrative systems where information is insufficiently recorded. In addition, auditors, e.g. auditor generals, might lose their objectivity and independence due to political appointments. The absence of transparent administrative procedures gives civil servants discretionary power and lacks transparent audit standards. Moreover, corruption penalties can be often weak when discovered through auditing. There is also a lack of political will to care about auditors' suggestions or apply reforms in the public sector to prevent corruption. In some cases, auditors investigating corruption have faced violent threats. Taking into account that although auditing is crucial in the broader collective efforts to fight corruption, it cannot prevent corruption solely (Jeppesen, 2019). In addition, penalties are important to deter corrupt activities. This is because following the arrest of corrupt officials, companies are more likely to enhance their internal controls, hire higher-quality auditors, and provide more management forecasts (Chen *et al*., 2020).

Several studies underscore the need for stronger regulatory frameworks and independent monitoring if internal auditing is to play a meaningful role in fighting corruption. In addition, internal control systems address the demand side of corruption, which is a common deficiency in several anti-corruption programs. However, addressing the supply side is equally critical and requires collective action, where both the procuring organisation and vendors collaborate to prevent corruption. This approach aims to establish a corruption-free, fair competitive environment where the most qualified bid prevails through formal agreements. External audit firms may monitor these anti-corruption contracts on behalf of the procuring entity. A stronger form of collective action includes certifying business coalitions, where suppliers voluntarily commit to anti-corruption standards. External auditors assess compliance, and certification is withdrawn in case of non-compliance. Procuring organisation can require all vendors to hold valid anti-corruption certification to reduce corruption risks (Jeppesen, 2019). The following sub-section explores the role of external auditors in the battle against corruption.

2.3.2.4 External Auditors and Accounting Firms

External auditors, alongside the internal auditors, play an essential role in the financial reporting process by ensuring that the company's financial statements precisely reflect its financial position, thereby limiting the ability of managers to manipulate accounting transactions or policies for personal benefit. Their mission is to improve the credibility of financial information, restrict earnings management, and reduce the risk of financial misreporting. Auditors are expected to discover and report fraudulent activities, including bribery, particularly in the awarding of government contracts. Research studies state that companies with external audits and are less likely to be involved in bribery to secure government contracts (Khalil *et al.*, 2015).

A study by Farooq and Shehata (2018) uses data from over 50,000 private companies spanning 126 countries from 2006 to 2014, identifying a significantly negative relationship between levels of bribery and the demand for external audits. It reveals that companies with audited financial statements tend to pay lower bribes than those with unaudited statements. The research shows that the impact of audits on reducing bribery is more pronounced in environments where firms are under greater pressure to engage in corrupt practices, particularly in countries with a stronger rule of law and greater judicial independence. Moreover, auditing is more effective in restricting bribery for companies that experience more frequent visits from tax officials (Farooq and Shehata, 2018)

External financial auditors, in both the private and public sectors, are required to assess the risk that a client company may be engaged in bribery or other forms of commercial corruption. The risk of corruption is usually higher when a company operates in a country where corruption is prevalent (Jeppesen, 2019). In companies with a higher risk of bribery, auditors may conduct more extensive examinations, such as checking contracts, foreign bidding documentation, unusual financial transactions, and offshore payments (Khalil *et al.*, 2015). Furthermore, external auditors must gather information to evaluate the risk of material fraud-related misstatements. They must investigate suspected legal violations and report any concerns to management or the audit committee, depending on the seriousness of the issue. In cases of suspected FCPA violations, the audit committee should be involved. If the violation affects the accuracy of the financial statements, auditors must consider its implications for the audit report (Holtzblatt and Tschakert, 2014).

When auditors face litigation risks, they are more diligent in fighting bribery, as the potential reputational and financial costs for failing to detect fraud are high. External auditors tend to decrease the occurrence and severity of bribery for several reasons. First, they fear damaging their reputation and facing sanctions if bribery or financial misreporting is discovered, which can negatively affect their ability to retain clients and create future income. Second, they may incur financial losses if shareholders sue for bribery or financial misreporting, taking major resources and time to defend themselves and potentially indemnify shareholders for their losses. Their vigilance is high in countries where criminal sanctions are imposed for financial misreporting, as public enforcement can complement private litigation. Recent regulatory changes show a push for criminal sanctions against auditors in fraud cases (Khalil *et al.*, 2015).

Auditors must remain vigilant for potential fraud throughout the audit (Holtzblatt and Tschakert, 2014). External auditors should examine all relevant transactions, contracts and documents, giving special attention to significant amounts that appear inconsistent with the contract value, and closely reviewing any unusual, large, or infrequent cash transactions in banking records (Pacini *et al*., 2002). External auditors are responsible for identifying material misstatements in financial statements, whether due to error or fraud. The audit team must hold a brainstorming session to pinpoint areas of the financial statements that could be susceptible to fraud and explore potential methods for management to hide fraudulent activities and how assets might be misappropriated. This process affects the audit approach and raises professional scepticism, prompting auditors to critically test audit evidence (Holtzblatt and Tschakert, 2014). External auditors should also focus on discovering asset valuation problems, such as checking the substandard quality of assets, using analytical procedures to track costs and stock quantities and checking inventory ageing (Jeppesen, 2019)

Some studies use bribery experience, rather than the perception of corruption, to examine the relationship between bribery or experience of corruption and auditing. A study by Khalil *et al*. (2015) used a sample of 15,174 firms across 24 countries and found that companies are less likely to bribe government officials in countries with stricter financial reporting requirements, higher litigation risks for auditors, and stronger legal sanctions. In addition, the likelihood of bribery or offering a gift to obtain a government contract is reduced when an external firm audits financial statements. The application of robust disclosure standards and audit oversight can also deter corruption. In general, the results

highlight the importance of policies to improve transparency and accountability to reduce bribery in the public sector (Khalil *et al.*, 2015, p.394).

The growing involvement of accounting firms in corrupt practices has often been associated with their increasing focus on profit (Abdul-Baki *et al*., 2021). Several scholars believe that the globalisation of accounting firms, particularly the Big Four, has shifted their priorities from safeguarding the public interest to prioritising profit maximisation. Although this focus on profit is especially evident in large firms, many notice that mid-tier accounting firms have also shifted towards maximising profits as they operate within the same institutional environment. This environment plays a vital role in shaping the practices and technologies adopted by these firms (Abdul-Baki *et al.*, 2021). Accounting firms face overlapping pressures at the micro and macro levels that drive their engagement in corrupt activities. The institutional theory suggests that corruption does not always become institutionalised through the active enforcement of power; instead, the failure to exercise this power can also contribute to the institutionalisation of corruption (Abdul-Baki *et al.*, 2021).

The role of auditors in combating corruption has occasionally been criticised for their failure to detect major scandals**,** such as the FIFA case. This reflects an ongoing expectation gap concerning the extent of auditors' responsibility for identifying corruption, particularly in certain regions (Jeppesen, 2019, p.1). Over the past decades, several scandals have raised concerns about auditors not discovering or even being complicit in corruption. For example, KPMG failed in 2007 to detect bribes amounting to €1.5 billion paid by Siemens between 1995 and 2006 (Farooq and Shehata, 2018, p. 268). In addition, auditing processes have also been directly involved in significant corruption scandals (Pilonato, 2022, p.124). In 2017, KPMG South Africa was accused of helping the Gupta family with tax evasion and corruption, with the family being closely connected to the president (Farooq and Shehata, 2018, p. 268). Another notable case is the collapse of Enron, which stands out due to the involvement of its experienced auditor, Arthur Andersen, was one of the Big Five CPA firms and the complex accounting practices at the heart of the scandal (Pilonato, 2022, p.124). Such incidents suggest that greater scrutiny of external auditors could act as a deterrent against corrupt practices, such as bribery (Farooq and Shehata, 2018). For example, Khalil *et al*. (2015) suggest that auditors can assist in restricting bribery by uncovering illegal activities, e.g. securing government contracts through bribery.

Other corruption or illegal acts fall outside the scope of regular auditing processes, limiting auditors' ability to detect illegal acts (Khalil *et al*., 2015; Pilonato, 2022). For instance, companies not required to undergo audits or corruption involving favouritism and clientelism, where individuals are given preferential treatment in exchange for political or financial support, may evade detection. These types of corruption are less visible and more difficult to address through traditional accounting and auditing mechanisms (Pilonato, 2022). Furthermore, many illegal activities are not directly related to financial statements, making them harder to detect. Auditors are also not legal experts, which can complicate determining whether an action constitutes a legal violation. Auditors typically test and evaluate a sample of transactions, offering reasonable but not absolute assurance. Although auditors are not tasked explicitly with uncovering FCPA violations, they must follow up on any red flags or indications of such violations that appear during the audit process (Khalil *et al*., 2015).

Businesses in corrupt countries with lower reporting quality and greater information uncertainty are less likely to hire high-quality auditors. Engaging a top-tier auditor could raise the cost and difficulty of managers' bribe payments. Although this deterrent impact can occur in less corrupt economies, high-quality auditors are usually less welcomed in more corrupt countries. In such countries, social norms tend to consider bribery as less problematic and, therefore, discourage it to a lesser degree than countries with lower corruption levels (Duh *et al.*, 2020). A study Ruan and Zhang (2021) finds that alleged bribery is negatively correlated with the likelihood of being accepted by top-tier auditors and positively correlated with higher audit fees. This indicates that top-tier auditors evaluate corruption risks when deciding whether to accept clients and charge corrupt clients higher fees to manage the risks. Therefore, corrupt clients may prefer smaller audit firms, as they might be easier to manipulate. Additionally, the negative correlation between bribery and acceptance by top-tier auditors has grown stronger after the crackdown on provincial officials and anti-corruption campaigns, particularly in less developed regions, e.g. China's anti-corruption campaign in 2013. The study also shows that alleged bribery is linked to higher levels of earnings management, indicating that bribery may lead to more financial irregularities, which top-tier auditors aim to detect and avoid (Ruan and Zhang, 2021).

Audit quality is influences by both the external institutional environment, such as the market share of Big Four firms and the legal environments, and internal corporate governance (Jin *et al.*, 2021). In corrupt contexts, the integrity and quality of audit performance often fall under expected standards. Auditors might avoid rigorously challenging management to preserve long-term relationships and continue receiving income from audit fees. This creates an environment in which institutional corruption can thrive, undermining sector norms and eroding the auditors' fiduciary duty as they become increasingly aligned with management interests. Moreover, in environments where corruption is deeply entrenched, auditors may rely on unreliable or biased external information, resulting in incorrect assurances, such as those based on flawed clinical trial data or corruption within media industry (Mazzi *et al.*, 2019).

The literature on auditor quality indicates that the market is willing to pay more for Big Four audit firms, as these firms offer more reliable and accurate financial statements, which decrease information risk and boost predictability. The Big Four auditors are Deloitte, Ernst & Young (EY), PricewaterhouseCoopers (PwC), and Klynveld Peat Marwick Goerdeler (KPMG). The presence of Big Four firms tends to reflect auditing quality in a country, as large firms often adhere to higher standards than those required by national standards. In other words, some evaluate audit quality based on the involvement of the Big Four firms (Malagueño *et al.*, 2010). These firms are expected to provide the most accurate audits of financial statements, leading to more reliable and predictable information. The better and more efficient auditing practices are, the more likely they are to uncover the financial misdeeds of companies, thereby reducing corruption opportunities. As a result, the demand for rent-seeking behaviour by those in power reduces (Malagueño *et al.*, 2010).

There is a negative correlation between the existence of Big Four firms and the perceived level of corruption in a country (Malagueño *et al.*, 2010). The Big Four auditors are crucial in fighting corporate fraud, especially in corrupt countries. Some scholars confirm the negative association between corruption and the likelihood of hiring Big Four audit firms. Cross-listed firms tend to prefer to select Big Four auditors over domestic ones (Duh *et al*., 2020). However, in more corrupt countries, cross-listed firms are less likely to engage Big Four auditors, whereas in less corrupt countries, they are more likely to do so. This suggests that corruption influences both auditor choice and financial reporting quality. In corrupt environment, managers may avoid hiring independent auditors who could uncover control weaknesses. Conversely, engaging Big Four auditors in such settings can serve as a signal of high reporting quality, credible audits and stronger investor protection (Duh *et al.*, 2020).

Overall, internal and external auditors play a crucial role in curbing corruption. In this SLR, several studies focus on external auditors and internal auditors. After reviewing the roles, effects, benefits, and limitations of auditors in the anti-corruption process, the next sub-sections will explore the quality of accounting information systems, as well as, leading accounting and auditing institutions, which can influence corruption.

In general, auditing, both external and internal, relates to specific aspects of corruption, including bribery, auditor selection, and the institutionalisation of corrupt practices. Duh et al. (2020), Farooq and Shehata (2018), and Khalil et al. (2015) believe that external auditing tends to play a deterrent role in environment where corruption pressures are high. Duh et al. (2020), using a sample from 78 countries over 2003-2012, show that companies are more likely to select Big Four auditors when cross-listing in less corrupt environments, suggesting that the quality of audit serves as a signalling mechanism. Farooq and Shehata (2018) also find that audited firms pay significantly lower bribes, especially in countries where firms face greater pressure to engage in corrupt activities, highlighting the moderating effect of institutional context. Khalil et al. (2015) support this by showing that effective disclosure standards and litigation risks for auditors restricting bribery practices to secure public contracts. Thus, Farooq and Shehata (2018) and Khalil et al. (2015) reveal robust findings using large number of countries that companies with externally audited financial statements are significantly less likely to engage in bribery. This suggests that auditing acts as a disciplining tool, especially in high-pressure corrupt environments.

Abdul-Baki et al. (2021), in contrast, believe that accounting firms in Nigeria actively participated in corruption. This suggests that auditors can participate in corruption especially in environments where corruption is systemic and expected. Ruan and Zhang (2021) confirmed this opinion by showing that in China, top-tier auditors are less likely to accept firms with high alleged bribery. They either reject such clients or charge higher audit fees. This indicates a reputational risk calculation on the part of auditors, particularly in post-anti-corruption campaign periods. Therefore, this increases the possibility of selecting lower-tier auditors by corrupted firms to avoid scrutiny.

Overall, although many papers support the deterrent effect of auditing on bribery, others believe that the institutional environment mediates or even reverses this effect. The different between cross-country studies and case studies in high-corruption environments highlights the need for a more differentiated understanding of when and how auditing can serve as a tool against corruption. In other words, although external audits can serve as effective governance tools, their impact is significantly moderated by both firm-level tools, country-level factors and institutional strength.

2.3.2.5 Quality of Accounting Information System

Quality accounting standards aim to ensure transparency in economic transactions and reduce the risk of unethical or illegal practices by those with economic power (Picur, 2004; Malagueño *et al.*, 2010). According to several scholars, improvements in accounting quality (AQ) and strengthened financial transparency lead to greater accountability for politicians and firms, which in turn reduces rent-seeking behaviour and corrupt activities (Picur, 2004). Research by Transparency International and Freedom House indicates that countries with higher levels of information transparency and disclosure are more likely to experience lower levels of corruption. This is especially relevant giving that, although many nations have laws addressing corruption, the enforcement of transparency standards remains inconsistent (Sneidere and Vigante, 2014, p.63). In some countries, effective anti-corruption regulations are often underpinned by a tradition of information transparency and public disclosure, while in some cases, accountability and transparency of public spending has primarily been advanced through civil society initiatives (Sneidere and Vigante, 2014, p.64).

Enhancing the transparency of financial reporting through stronger accounting and auditing standards may lead to lower perceptions of corruption in a country (Johnston, 2015; Malagueño *et al.*, 2010). A cross-country analysis by Malagueño *et al*. (2010), using public data from 57 countries, found that perceived accounting quality is economically significant and statistically linked to perceived corruption, which means that countries with better transparency and quality accounting and auditing tend to have lower levels of perceived corruption, as measured by Transparency International's Corruption Perception Index (CPI) (Malagueño *et al.*, 2010). Another study by Picur, (2004), using data from 34 countries, the regression analysis shows a negative relationship between earnings opacity and the degree of perceived corruption, even after controlling some factors such as economic development and government size. Therefore, improved accounting quality promotes accountability and assists by decreasing earnings opacity and helping to curb corruption (Picur, 2004). Therefore, countries aiming to combat corruption may benefit from enhancing the quality of accounting and auditing (Picur, 2004; Malagueño *et al.*, 2010).

On the contrary, corruption increases in environments where accountability and accounting quality are low (Picur, 2004). It significantly influences various macro-level issues related to a country's accounting and reporting environment (Malagueño *et al.*, 2010). In countries with higher levels of corruption, the quality of financial statements is often lower, which may prompt investors to demand higher returns on their capital to offset the associated risks. This, in turn, could lead to a significant decrease in the value of equity and debt (Duh *et al.*, 2020, p177). In addition, as previously mentioned, a significant indicator of poor accounting quality is earnings opacity, the obfuscation or manipulation of reported financial performance intended to mislead stakeholders or influence contractual outcomes. In other words, high earnings opacity is typically a signal of low accountability and poor accounting quality, raising opportunities for rent-seeking behaviour by managers and public officials (Picur, 2004).

The strength of political connections between firms and corrupt officials plays a vital role in determining improvements in accounting quality (AQ) (Chen *et al.*, 2020). Firms operating in regions with a stronger culture of corruption tend to rely more on political connections than on sound accounting practices. Consequently, their accounting quality tends to be weaker, at least until the arrest or exposure of corrupt officials. Following such events, firms with strong political connections particularly those tied to influential local

officials, typically exhibit improvements in AQ (Chen *et al.*, 2020). This is because they had previously depended heavily on corrupt networks for resource allocation. In other words, firms with closer ties to government officials face greater pressure to enhance AQ after losing their privileged access, as they must now rely on transparent financial reporting to secure external financing. As a result, AQ improvements tend to be more significant in politically connected firms' post-exposure. Although a corrupt culture can weaken the role of financial reporting in contractual and resource allocation decisions, exposure of corruption can trigger positive change, particularly in firms that need to attract external capital (Chen *et al.*, 2020). However, in some cases, AQ may decline instead, due to the loss of political privileges and heightened uncertainty in the post-corruption environment (Chen *et al.*, 2020).

However, it should be noted that even in developed nations, where robust governance institutions and efficient regulatory systems are in place to combat corruption, the role of accounting in enhancing accountability in the management of public resources remains a subject of ongoing debate. This challenges become even more pronounced in poorer, developing countries, where institutional weaknesses often exacerbate issues of transparency and financial mismanagement (Bakre *et al.*, 2017).

In summary, the literature consistently supports a negative association between accounting quality and perceived corruption. Malagueño et al. (2010), Picur (2004), and Chen et al. (2019) provide empirical evidence that improved accounting practices, i.e. transparency, and audit quality, are associated with lower corruption levels. Malagueño et al. (2010) focus on the presence of Big Four auditors and perceived accounting quality at the country level, whereas Picur (2004) emphasises on earnings opacity of a country as a proxy. Chen et al. (2019) test firm-level accounting responses to changes in local corruption culture and find that firms strengthen accounting quality after the arrest of corrupt officials. This raises an important question about the possibility of accounting quality to restrict corruption or whether anti-corruption initiatives drive improvements in accounting, as suggested indirectly by Chen et al. (2019). This indicates a potential bidirectional that has not been sufficiently theorised.

2.3.2.6 Accounting and Auditing Institutions

A potential solution to curbing corruption is to establish a strong, independent regulatory body to oversee accounting practices, using an effective monitoring strategy to prevent and detect corrupt activities. This approach suggests that effective socio-political and economic reforms can assist in addressing corruption (Abdul-Baki *et al*., 2021). Organisations, such as the International Federation of Accountants (IFAC) and the International Organisation of Supreme Audit Institutions (INTOSAI), would face significant challenges in developing initiatives that effectively address the needs of corruption victims, unless they first acknowledge the limitations of accounting in certain areas (Everett *et al.*, 2007).

The main accounting and auditing institutions identified in the SLR as supporting countries in curbing corruption include Supreme Audit Institutions (SAIs), the International Organisation of Supreme Audit Institutions (INTOSAI), the International Federation of Accountants (IFAC), and The Global Reporting Initiative (GRI). The accounting profession widely acknowledges the importance of addressing corruption, with the INTOSAI describing it as 'the worst cancer', and the IFAC identifying it as a major obstacle to economic development. These bodies usually engage accountants in the battle against corruption. Organisations, such as the World Bank and the OECD have called on SAIs, along with the INTOSAI, to take a more proactive and effective role in curbing corruption. In response, SAIs and INTOSAI have developed various auditing standards and frameworks aimed at strengthening governance, promoting transparency, and enhancing institutional legitimacy (Paterson *et al.*, 2019). Other organisations, including the American Institute of Certified Public Accountants (AICPA) and the Institute of Chartered Accountants of England and Wales (ICAEW), have also contributed. Another example is the collaboration between the United Nations' Department of Economic and Social Affairs and the heads of Supreme Audit Institutions (SAIs) in developing countries to strengthen audit techniques and exchange knowledge between developing and developed nations in order to improve their audit systems to fight corruption (Everett *et al.*, 2007).

Despite these efforts, SAIs are generally hesitant to take on a comprehensive role in fighting corruption and often focus more on avoiding corruption through audits rather than detecting it (Paterson *et al.*, 2019). Although issues related to the operational powers of SAIs persist, as they often lack clear mandates, sufficient legal protections, and adequate resources, SAIs require stronger investigative powers, enhanced legal safeguards, and more robust information-sharing systems to be effective. Additionally, auditors must navigate the cultural and social contexts their environments, and in some cases, auditing the auditors themselves may be necessary to ensure accountability. What is more, the effectiveness of INTOSAI's initiatives is limited, and there is a need for further research to understand how institutional pressures affect the actions of these organisations in the fight against corruption (Paterson *et al.*, 2019). Paterson *et al.* (2019) believe that the relationship between auditing and corruption remains underexplored, considering the exclusion of corruption from certain audit standards, such as ISA240, highlighting critical gaps in the current auditing framework.

The International Federation of Accountants (IFAC) outlined three main initiatives to combat corruption: (1) Strengthening professional accounting capacity in less developed countries, collaborating with the G20 and the Organisation for Economic Co-operation and Development (OECD) to improve governance, and reviewing Code of Ethics to address concerns related to non-compliance with laws and regulations, such as corruption. (2) Encouraging greater transparency in government accounting i.e. IPSAS through initiatives like 'Accountability Now'. (3) Emphasising that transparency, accountability and serving the public interests as key drivers behind its continued support for international reporting standards and ethical practices. IFAC remains committed to combating corruption, fraud, and bribery. These standards reinforce the profession's role in detecting such misconduct. and empower organisations to prevent it (Jeppesen, 2019).

The Global Reporting Initiative (GRI) defines sustainability reporting as a process that helps organisations identify goals, measure performance, and drive change toward a sustainable economy, one that balances social and environmental responsibility with profitability. It enhances disclosure and transparency. GRI guidelines for anti-corruption include evaluating operations for corruption risks, offering training on anti-corruption policies, and reporting confirmed incidents of corruption and the actions taken in response. Reports based on these guidelines assess the risks of corruption, evaluate the effectiveness of internal controls, and outline measures to detect corruption, including codes of ethics,

fraud prevention, conflict of interest policies, gift limitations, and employee training (Sneidere and Vigante, 2014).

The strength of professional accounting and government institutions can affect the quality of the accounting system in a country. Institutional pressures from reputable accounting organisations and government agencies, along with the educational benefits of participating in professional activities and compliance programs, can encourage the adoption of advanced accounting practices and improve transparency. Similarly, a robust central government and independent monitoring bodies, e.g. SAIs, anti-fraud agencies, and ombudsman offices, tend to hold decentralised governments accountable by demanding detailed financial information (Changwony and Paterson, 2019). The following last sub-section will explore the role of New Public Management (NPM) on the battle against corruption.

2.3.2.7 New Public Management (NPM) and Decentralisation

To fight systemic corruption, governments in both developed and developing countries have applied several public financial management reforms to enhance financial controls, reporting, accountability, transparency, and governance. A key component of these reforms is the introduction of New Public Management (NPM), in which accounting plays a crucial role in resource monitoring through auditing and regulatory disclosure (Paterson *et al.*, 2019). NPM emphasises efficiency, effectiveness, and responsiveness to citizens, viewing them as customers, and evaluates public service based on market principles such as competitiveness and customer satisfaction (Lassou *et al.*, 2021). However, public policymakers implementing NPM mechanisms to enhance accountability and fight fraud and corruption should focus on three key aspects. First aspect, the cultural context and costs of reforms should be evaluated before applying new accounting systems. Second aspect, consulting academic research on adopting new reporting systems and other NPM policies. Third aspect, the powers of local politicians should be regulated to prevent them from undermining accounting and auditing efforts aimed at improving transparency and governance (Harun *et al.*, 2019).

In the 1970s and 1980s, several Western countries have implemented NPM systems, introducing private-sector practices into government operations, such as decentralisation, local management discretion, and performance evaluations focused on outputs (Lassou *et al.*, 2021, p.4). Thereby, much of the research has emphasised the usage of NPM by Western countries to centralise public services and promote private sector involvement (Paterson *et al.*, 2019). Moreover, previous research highlights the interconnectedness of NPM techniques and observes that weak financial reporting can undermine citizen oversight, thereby reducing the benefits of decentralisation (Changwony and Paterson, 2019).

Over the past thirty years, public sector accounting reforms have promoted the application of NPM practices within the public sector (McLeod and Harun, 2014, p.238). Accounting is considered a key component of NPM development, serving as a primary tool for monitoring and an important deterrent to corruption. A robust accounting system is essential for constructing the accountability framework of a country (Everett *et al*., 2007) and creating its local integrity system. For this reason, international organisations such as the World Bank, IMF, and IFAC encourage adopting high-quality accounting practices, including transitioning from cash-based to accrual-based accounting, as mentioned earlier. This shift is based on the idea that accrual accounting provides more reliable financial information and greater transparency, enhancing financial and political accountability in decentralised government units (Changwony and Paterson, 2019; Ferry and Lehman, 2018). Accounting and financial control systems, including budget devolution, are vital to monitoring performance and uncovering inefficiencies or unethical behaviours (Lassou *et al.*, 2021, p.4).

Although various elements, including political, institutional and cultural contexts, influence the success of NPM reforms, these factors are unique to each country and, in turn, shape the relationship between accounting reforms and decentralisation (Harun *et al.*, 2019). However, despite that the NPM reforms can enhance local government independence and improve auditing functions, they have several disadvantages. This occurs because local elites often act in their interests, weakening internal audits, and allowing corruption to persist (Harun *et al.*, 2019). Critics argue that reforms should focus on greater local empowerment, allowing civil servants and communities to take control (Lassou *et al.*, 2021).

NPM often involves decentralising managerial responsibilities, delegating budgetary systems, and contracting out services to external agents responsible for managing public funds. Although these measures can empower managers, they can also increase the risk of conflicts of interest and corruption (Paterson *et al.*, 2019). Decentralisation, which transfers power and responsibility for public services from central to local governments, aims to enhance governance through greater consultation and monitoring at local levels (Changwony and Paterson, 2019). It has been supported as a primary anti-corruption strategy by several organisations, such as the World Bank, especially in developing countries (Changwony and Paterson, 2019). Both accounting and decentralisation, analysed separately or together, are generally correlated to curb corruption (Changwony and Paterson, 2019). Decentralising power requires robust accounting and auditing systems to restrict the ability of local officials to undermine transparency, governance, and anti-corruption efforts (Changwony and Paterson, 2019; Harun *et al.*, 2019). In other words, decentralisation restricts corruption more efficiently in countries with high-quality or robust accounting systems, and vice versa. This sheds light on the importance of accounting in enhancing the ability of decentralisation to provide oversight and reduce corruption (Changwony and Paterson, 2019; Harun *et al.*, 2019).

Decentralisation has been widely researched, but the findings remain inconsistent (Gans-Morse *et al*., 2018). Although, in theory, decentralisation can assist in curbing corruption by promoting competition between jurisdictions (Gans-Morse *et al*., 2018), less attention has been given to the decentralisation of public services, where responsibility is shifted from central to local or regional governments (Paterson *et al.*, 2019). If citizens are unsatisfied with the services of corrupt officials in a certain area, they can move to another. It may also make it easier to hold local officials accountable rather than national ones (Gans-Morse *et al.*, 2018).

In conclusion, this chapter highlights and reviews seven key factors that discuss the primary accounting and auditing mechanisms expected to curb corruption, based on the SLR. These factors were manually created and developed by the researcher using NVivo software during the review of the selected articles and were specifically designed to address the research question of this chapter: How can accounting and auditing affect corruption?

Limitation:

Despite its strengths, this SLR, conducted using the Scopus database and limited to articles published in Q1 and Q2 journals, provides a high-quality and credible understanding of the relationship between corruption and accounting. However, it also presents several limitations.

First, the analysis of journal articles in the fields of accounting and corruption reveals significant opportunities for improvement in how literature reviews are conducted and presented within accounting research. This SLR adopts the framework outlined by Sauer & Seuring (2023) and Hardies *et al.* (2024), which assists accounting scholars in conducting and reporting high-quality SLRs. Enhancing the quality of literature reviews in accounting has the potential to significantly increase their value and impact (Hardies *et al.*, 2024). What is more, assessing the quality of the methodology used in the SLR process is more challenging than evaluating the articles reviewed.

Second, this review focuses on published English-language articles related to accounting and corruption. Such an emphasis on peer-reviewed publications in English may introduce language and publication bias, potentially overlooking relevant research published in other languages or within local contexts.

Third, the research strategy of this chapter did not capture all literature reviews related to accounting and corruption topics. It focused solely on articles published in Q1 and Q2 journals indexed in the Scopus from 2000 to 2023. Consequently, by restricting the analysis to top-tier journals, the review may have excluded valuable insights from studies published in lower-tier journals, working papers, or grey literature. This limitation could reduce the diversity of perspectives, especially those from developing countries, where corruption challenges and accounting practices may differ significantly from those published in higher-ranked journals.

Future Research

Despite the limitations of this chapter, several studies highlight that certain accounting tools can play an important role in constraining corruption. However, a more focused analytical lens on specific dimensions of corruption such as fraud, bribery, embezzlement, or financial misreporting, would allow more precise evaluation of the anti-corruption role of accounting. Future research should address these conceptual gaps and explore the dynamic interplay between regulatory enforcement, institutional quality, and accounting reforms.

Future research could also broaden the inclusion criteria to provide a more comprehensive overview of accounting or auditing and various forms of corruption, offering a clearer picture of the SLR landscape in these areas. Further research using the SLR methodology can focus on other topics related to accounting, auditing, corruption, or other unethical practices. Areas of exploring may include: the relationship between auditing and fraud or fraud detection; the association between accounting and auditing, and tax evasion; the evaluation of corruption and fraud cases; educating and training accounting students on issues related to corruption and fraud; the link between corporate governance (CG) and corruption, fraud, or bribery; fraud risk assessment; and other unethical ethics such as money laundreing, bribery, and nepotism.

In addition, several scholars referenced in this SLR have suggested directions for further research on various topics, both during the review process and after analysing the selected articles. For instance, El-Helaly *et al.* (2020) called for exploring the impact of corruption on the adoption of IPSAS and IFRS for small and medium enterprises (SMEs), aiming to provide new insights into how corruption influences the accounting environment and how financial reporting regulations can shape the perception of corruption in different countries. Khalil *et al.* (2015) also proposed investigating whether the likelihood and magnitude of bribery change following the adoption of financial reporting standards and/or changes in the litigation environment surrounding audit firms, and whether these effects differ between Big Four and non-Big Four audit firms. Farooq and Shehata (2018) suggested examining the association between auditing and corruption when the financial reports are audited for the first time. Another clear research opportunity suggested by Jeppesen (2019) is to determine whether an expectation gap exists between public and private sector users of financial reports and auditors concering the auditors' role in detecting, preventing and

reporting corruption. In addition, another avenue for future research suggested by Ruan and Zhang (2021) is examining the effect of ownership structure on the relationship between firm-level alleged bribery and the choice of auditors, as well as how audit firms respond to lawsuits involving clients accused to bribery.

2.4 Conclusion

This chapter examines the impact of accounting and auditing on corruption by employing an SLR methodology to compile and analyse the existing body of knowledge linking accounting practices to corruption. Following the SLR protocol suggested by Sauer and Seuring (2023) and Hardies *et al.* (2024), this review applies a well-established six-step process: (1) formulating the research question, (2) determining the criteria and characteristics of the relevant studies, (3) selecting an appropriate sample of literature, (4) choosing the related literature, (5) synthesising the information, and (6) presenting the findings. A seventh step is suggested by Hardies *et al.* (2024) to discuss the implications and limitations of the SLR. Adhering to these guidelines improves the rigour and robustness of review papers, thereby enhancing their contribution to the accounting and corruption fields (Sauer and Seuring, 2023).

After carefully analysing a sample of fifty-eight peer-reviewed articles using NVivo software, the findings indicate that accounting practices and financial reporting are central to transparent governance. Research has stated that several accounting factors tend to curb corruption, which the researcher has highlighted and developed manually. These factors include well-developed or international accounting standards, accounting education and the accounting profession, internal auditors and internal control, external auditors and audit firms, the quality of accounting and auditing systems, accounting and audit organisations and new public management and decentralisation. For instance, high-quality accounting standards assist in mitigating corruption by ensuring that financial transactions are accurately recorded, making it more difficult for corrupt practices to go undetected (Khalil *et al.*, 2015; Malagueño *et al.*, 2010). International accounting standards, such as the International Financial Reporting Standards (IFRS), boost consistency, comparability, and transparency in financial reporting and decrease the potential for misrepresentation or manipulation of financial information (El-Helaly *et al.*, 2020).

Effective auditing, conducted by independent and well-trained auditors, enhances the credibility of financial statements and provides an additional layer of protection against corruption (Everett *et al.*, 2007; Jeppesen, 2019). Furthermore, monitoring, encompassing auditing and compliance procedures, is crucial for mitigating corruption risks. However, for auditing to effectively contribute to anti-corruption efforts, it must be intentionally integrated into broader governance and oversight structures. In addition, accounting and auditing organisations, such as the Supreme Audit Institutions (SAIs), the International Organisation of Supreme Audit Institutions (INTOSAI), the International Federation of Accountants (IFAC) and the Global Reporting Initiative (GRI) play critical roles in strengthening accounting and auditing and fighting corruption. Quality accounting standards ensure transparency in economic transactions, thereby limiting the risk of unethical or illegal practices. Moreover, although the NPM system is useful in the fight against corruption, public policymakers should consider three main factors before applying it: the cultural context, academic consultation, and limit the powers of local politicians. In general, the most effective and commonly mentioned measures in the SLR are the application of robust accounting and auditing standards, followed by the work of internal and external auditors.

Moreover, the literature reveals a clear distinction between the roles of internal and external auditors in curbing corruption. Studies on internal auditors, such as Abdul-Bakri *et al.,* 2019, show how they can become complicit in corruption, especially in environments where it is institutionalised. These contradictions highlight that audit effectiveness depends mainly on the environment. In contrast, external auditors, especially top-tier firms, are generally found to restrict bribery and signal transparency (Duh *et al*., 2020; Farooq & Shehata, 2018; Khalil *et al.,* 2015). Although external audit tends to be more effective in high-governance contexts, internal audit may be undermined by systemic pressures. A more critical approach should emphasise the interaction between audit roles and the broader institutional setting.

In general, this chapter identifies several accounting-related mechanisms, such as accounting and auditing standards, internal and external auditor roles, accounting education, and professional institutions, as critical tools in mitigating corruption. The SLR establishes accounting as a central governance mechanism and highlights recurring calls in the literature for more empirical research into how accounting and other governance indicators interact with corruption across different institutional settings. The next stage of this research extends the analysis by examining the relationship between protecting minority investors (PMI) and corruption, with accounting included as a control variable. Accounting plays a key role in generating transparent and accurate financial reports that inform decision-makers about the financial situation and position of the company or country, helping to reduce corruption and manipulation. While existing literature often focuses primarily on the role of accounting in supporting institutional integrity, less attention has been given to how these mechanisms interact with investor protection, especially for minority investors. This highlights a notable gap, as investors rely heavily on accurate and reliable financial information to guide their decisions, and corruption can undermine this trust, potentially discouraging investment in corrupt countries or companies. Minority investors are particularly vulnerable in environments where their interests may be disregarded or subject to manipulation. Therefore, PMI is essential for enhancing market confidence and strengthening the broader anti-corruption framework within financial systems.

Chapter Three. The Effect of Protecting Minority Investors on Corruption: A Cross-Country Analysis

3.1 Introduction

The previous chapter presents a systematic literature review (SLR) that examines the relationship between accounting, auditing, and corruption. It considers accounting and auditing as key governance tools in the fight against corruption, highlights gaps in empirical research, and calls for broader exploration of governance mechanisms. This chapter builds on this foundation by shifting the focus to the protection of minority investors (PMI) as a less-explored governance factor influencing corruption. However, although accounting is not the main variable in this chapter, it is one of the control variables, which tend to expand the empirical investigation to other governance dimensions identified as gaps in the literature. Therefore, this chapter extends the discussion by empirically examining the protection of minority investors (PMI) and its influence on corruption using two types of corruption: perceived and experienced corruption. This methodological choice ensures that the influence of PMI is not conflated with the well-documented impact of accounting on corruption, as highlighted in Chapter two.

The shift in focus from accounting to PMI is intentional and theoretically grounded. One of the main contributions of the previous chapter is the identification of underexplored governance tools in the corruption literature. PMI is one such mechanism that, although acknowledged in corporate governance research, has not been robustly examined in country-level corruption literature. This chapter, therefore, responds to this identified gap by focusing on PMI as a key explanatory variable, thereby complementing the findings of Chapter Two rather than diverging from them.

In general, despite theoretical and empirical work suggesting a link between increased investor protection and the control of corruption (Wu, 2005a, p.154), existing studies often overlook the possibility of a reverse relationship, or the use of alternative measures of corruption. This chapter is motivated by, and builds upon, the literature on the protection of minority investors (PMI) and corruption. It is expected to contribute significantly to cross-country research and to the broader literature on corruption and bribery by enhancing understanding of their underlying dynamics and implications.

Prior literature has typically relied on a single measure of corruption, such as Transparency International's corruption perception index (CPI), often over a limited time period, frequently one year, which may constrain the depth and robustness of the findings (Wu, 2005a; Zarb, 2011). Most studies focus on perception-based indicators, highlighting the need to incorporate alternative measures to validate and strengthen results. Several scholars have emphasized the importance of using multiple indicators of corruption, rather than relying exclusively on expert-based indices, such as the CPI (Changwony and Paterson, 2019, p.17). Khalil *et al.* (2015) believe that while earlier studies predominantly used country-level, expert-assessed measures, more recent research has begun to examine corruption through firm-level bribery data, sourced from organisations such as the World Bank (Khalil *et al.*, 2015). In line with this shift, Zarb (2011, p.114) has called for further studies that utilise diverse corruption metrics and broader set of independent variables. These considerations have all been considered in the present study.

Exploring the effect of PMI on corruption is vital in understanding how legal and institutional frameworks can affect the prevalence of corruption in corporate governance. This is because minority investors often face significant risks of exploitation and unfair treatment, especially in weak corporate governance environments. By examining the impact of PMI on corruption, this chapter aims to demonstrate how such safeguards can enhance transparency, limit opportunities for corrupt practices, and ultimately foster a more equitable business environment. In doing so, the study aims to offer valuable insights into the mechanisms that can help mitigate corruption, foster greater trust in the market, and boost economic stability, especially in emerging markets, where corruption poses a significant barrier to development. Understanding these dynamics is essential for shaping policies, encouraging ethical business practices, and attracting sustainable foreign investment. Therefore, the main research question is:

To what extent does the protection of minority investors affect corruption across countries?

Using various theories, this chapter aims to investigate the protection of minority investors as a key factor in reducing corruption at a macroeconomic level. It includes several control variables, such as the strength of accounting standards, the logarithm of GDP, the logarithm of openness and democracy. A cross-sectional dataset has been constructed, comprising a sample of up to 185 countries, using data from various sources, including the World Bank's Worldwide Development Indicators, the World Bank's Worldwide Governance Indicators, the World Bank's Enterprise Surveys, the Global Competitiveness Index (World Economic Forum), and Transparency International. This approach allows for the inclusion of a larger sample of countries and facilitates the examination of a broad range of variables (see Table 4.1) over an extended period (2006-2018). The analysis has been expanded to include dummy variables for OECD countries, Latin American and Caribbean, and sub-Saharan Africa. Furthermore, an Ordinary least square (OLS) regression module with years fixed effect has been used in this chapter.

The findings reveal a surprising and statistaically significant contrast: while the association between PMI and perceived corruption is negative, the relationship between PMI and experienced corruption and bribes is positive. This suggests that in countries where weaker investor protection, individual tend to perceive higher levels of corruption, even though actual experiences of corruption, such as paying bribes, may be reported less frequently. This correlation is consistent with agency theory and several studies (e.g. Houqe and Monem, 2016; Wu, 2005a). Agency theory asserts that effective CG and the accounting environment improve company performance and solve problems related to conflicts of interest and corruption.

On the contrary, the percentage of informal payments or gift requests during public transactions (Bribery Index), as well as the proportion of firms that experienced at least one bribe request (Bribery Incidence), are positively and significantly associated with PMI. This suggests that higher levels of minority investor protection are linked to increased rates of bribery and experienced corruption. This relationship may be explained by several theoretical frameworks, including managerial hegemony theory, stewardship theory, the hidden cost of bribery theory and the coordination game and bribery theory. The first couple of theories indicate that giving bribes could be a strategy managers use to protect minority investors and increase their wealth. In addition, a possible hidden cost of past bribery experience could be the difficulty of rejecting such payment in the future. Coordination game and bribery theory states that some companies might be involved in illegal bribe action to survive or avoid the penalty of not paying bribes, especially in less-developed countries. In addition, advanced auditing and reporting standards tend to reduce both perceived and experienced corruption and bribery, consistent with findings from several previous studies (e.g. Houqe and Monem, 2016) and in line with agency theory.

It is of paramount importance to better understand the linkage between protecting minority investors and corruption to reach a more balanced approach to bribes and corruption and help governments, policymakers, corporate management, academics and others in controlling corruption. Therefore, the study has several key implications. First, while prior research suggests that investors protection can reduce perceived corruption (Houqe and Monem, 2016; Wu, 2005a), supporting the view that effective corporate governance mechanisms help break the cycle of corruption and bribery (Wu, 2005a), this study finds that strong minority investors protection does not necessarily indicate the presence of a robust governance and monitoring system. This suggests a need for countries to go beyond legal protections and invest in the actual implementation of strong governance mechanisms, including enhanced monitoring systems, effective internal controls, greater government effectiveness, and improved regulatory quality. In particular, strengthening the enforcement of laws, improving accounting quality and disclosure, and adopting rigorous auditing and reporting standards can serve as ‘bond mechanisms’ to help control corruption.

Second, the results indicate that the rule of law moderates the positive relationship between minority investors protection (PMI) and experienced corruption and bribes. This implies that in countries with a strong rule of law, increased investor protection may paradoxically be associated with higher levels of bribery, perhaps due to the misalignment between legal provisions and actual enforcement.

Third, the study contributes to the literature by employing multiple corruption metrics. The findings reveal that while PMI is associated with lower perceived corruption, it tends to be linked to higher levels of experienced corruption and bribery. Moreover, as mentioned previously, the rule of law moderates these relationships.

This study is expected to contribute to the development of policies aimed at enhancing transparency, accountability, and fairness in business environments. The findings will offer practical insights into how strengthening minority investor protections can safeguard interests, restrict corruption, and ultimately lead to healthier financial markets, improved governance structures, and more attractive investment climates. Additionally, this chapter contributes to the broader discourse on corporate governance and the fight against corruption, providing a foundation for policy recommendations that can promote sustainable economic growth and strengthen institutional integrity.

This chapter is organised as follows: an introduction, a background on protecting minority investors and corruption; corporate governance theories, an empirical literature review, followed by the methodology and discussion of the results, and the conclusion, which includes a discussion of potential research limitations and offers suggestions for future research directions.

3.2 Protecting Minority Shareholders and Corruption

Since the Asian financial crisis of the late 1990s, followed by high-profile corporate scandals of Enron, WorldCom and Tyco, the lack of corporate governance (CG), disclosure and transparency measures have been cited as a key factor contributing to multiple financial crises (Zarb, 2011, p.106). Consequently, effective corporate governance, supported by robust disclosure and transparency practices, has become essential for reducing information asymmetry between shareholders and management, enhancing the quality of financial performance, and attracting and protecting investors, particularly foreign and minority shareholders. These measures help to build investor confidence, reduce the scope for corruption (Gregory and Simms, 1999; Wu, 2005a) and prevent fraud and manipulations practices (Alghamdi, 2012; Marai *et al*., 2016). In other words, in light of corporate scandals, investors, particularly minority investors, have become more conscious of the possibility of corporate managers acting in an unethical manner to protect their own interests instead of safeguarding the interests of shareholders. Therefore, many minority investors have requested that ethical measures be introduced to ensure high ethical standards in companies. Otherwise, disgruntled minority investors will invest their resources in ethical companies instead of unethical companies.

CG is a concept that requires both external (country-level) and internal (company-level) mechanisms to protect the rights of all investors and other stakeholders and to advise and monitor management. Prior literature argues that effective and sound CG mechanisms, at both company and country levels, can contribute effectively to enhancing the level of protecting minority investors (La porta *et al*., 2000; Agyemang *et al.*, 2019b) by decreasing agency costs (Agyemang *et al*., 2019b). These country-level governance mechanisms include accounting standards, the level of investor protection and confidence, the standards of ethical behaviour, the regulations of securities exchange and the efficacy of the corporate boards of companies. The high level of these country-level governance structures may allow minority investors to monitor companies' operations directly at a lower cost and restrict the powers of majority investors.

The protection of investors rights is considered a key pillar of the CG framework, as the enterprise's reputation is enhanced when the interests of minority investors are protected under strong governance measures. This means that ethically responsible companies are more likely to safeguard the rights of minority investors (Agyemang *et al*., 2019b). Some developing nations with poor governance structures, might fail to protect minority investors which might cause a decrease in capital inflows. This is because it is less likely for investors and fund managers to invest in countries with poor CG standards (Agyemang *et al.,* 2019b). Also, controlling shareholders and corporate managers can undermine the rights of minority investors through fraudulent extractive actions. This is because minority investors have limited ability to protect themselves and their rights against abuse by majority investors or corporate managers. However, although companies are required to protect the interests of all investors, majority investors might affect corporate decisions and, therefore, could have more than their fair proportion of the company profits.

According to Holzhacker *et al.* (2015), the participation of minority or external investors in key decision-making processes is often limited, and they frequently find themselves at a disadvantage in shareholder voting outcomes. For example, when selecting directors, controlling investors often choose board members based on their own interests, while external and minority investors are rarely involved in this process. In consequence, the limited participation of external investors results in a reduced role in the corporate monitoring system. Moreover, their rights to actively participate in and monitor management,as well as internal investors, are often restricted. This lack of oversight, coupled with inadequate regulations, contribute to a higher incidence of bribery. Hence, the CG institutional framework regarding investor rights is important in creating a better accountability system and restricting bribery activities. This is because stronger protection of investors' rights leads to lower levels of corruption (Holzhacker *et al.*, 2015).

Corruption affects countries negatively around the world, particularly countries with weak institutions (World Economic Forum) and tends to increase the cost of business by 10% (Jeppesen, 2019, p.1). Moreover, wealthier individuals are more likely to pay a lower proportion of their income in bribes compared to those with lower income (Changwony and Paterson, 2019, p.1). For instance, high-income households pay 6.4% of their income in bribes, while the poor pay 12.6% in Paraguay. The comparable numbers are 3.8% and 13%, respectively, in Sierra Leone (World Bank, 2018; Marjerison & Gatto, 2023, P.5627). Consequently, there is a need to improve CG, transparency and the accounting environment to fight corruption.

Many scholars hold a negative view of corruption, often desciping it as 'sand in the wheels of commerce'. This metaphor highlights how corruption leads to the wasteful use of resources, not only through corrupt practices themselves but also through the efforts required to decet, prevent, and combat it. Such resources could be allocated more profitably and efficiently in other areas (Kaufmann, 1997). In other words, corruption also results in inefficient resources allocation towards areas more prone to bribe payment (Cuervo-Cazurra, 2006). Moreover, the payment of a bribe does not ensure that the promised goods are delivered. Investors do not have recourse in the courts to demand fulfilment of the agreement, as bribery is illegal. Even when the bribe fulfils the promise, the firm faces increased costs (Shleifer and Vishny, 1993). An official may delay or withhold permit approval until a bribe is paid, thus increasing the cost to the firm. Moreover, government officials have an incentive to create additional regulations with the sole purpose of generating an opportunity for more bribes (De Soto, 1989).

The incidence of bribery tends to be reduced as a result of the accountability of the corporate boards to the stockholders, particularly external shareholders. This is because a competent and independent corporate board that genuinely represents investors' interests can help prevent opportunistic behaviour by managers and controlling stockholders (Agyemang *et al.*, 2019a, P.534)**.** However, although the level of corruption in a country, as a form of agency cost, tends to relate negatively to the investor protection level (Houqe and Monem, 2016), this chapter approves that the stronger level of protection for minority shareholders resulted in a lower level of perceived corruption but a higher level of experienced corruption and bribes.

There has been debate and a great deal of research regarding the causes of corruption in recent decades, which could be driven by increasing awareness that corruption is not just a moral issue but also a significant obstacle to growth and development in considerable parts of the world (Aidt *et al.*, 2020). The empirical literature generally categorised corruption into two main streams: weak government systems and illegal activites such as bribery (Andersen *et al*., 2017). It also highlights that perceived corruption and actual (experienced) corruption are related in a complex manner. While perveived corruption can exist without corresponding instances of actual corruption, acual corruption tends to shape and reinforce public perceptions (Houqe and Monem, 2016).

On the one hand, a business bribe is a corrupt act in which payment or another form of inducement is included and not required by law. The company pays it to influence the public official, whether a politician or a bureaucrat, in the execution of their official duties, typically to secure a favour or to facilitate an illegal request (Malesky *et al.*, 2020; Sanyal and Samanta, 2020). Such actions include creating entry barriers, such as import protection or monopoly licences, expediting slow bureaucratic procedures, and reducing waiting times, each of which tends to enhance the company's benefits and, consequently, its value (Ramdani and van Witteloostuijn, 2012). In addition, bribery is deleterious to public welfare, and the more entities paying bribes for a contract or permit, the less attractive it is for new entities to join this battle, all else being equal (Malesky *et al.*, 2020). This is because bribery increases uncertainty and the costs of doing business (Binhadab *et al.*, 2018; Sanyal and Samanta, 2020), restricts economic growth (Maruo, 1995; Sanyal and Samanta, 2020), reduces tax revenues (Alm *et al*., 2016), misallocates resources and erodes respect for the rule of law (Sanyal and Samanta, 2020).

On the other hand, researchers following a social norm perspective believe that companies pay bribes to acclimatise to the business environment. In such a situation, the bribery battle is about conformity, where companies try to survive rather than to win. Consequently, the greater the number of firms paying bribes, the more pressure is put on the next firm to do the same. These two perspectives provide conflicting insights into the relationship between market competition and bribery at a firm level and confusing advice to policymakers and practitioners seeking anti-corruption reforms. Moreover, the rent-seeking view is more relevant in closed-market competition contexts, where extraordinary profits are available (Malesky *et al.*, 2020).

As mentioned in the previous chapter, corruption is not publicly reported in official reports and statistics due to its hidden nature and legal penalties (Aidt *et al.*, 2020). Therefore, financial auditors believe it is better to classify corruption as 'non-compliance with laws and regulations' and, thus, exclude it from the definition of fraud. The International Federation of Accountants (IFAC) supports this argument. It defines corruption as non-compliance with laws rather than fraud, which falls under police investigation and accountants' ethical issues in the business environment (Jeppesen, 2019). This is because corruption leaves no errors or material evidence in financial statements for the auditors to examine (Jeppesen, 2019). However, any non-compliance should encourage the auditor to understand the situation more fully, discuss the issue with the directors and evaluate the need for further action based on the discussion. Further action may include disclosing the issue to relevant authorities without this being considered a breach of confidentiality obligations.

3.3 Theoretical Framework of Corporate Governance

Companies worldwide need efficiency, transparency and accountability to attract funding from potential investors. This is because stakeholders and investors want to ensure that the company is effectively managed, financially sound, and will continue to be profitable and yield greater returns before investing in it. Therefore, observing and analysing the published annual statements and reports of companies, which are prepared and revised under national or international accounting standards, is essential to give a comprehensive picture of the performance of the company, particularly if these reports are audited and analysed by independent external auditors. However, despite the important role of companies' annual reports, many high-profile corporate failures remain suprising, costly, widespread, and multifaceted, often resulting in serve adverse outcomes. Therefore, effective corporate governance (CG) can play a crucial role in preventing such corporate failures and in restoring shareholder confidence (Abid *et al.*, 2014).

CG is a set of arrangements through which companies are controlled and directed (Abid *et al.*, 2014). It identifies the rights and responsibilities of various participants in the company and outlines the rules and procedures for decision-making in corporate affairs (Wu, 2005a). Prior literature has consistently indicated that efficient CG promotes the effective use of resources and enhances a country's attractiveness to both foreign and domestic investors, thereby supporting economic development. It also stregthens economic sustainability, drives institutional reforms and contributes to the long-term prospects for sustainable national development. Conversely, weak CG can undermine efforts toward improvement and development (Krishnamurthy *et al.*, 2012).

The World Bank has emphasised the importance of developing CG as a monitoring system, particularly in emerging economies with a focus on regulatory quality, accountability, the rule of law, government effectiveness, political stability, and corruption control (Al Farooque *et al*., 2009) to facilitate the detection of bribes and illegal payments (Houqe and Monem, 2013). Transparency International (TI) also suggested that effective CG reform is a vital component of corporate efforts to address corrupt actions. Studies show that sound CG systems have a positive impact on anti-corruption initiatives implemented by governments to curb corruption and bribery across various organisations. Such initiatives improve the investment climate, government effectiveness and political stability (ibid). In summary, several scholars believe that strong CG enhances the efficient allocation of economic resources, supporting economic growth. It also improves auditing practices, promotes transparency, strengthens investors and stakeholder confidence, and enhances monitoring mechanisms, political stability, and government effectiveness. Strong CG can also enhance shareholder value (Holzhacker *et al.*, 2015), strengthen business sustainability (Wan Yusoff and Alhaji, 2012) and the effectiveness of the world economy. Consequently, sound CG tends to facilitate the detection of corrupt acts and create a sustainable society (Holzhacker *et al.*, 2015).

Several theories link CG to the protection of minority investors, and it is possible to establish a theoretical connection between investor protection and corruption, such as agency theory, stewardship theory, stakeholder theory, managerial hegemony theory and institutional theory. These theories address core governance concerns such as conflicts of interest, managerial accountability, and institutional influences. The relevance of these theories is influenced by the governance environment, which varies across countries due to distinct cultural, political, and economic contexts (Wan Yusoff & Alhaji, 2012). Several theories have emerged to explain the dynamics of the relationship between directors and investors, thereby deepening the understanding of CG mechanisms (Afza & Nazir, 2014). The coming sub-titles explain the theories used in this study:

3.3.1 Agency Theory

Agency theory states that people are self-interested and cannot be trusted to act in the best interests of others unless a strong CG structure and reliable accounting standards are applied (Ramdani and van Witteloostuijn, 2012). It might account for the fact that in the modern corporate system, many companies are experiencing corruption even though the disadvantages of bribery may outweigh the advantages (Wu, 2005a). Agency theory illustrates the non-alignment relationship between principals and their agents due to different goals, interests and attitudes to risks and information asymmetries, resulting in additional costs to the company and a decrease in the company performance, eroding the profits of the companies and their stockholders.

Hence, the separation of control and ownership generates agency problems due to two main reasons: (1) both parties may well pursue different targets, as the owner aim to maximise the value of the company by reaching an outstanding company performance, whereas the managers aims to maximise their private gains, creating conflicts between the two ends (Ramdani and van Witteloostuijn, 2012). Therefore, bribery may provide the managers with cashing opportunities within a short time, leaving the future potential costs and risks to the shareholders or owners (Wu, 2005a); (2) asymmetric information between managers and owners and costly monitoring system through which the principal tends to check the work of managers. In such situations, the company value is expected to be below expectations than when the owner acts as the manager (Ramdani and van Witteloostuijn, 2012).

Despite the typical agency issue between managers and owners, another important issue is the conflict between minority versus majority investors or principal–principal conflicts, arising from the divergence of objectives and interests between them. The inside majority investors are typically family owners who can easily exploit enterprise resources for bribery through their control rights. Their control rights tend to allow them to control top managers and access financial reports and other important information. On the contrary, external investors cannot be engaged in such actions as they do not have access to all the relevant information nor have enough control rights to control these activities. Moreover, the participation of minority investors in key decision-making processes is restricted (Holzhacker *et al.*, 2015).

Sound and effective country-level CG mechanisms tend to reduce agency problems between either management and minority investors or between majority investors and minority investors, which, therefore, help to protect minority investors. Consequently, as better country-level governance mechanisms tend to provide equal treatment for all shareholders across business organisations, the participation of minority shareholders in corporate decisions is increasing (Agyemang *et al.*, 2019b). In summary, CG can reduce agency costs and conflicts between shareholders and managers (Turnbull, 1997; Alghamdi, 2012; Beekes *et al*. 2015), thereby improving the quality of financial reporting (Alghamdi, 2012) and market performance.

Agency theory supports the use of various mechanisms to enhance monitoring, strengthen management systems, and promote fair decision-making, in order to protect stockholders' interests. For instance, corporate boards must have independent directors and avoid CEO duality (Afza and Nazir, 2014). Another key mechanism to solve agency issues could be increasing the equity ownership of the manager, as the interests will converge, which leads to resolving the conflicts between shareholders and managers. Also, increasing ownership concentration is considered an important mechanism. This is because when a company has many small shareholders, monitoring becomes difficult as small shareholders tend to rely on other shareholders and assume that they perform efficient monitoring, so they will not monitor (Ramdani and van Witteloostuijn, 2012). On the contrary, the larger owners in an enterprise with a concentrated ownership structure typically have (1) more capability to absorb monitoring costs, (2) more incentive to monitor managers, and (3) stronger power to enforce their interests (Ramdani and van Witteloostuijn, 2012).

However, according to Wu (2005a), several theories underline the relationship between CG and corruption, such as the principle-agent problem, the hidden cost of bribery theory, and bribery theory and the coordination game and bribery. As mentioned previously, the principal-agent problem or agency theory, occurs when there is a separation between those who control the company, 'the agents', and those who own the company, 'the principals', and the interests of these two parties are incompatible (Wu, 2005a).

3.3.2 The Hidden Cost of Bribery Theory

The hidden cost of bribery theory occurs when some government officials have discretionary control of the bribes of companies to public officials. In general, bribes could be used to reduce or avoid taxes, bypass regulations and laws or even block the entry of potential competitors. As a result of companies' bribery activities, future legal and financial risks might be faced by these companies and their directors. Furthermore, companies that deal with corruption may find it difficult to reject future bribery payments and develop long-term competitive advantages (Eddleston *et al.*, 2020). In addition, although bribes can provide immediate advantages to an entrepreneur, such as decreasing some restrictions, bribery could infect and spread over time within a community, causing a new corrupted business environment rich in institutional impediments in the long run, especially in several transition economies. This is due to the ability of their government to use valuable information, resources, and law enforcement. In other words, while some entrepreneurs consider bribes as 'grease money', which can decrease business constraints, others consider bribes as 'sand in the wheels of progress' that amplifies such obstacles (Eddleston *et al.*, 2020). In general, bribery practices have several hidden costs that occur when managers realise that they can generate gains through bribery and courting governmental officials rather than providing better services or products and developing the competitiveness of companies through innovation and investment decisions. Thus, to protect the interests of owners or shareholders, companies should avoid engaging in bribery practices (Wu, 2005a).

3.3.3 The Coordination Game and Bribery Theory

The coordination game and bribery theory states that a company or director initiates several bribery practices to survive or avoid the penalty of not paying the bribes, especially in a society with a high corruption level, where most companies are family-owned businesses that do not face principal-agent problems (Wu, 2005a).

3.3.4 Stewardship Theory

Unlike agency theory, which assumes that directors behave as opportunistic shirkers, stewardship theory replaces the lack of trust in managers with the belief that managers are the stewards of the assets of the company, who desire to achieve high professional standards by improving the performance of the company, protecting and maximising the wealth of both majority and minority stockholders and preserving the market reputations of managers as efficient decision-makers (Afza and Nazir, 2014). In addition, stewardship theory is derived from organisational psychology and sociology (Afza and Nazir, 2014) and states that no conflict of interest exists between the owners and stewards. Stewards, board of directors, and the CEO are motivated to care about the enterprise and act in its best interests rather than their own (Turnbull, 1997; Hung, 1998). In other words, splitting control and ownership is not an issue; the issue is using a positive strategy to manage complex organisations effectively. Consequently, a strong link is anticipated between a company's success and the satisfaction levels of its diverse shareholders, including both majority and minority investors (Turnbull, 1997), with stewards working to manage the conflicts between different beneficiaries and other stakeholders. (Wan Yusoff and Alhaji, 2012).

What is more, to run a company effectively, the following are essentials: commitment, depth of knowledge, access to current operating data and technical expertise (Janosik, 2005). Consequently, CEO duality is preferable, as authority and power are concentrated in a single executive. Hence, this reduces unnecessary bureaucracy and leads towards quicker decision-making and better company economic performance. Unlike independent directors, internal directors in steward theory are expected to have more information regarding the company due to greater access to confidential data (Afza and Nazir, 2014). Furthermore, some directors believe they are considered stewards to reach particular goals. There is a new emphasis on the role of non-executive, independent and outside directors

in governance reforms, such as in the Sarbanes-Oxley Act in 2002, i.e. if a shareholder secures a place on the board, despite the requirement of company law, directors might feel obligated to take the objectives of that individual stockholder into account (Nordberg, 2011).

3.3.5 Stakeholder Theory

In agency and stewardship theories, maximising the wealth of shareholders is paramount, whereas stakeholder theory focuses on wider categories of stakeholders (Abid *et al.*, 2014; Afza and Nazir, 2014). Stakeholder theory states that the corporation is a system of stakeholders (Turnbull, 1997), which includes various types of individuals and wider groups, rather than focusing exclusively on stockholders. It consists of suppliers, majority and minority stockholders, employees, creditors, banks, customers, environmentalists, government, society and others, all of which tend to influence the corporation with their views and decisions (Letting *et al.*, 2012; Alhumoudi, 2016). In some cases, stakeholders might include prospective customers and competitors to increase the business efficiency of the market place (Janosik, 2005). In stakeholder theory, the corporation reflects the interests of stakeholders as a whole, and the evaluation of a company depends on the relationship between the company and its stakeholders. Thus, the goal of the enterprises can be achieved by balancing the potentially conflicting interests of various categories and involving multiple stakeholders in the governing boards (Letting *et al.*, 2012).

Stakeholder theory, as a descriptive theory, describes the nature of a company's business operations and organisational behaviour, the way managers think and manage, the way board members consider and negotiate the interests of corporate stakeholders, and how companies are controlled, managed and directed. From an instrumental perspective, the theory defines the relationship between management and stakeholder and evaluates company performance from this perspective (Hung, 1998). This theory considers the market value of stocks according to public information, considering that maximising shareholders' value is not equal to maximising the enterprise value. In general, the theory is employed to consider a company's business functions by identifying philosophical and moral guidelines for a company's management. It emphasises the need for managers to have broad stakeholder orientations instead of narrow stockholder orientations.

In summary, the company desires to maximise its total wealth value for its implicit and explicit stakeholders. Therefore, it is necessary to enhance the voice of stakeholders and provide incentives to those participants in the company, particularly management and directors, who participate in or control the company internally to satisfy the interests of both critical stakeholders and passive external shareholders (Turnbull, 1997). Stakeholder theory has become more prominent because many scholars have recognised that the activities of a company influence the external environment, requiring accountability of the organisation to a broader audience than merely its shareholders (Letting *et al.*, 2012).

3.3.6 Managerial Hegemony Theory

The key argument of managerial hegemony theory is that management and CEOs dominate the boards of directors, which may lead to passive roles for independent directors and non-executive directors. In other words, modern organisations are operated by a group of professional managers. Supporters of managerial hegemony suggest that organisations will try to use the board as a management tool to support the decisions of experienced managers and exclude the board participation in strategic decisions (Hung, 1998). In such cases, management usually tends to do highly professional work to improve the company's performance and investors' wealth and protection. Moreover, CEOs tend to control the director selection process and, thus, dominate and hinder external directors from making independent judgments within the company, especially if the board wants a continue their appointment. However, the lack of required knowledge and restricted information provided by the management to the board could constrain the governing board in making effective decisions (Hung, 1998).

3.3.7 Institutional Theory

Institutional theory explains the effect of the pressure authorities outside the governing board put on institutions, which leads to restrictions in the actions of the governing board to go beyond the social needs and rules to which each organisation must comply with in order to obtain support and legitimacy, follow taken-for-granted conventions and be restricted by social rules that formed their practice and form. In terms of the context of CG, the governing board is a partially technical tool that is used to reach definite objectives. It

is shaped in reaction to the impacts and restrictions from the outside environment. The primary effects, however, cannot be measured efficiently (Hung, 1998). This indicates that the more efficient and less corrupted the external environment is, the more effective and transparent the institutions and companies are.

Some researchers criticise the theory for presenting an 'over-socialised' picture of organisational behaviour. They also criticise the limited explicit attention to strategic behaviour organisations use in directly reacting to the institutional processes that influence them. This might lead to several internal coordination and control practices becoming institutionalised over time and less likely to respond to the nature and technology of organisational tasks (Hung, 1998).

However, this chapter does not consider other theories commonly used in the CG literature, as they are of limited relevance to the specific focus on corruption and PMI. For example, political theory explores how CG reflects political interests and power struggles, which is broader in scope and does not directly address the mechanisms of PMI. Resource dependency theory focuses on the role of external resources and inter-organisational networks in shaping board structure, which is less applicable when examining internal accountability mechanisms especially related to investor protection. Similarly, legitimacy theory and social contract theory emphasise the need for organisations to align with societal expectations and norms, which are more suited to studies on corporate disclosure, sustainability, or corporate social responsibility, rather than the specific issues of corruption and investor rights. Therefore, these theories are excluded to maintain a focused and theoretically coherent framework.

Other interesting theories that have not been used in this chapter are resource dependency theory, transaction cost theory, political theory, sociological theory and, legitimacy theory. Resource dependency theory explains the relationships between organisations and, in some cases, individuals in terms of resource provision. It suggests that a company requires a range of resources to operate and achieve its goals effectively, which often necessitates the support of directors or board members. This perspective extends beyond the traditional control function emphasised by agency theory (Afza and Nazir, 2014; Wan Yusoff and Alhaji, 2012).

Unlike agency theory, transaction cost theory represents the managerial opportunism and behaviour towards using internal and external business transactions for their self-interests, without focusing on the protection rights of shareholders. Therefore, scholars call for effective CG mechanisms for controlling business activities and the motives behind those activities (Afza and Nazir, 2014). Political theory integrates the political functions of government with the ownership structure of organisations. It advocates for the development of voting systems based on shareholder' rights rather than allowing the purchase of voting power. In contrast, sociological theory shows the socioeconomic role of entities and equitable corporate power distribution in a society (Afza and Nazir, 2014). Eventually, legitimacy theory centres on the concept that a social contract exists between an organisation and society (Wan Yusoff and Alhaji, 2012).

In summary, each theory tends to concentrate on a small portion, and none can perceive the whole view of CG (Wan Yusoff and Alhaji, 2012). CG researchers tend to adopt and modify these theories to fit their targets (Wan Yusoff and Alhaji, 2012). Agency theory emphasises the conflicting interests between the agents and principals and, thus, introduces various governance mechanisms to resolve the potential agency conflict. In contrast, stewardship theory describes a balanced view of the management of organisations and provides evidence that managers and executives desire to make efficient and effective work in the best interest of shareholders (Afza and Nazir, 2014; Wan Yusoff and Alhaji, 2012). Agency and stewardship theories narrowed the concept of CG to only two groups, so stakeholder theory is noteworthy because it explains that management has responsibilities to all company stakeholders, not only towards investors (Afza and Nazir, 2014). Stakeholder theory and institutional theory are sociological paradigms, which are used basically to explain the interaction between organisations and their environments (Wan Yusoff and Alhaji, 2012). On the contrary, managerial hegemony theory, similar to agency theory, focuses on the modern trend of the dominance of management-based organisations and states that actual power and decision making processes rest in the hands of managers of the enterprise (Wan Yusoff and Alhaji, 2012).

3.4 Prior Studies and Hypotheses Development

The literature review is motivated by and builds upon corporate governance, particularly protecting minority investors and corruption literature. Although globalisation can facilitate the convergence of CG to international standards, the globalisation era tends to increase the competition for inefficient local companies. For this reason, companies may consider paying bribes to survive. In addition, while multinational companies are more likely to create a significant impact in improving the international business environment, some of these companies are involved in high-profile corporate bribery scandals, such as Siemens in Singapore, IBM in Argentina and Xerox in India (Wu, 2005a, p.152). Some enterprises might use bribery as a marketing strategy to enter some developing markets. Furthermore, the Bribe Payers Index produced by Transparency International shows that several companies from leading exporting nations tend to gain unfair advantages over their competitors by paying bribes in foreign countries, thereby undermining the effectiveness of international anti-corruption efforts (Wu, 2005a). Conversely, nations with effective corporate governance (CG) mechanisms are less likely to engage in bribery when exporting goods or services to other countries (ibid). However, according to Gregory and Simms, (1999, p.5) even though efficient governance might not always prevent corruption, it could help discover corruption or avoid it.

The financial crisis that began in East Asia, later expanded its impact across other developing regions, governments and policymakers have learned that several techniques could restore the confidence among stakeholders, such as improving capital market regulations, transparency, investor protection, and board efficiency (Gregory and Simms, 1999, p.1). Consequently, restricting bribes and fraud (Wu, 2005a). This is because ineffective CG mechanisms in several Asian nations may significantly encourage corrupt exchanges. Lin, Huang, and Chuang (2018) use longitudinal data involving the 1997–1998 Asian financial crisis and the 2008–2009 financial crisis and find that corruption and weak CG institutions weaken economic stability. Also, the 2008–2009 financial crisis began in the United States. It spread worldwide to hurt and affect countries with higher levels of corruption and weaker CG institutions more seriously, such as Zimbabwe, Ukraine, and Armenia.

In addition, Wijayati *et al*. (2016) state that after the Asian financial crisis, Indonesia and other Asian countries improved governance by enhanching institutional frameworks, increasing transparent and accountability. Thereby, improving monitoring systems, auditing, transparency, political stability, and government effectiveness, and control corruption (Wijayati *et al*., 2016; Andersen *et al*., 2017). Meon and Sekkat (2005) stated that the quality of governance (QoG) improves the relationship between corruption, economic growth (AlQudah, 2016) and FDI (Al Farooque *et al*., 2009).

Foreign corporations and individuals tend to avoid investing in countries where perceived corruption is high and serious, which increases their concerns about keeping their investments safe (Malagueño *et al.*, 2010). Research by Bajestani and Li (2025), using panel data of 36 countries over the 2013–2018 period, finds that highly corrupt economies invest more in high-corruption target economies. In contrast, low-corruption countries are deterred by prevalent bribery in foreign markets and shift their resources to more transparent environments. Another study by Andersen *et al*. (2017), using 12 transition countries, indicates that nations with higher rates of corruption often have higher levels of risk and lower levels of transparency and investment. Therefore, international investors are more likely to pay more for better-governed companies (Wu, 2005b). As a result, countries that desire to improve their economies should take serious actions to fight corruption (Malagueño *et al.*, 2010).

Ramdani and van Witteloostuijn (2012) examine the effect of two CG mechanisms that are heavily studied in CG literature on the incidence of bribery practices in companies: (1) ownership concentration and (2) separation of management and ownership, using the World Bank Enterprise Surveys dataset over the years 2002–2005. Using agency theory, they reveal strong evidence that a greater proportion of equity shares of a shareholder leads to a stronger role stockholders can play in monitoring management and, thus, improving company performance and controlling bribery practices. In other words, the intention to maximise shareholder value increases as the equity stake of the largest shareholder grows. On the other hand, a corporation with many small shareholders, who are the risk bearer, might face a significant challenge in developing an effective monitoring system to monitor managerial behaviour and performance. This is because developing an effective control system is very costly for small stockholders, and considerable numbers of shareholders rely on other small investors to perform monitoring to enjoy improving corporation

performance without bearing any monitoring cost. The authors also find that companies with male CEO duality are associated positively with bribe activities. This might be due to males' lower self-control than females, which makes them engage more in illegal activities (Ramdani and van Witteloostuijn, 2012).

However, although the relationship between the gender of CEO duality and bribery is significant, the effect of CEO duality on the likelihood of bribery is insignificant. In summary, the results are consistent with agency theory and suggest that separating ownership and control and female participation in corporate ownership could be useful instruments in fighting bribery and corruption (Ramdani and van Witteloostuijn, 2012). This is because, in a corporation where professional managers operate under a separation of control and ownership, they have an incentive to maintain and improve their reputation for future career prospects and to avoid reputational damage by engaging in illegal activities such as bribery (Ramdani and van Witteloostuijn, 2012).

Ignoring the role of corporate sector in fighting corruption may restrict the efficiency of anti-corruption campaigns. Although the private sector, particularly the corporate sector, tends to be the bribe-givers, corrupt government officials and politicians are often the bribe-takers (Wu 2005b). Businesses are more likely to be extorted by corrupted government officials, with a possibility to find themselves creating bribery deals to undermine the power of competitors or avoid responsibilities to the public. In such a situation, the private sector tends to be both the perpetrator and the victim of corruption (Wu, 2005a). Using data from 142 countries and the Rule of Law Index, Lee (2025) finds that corruption among judges and bureaucrats consistently restricts fundamental rights, such as labour rights. To fight corruption and protect fundamental rights, He calls for strong transparency and accountability mechanisms, highlighting the need for effective democratic control.

Rahman (2024) investigates the influence of financial disclosure and perceived strength of auditing and reporting standards on perceived corruption, using data for 71 countries from 2010 to 2017. He finds that although both financial disclosure and the strength of accounting and auditing standards significantly improve corruption control in common low and developing countries, which is consistent with agency theory, highly corrupt nations do not benefit from better disclosure. He also reveals that the strength of accounting and reporting standards is not significantly influenced by adoption of accounting standards. In addition, audit propensity and quality moderates the association between the independent variables and perceived corruption. Khalil *et al.* (2015) also explores the influence of disclosure and auditing environment on the bribery of public officials among 15,174 firms from 24 countries in 2009. They believe that countries with extensive financial reporting standards and higher sanctions and litigation risks discourage firms from offering gifts to secure government contracts, especially if an external audit firm mandatorily revises a financial statement. Kurniawati *et al.* (2022) also support the positive effect of the international reporting standards on controlling corruption

Wu (2005b), on the other hand, empirically tests the significance and effectiveness of accounting practices and reforms against corruption. He uses a cross-country firm-level dataset, the World Business Environment Survey (WBES), among 83 Asian nations from 1999 to 2000. The conclusion indicates that higher-quality accounting practices can lead to reductions in both the amount of bribe payments and the incidence of bribery, thereby controlling corruption actions. Furthermore, Wu (2005a) examines the relationship between CPI and two measures of CG from the Global Competitiveness Report (GCR): (1) corporate board efficacy in representing external stockholders; (2) the quality of accounting practices, among 102 nations in 2002. He reveals that effective CG might increase the performance of companies and decrease bribery incidence and payments, thus restricting corruption levels. Another study conducted by Changwony and Paterson (2019) used three corruption measures, i.e. the Transparency International Corruption Perception Index (CPI), the World Bank's Control of Corruption (CC), and the International Country Risk Guide (ICRG) corruption measure and conclude that the decentralisation has a positive influence on restricting corruption among nations with high-quality accounting environment, and vice versa in countries with weak-quality accounting environment. Additionally, they find that corrupt politicians can easily withhold or manipulate monitoring information to hide their behaviour in countries with weak-quality accounting environments.

Some of the impacts of adopting high-quality accounting practices on bribery can be summarised as follows. Firstly, information asymmetry inherent in modern corporations between principals and agents should be reduced, as agents are much closer to business

operations and have more access to information. This enables the owners to monitor and assess agents' behaviour more effectively and reduce bribery. Secondly, it increases the risk of being caught for bribe-extracting officials and deterring bribery activities, thus sending strong signals to other companies that the company is determined to close the door against bribery practices. Lastly, deterring 'grand corruption', i.e. hiding the huge payments for which bribes are paid in exchange for favoured treatment on contracting, privatisation and concessions deals. Grand corruption often has a far more destructive influence on the political and economic systems of a country than 'petty corruption' (Wu, 2005b).

Moreover, a better accounting standard alone might not be enough to improve the quality of accounting practices and bring the bribery level down, especially in Asian companies (Wu, 2005b). Financial reporting standards can only reach their goals when efficient legal enforcement exists, e.g. the rule of law, voice and accountability, strong monitoring, effective regulatory framework, control of corruption, and auditing to promote transparency. More evidently, countries with weak legal enforcement comply less with IFRS, which can weaken their auditing and reporting environment (Ophias *et al.*, 2020). Therefore, by having low-quality accounting practices in many countries, such as in the Asia region, entities may easily manipulate their accounting books to shield them from unfair discrimination or evade government extortion (Kythreotis, 2015). In addition, nations with a more effective judiciary, stronger laws and clearer financial reporting standards, and more auditors and accountants are more likely to be less corrupt than those with weak or underdeveloped monitoring systems (Ophias *et al.*, 2020).

What is more, improving political institutions enhances accounting quality directly (but not vice versa) and restricts corruption. For instance, managers of companies in countries with effective rule of law and enforcement are more likely to avoid bribery payments (Houqe and Monem, 2013). In summary, high corruption levels could indicate weak enforcement of laws, legal sanctions, and non-transparent economic operations (Kythreotis, 2015). Ophias *et al.* (2020) find strong evidence from their empirical tests that

strong legal enforcement, a sound political environment, efficient IFRS adoption and economic growth can promote transparency in auditing and financial reporting (Ophias *et al*. 2020). Moreover, poor accounting practices make it hard to prevent and detect other business flaws harmful to companies (Wu, 2005b).

Apostol (2022) believes that the relationship between accounting and corruption is complex. This is because accounting can play a significant role either in preventing corruption or, conversely, facilitating it. Although prior accounting literature has investigated both perspectives, limited scholars have looked at the effect of social and environmental accounting (SEA) on corruption. He calls for more deeply investigation on the interconnections among accounting, corruption, and sustainability, and further suggests that locally grounded accounting approaches may provides valuable mechanisms for combating corruption that undermines sustainability initiatives.

In general, this chapter investigates the impact PMI on dual measure of corruption (perceived and experienced corruption), as well as the moderating role of the rule of law. The hypotheses are grounded in several governance and corruption-related theories that together illustrate the mechanisms through which governance reforms, institutional environments, and corporate behaviour interact, including agency theory, stewardship theory, institutional theory, management hegemony theory, stakeholder theory, and coordination game and bribery theory. The development of each hypothesis is explained by the following theoretical perspectives:

Agency theory provides the main foundation for Hypothesis 1, which posits a negative association between PMI and perceived corruption. In this framework, the separation between ownership and control in firms increases agency problems, where agents may act in their own interests at the expense of investors or principals. Strong protections for minority investors, such as disclosure requirements and legal safeguards, decrease the opportunity for managerial misconduct, improve transparency, and protect investor rights, all of which contribute to restricting perceived corruption levels in the business

environment (Ramdani and van Witteloostuijn, 2012). In addition, Stakeholder theory expands the focus from investors to a broader network of stakeholders, including customers, employees, governments, and society. This theory supports the inclusion of PMI as a governance tool that is expected to protect investors and contribute to institutional trust and integrity. It underlines the broader societal value of investor protection tools and connects the governance–corruption relationship to ethical business activities, reinforcing the rationale behind Hypothesis 1 (Abid *et al.*, 2014; Afza and Nazir, 2014).

Hypothesis 1. Effective protection of minority investors is associated negatively with perceived corruption.

Hypothesis 2 explores the relationship between PMI and experienced corruption or bribery, is not informed only by agency theory, but also by stewardship theory, which suggests that in some institutional contexts, agents act as stewards rather than opportunistic agents. However, in weak institutional environments, where informal practices and gift-giving are normalised, stronger PMI may play as a strategic tool to navigate complex environments or build legitimacy. This duality assists in explaining the unexpected positive correlation in some cases between PMI and actual bribe payments. Moreover, Management hegemony theory complements agency theory by suggesting that boards and governance structures often exist only when executive managers have real power and control. This theory is relevant to Hypotheses 2 and 3, which examine the potential for experienced corruption (e.g., bribery and informal payments) to persist despite formal governance mechanisms such as PMI.

Hypothesis 2. Effective protection of minority investors is associated negatively with experienced corruption and bribes.

Hypotheses 3 and 4 introduce the rule of law as a moderating variable and are grounded in institutional theory. This perspective emphasises that the effectiveness of governance mechanisms, such as PMI, depends significantly on the institutional environment, particularly legal enforcement. A strong rule of law ensures that investor protection laws are implemented fairly and consistently. Institutional theory supports that the impact of PMI on both perceived and experienced corruption depends on the strength of the rule of

law in the corruption-PMI relationship. Furthermore, directors may maintain control and engage in strategic corruption, e.g., gift-giving, in weak institutional contexts, while still appearing compliant with governance norms. Management hegemony theory helps explain the unexpected positive association between PMI and experienced corruption in some situations. Whereas coordination game theory and the hidden costs of bribery help explain the strategic responses of bribers to institutional weaknesses.

Hypothesis 3. The rule of law can moderate the relationship between PMI and experienced corruption and bribes.
Hypothesis 4. The rule of law can moderate the relationship between PMI and perceived corruption.

To empirically verify the research claims, these hypotheses are tested to explore the linkage between protecting minority investors and both kinds of corruption.

3.5 Research Design

This section introduces the data collection and analysis methods used to examine the association between protecting minority stockholders and corruption in different countries.

3.5.1 Sample Selection

The general purpose of this chapter is to test the impact of protecting minority investors on corruption while controlling for the strength of accounting standards, the level of economic development and the power of political institutions. As stated in the introduction, this research addressess the following research question: To what extent do protecting minority investors affect corruption?

Initially, the sample of the study comprises annual observations of 185 countries worldwide over the timeframe 2006-2018. The sampling strategy aims to cover as many nations as the data could allow. In addition, a cross-sectional analysis was applied due to data availability and limitation, as the World bank' Enterprise survey gives only corruption data for only one or two years for each country and were not available for many years. The data was collected from various sources but was not always available in certain countries, including the World Bank, the World Economic Forum, and Transparency International. Data sources and measurement of each variable are outlined in Table 3.1, and Stata software is used for analysis purposes.

3.5.2 Main Variables Used in the Study

Dependent Variables: Corruption

Despite the concealed nature of corruption, its measurement depends on the availability of reliable data. Previous studies typically rely on perception-based corruption indices rather than measures of actual corruption experiences. This is mainly because perception-based measures, though subjective, are grounded in the views of citizens, businesspeople and expert evaluations (Aidt *et al.*, 2020, pp.1-2). In contrast, actual corruption is often difficult to observe and quantify. Moreover, several scholars argue that although perception-based indices may not accurately reflect a country's true level of corruption, they tend to show strong associations with factors commonly believed to influence corruption, such as

business regulation and public sentiment (Aidt *et al.*, 2020, pp.1-2). Measures based on actual corruption experiences often show weaker correlations with such factors, suggesting a potential disconnect between perceived and experienced corruption (Aidt *et al.*, 2020, pp.1-2). Therefore, it is important to consider the limitations of both types of measures when assessing the extent and impact of corruption.

The dependent variable for the study is corruption, including both types: perceived and experienced corruption. Two different widely used variables as alternatives for each other in measuring the existing degree of perceived corruption to ensure the robustness of the findings: (1) 'Control of Corruption' index produced by Kaufmann *et al*. (2012) as part of the Worldwide Governance Indicators (WGI) project from 2006 to 2018, and (2) Transparency International's Corruption Perception Index (CPI), announced in 1995, from 2012 to 2018. Furthermore, several studies have observed a strong correlation between the CPI and the CC (Treisman, 2007; Hammer and Hamilton, 2018). Both indicators measure the existing degree of perceived corruption among public officials and politicians for private gain in the public sector. However, there is a possibility of perception of corruption biases associated with the surveys of perceptions of experts (Adhikari *et al.*, 2019).

The Control of Corruption (CC) index captures the perception that public power is exercised for private benefit, including grand and petty corruption. Kaufmann *et al*. (2012) corruption index, i.e. Control of Corruption (CC), incorporates data from more sources than CPI by using over thirty various sources combined into six aggregate governance indicators in the World Governance Indicators (WGI) project, i.e. control of corruption, government effectiveness, the rule of law, voice and accountability, political stability and absence of violence/terrorism, and regulatory quality. A statistical tool, the unobserved components model, was used afterwards to develop aggregate governance indicators (Kaufmann, Kraay, & Mastruzzi, 2011). The WGI measures are reported as (1) a percentile rank ranging from 0 (lowest) to 100 (highest) among all countries worldwide and (2) standard normal units of the governance indicator ranging from −2.5 to 2.5 with higher scores indicating low corruption level and vice versa (Kaufmann *et al*., 2011). In this examination, the second measure of the 'control of corruption' index is used, which is expressed in standard normal units and ranges from −1.868 to 2.469, with higher scores indicating a perception of less corruption. In addition, the CPI measure has been used for robustness checks.

On the other hand, Transparency International is a politically non-partisan body that participates with businesses, governments, and civil society to issue effective measures to tackle corruption. Many scholars believe that CPI tends to be one of the most significant and widely used measures in a cross-country analysis of corruption (Malagueño *et al*., 2010). Notably, as Transparency International changed its methodology in measuring CPI in 2012, which makes the years before and after 2012 incomparable, the period after 2012 has been used in this study. In addition, the CC measure has been used to robust the results as well as increase the number of observations. The CPI ranks nations using various surveys from independent institutions, and several parties participated, including academics, residents, expatriates, businesspeople and country analysts. These surveys ask questions about the misuse of public power for private benefits. CPI ranges from zero to one hundred; zero indicates that a country is perceived as highly corrupt, while a score of 100 shows the highest clean level with no corruption (Transparency International, 2020). In this chapter, the score ranges between 8 and 97. However, TI warns that a country ranked with the lowest CPI score does not necessarily mean is the most corrupt country in the world. Instead, those who participated in the surveys perceived the country as the most corrupt (Zarb, 2011). TI considers the information robust for a country to be ranked on the CPI if at least three sources are available in that country.

Perceptions of corruption are not facts, as noted by many researchers, but survey responses compromised by expressive attitude, which makes it subject to perception bias with no distinction between petty and grand corruption (Binhadab *et al.*, 2018). Petty corruption is defined as the daily abuse of entrusted power in exchange for small amounts of money or favours by low and mid-level public officials in their interactions with citizens, such as trying to access services or basic goods in public service places, e.g. schools, hospitals, police departments and other agencies. In contrast, grand corruption is less common than petty corruption and is defined as the abuse of high-level power by prominent political or executive figures, causing serious and widespread harm to individuals, society and the country, for example, stealing from public budgets allocated to schools and hospitals (Transparency International, 2021).

This study uses two measures of experienced corruption and bribery, sourced from the World Bank's Enterprise Surveys: (1) the Bribery Index, which represents the proportion of informal payment or gift requests during public transactions; (2) the Bribery Incidence, which indicates the percentage of companies who experienced at least one bribe payment request.

The Enterprise Surveys have been conducted and published by the World Bank since 1990's. It is an enterprise-level survey in the private sector of more than 146 economies around the world. The surveys comprise various business environment areas, such as corruption, crime, access to finance, infrastructure, and performance measures. All relevant survey documentation is publicly available, including individual country datasets and aggregated datasets across nations and years, etc. The Enterprise Survey mainly targets business owners and top managers who provide sensitive information to ensure the highest degree of survey participation, confidence, quality and integrity (www.enterprisesurvey.org).

Although statistics of convictions or the percentage of officials convicted for corruption are considered objective measures, they may be subject to ambiguity. A higher number of convictions could reflect more effective legal enforcement rather than a greater prevalence of corruption (Aidt *et al.*, 2020). In addition, several additional issues are associated with using bribery information as a measure of corruption: (1) definitions of bribery vary across jurisdictions, and limited data are available from OECD countries, making cross-country comparisons particularly problematic; and (2) the number of bribery prosecution does not necessarily reflect the overall level of corruption. For instance, nations might report low levels of prosecution and bribery either due to the weak legal systems, e.g. in Pakistan, or because of genuinely low levels of corruption, e.g. Ireland. On the contrary, a high prosecution rate shows a high bribery level, e.g. Romania (Hammer and Hamilton, 2018). Several scholars (e.g. Baldacci, Hillman and Kojo, 2004 cited in Aidt, Hillman and Qijun, 2020) proposed that decreasing public spending, especially on administrative bureaucracies, and limiting the numbers of government officials could restrict rent-seeking and bribery and boost economic development and growth (Aidt *et al.*, 2020).

Despite that Treisman (2007, p.2017) reveals a strong correlations between experience-based measures and perceptions-based measures (approximately between 0.6 and 0.8), this correlation becomes weaker when focusing on developing countries. For instance, Gillanders and Parviainen (2018, p.201) found a weaker correlation (between 0.40 and 0.52), taking into account that all corruption indicators are necessarily biased towards a particular dimension of corruption. However, Table 3-7 shows the correlation between perceived and experienced corruption for this chapter, which approximately between 0.55 and 0.6. In addition, Razafindrakoto and Roubaud (2010) reveal that the assessment of experts on corruption in Sub-Saharan Africa often contrasts with individual surveys based on personal corruption experiences, potentially due to cultural and ideological biases influencing the experts' evaluations (Adhikari *et al.*, 2019).

In summary, previous studies on corruption measurement state that there is no single optimal way to measure corruption and bribery, as each measurement is problematical in its particular way (Aidt *et al.*, 2020), and no indicator can consider the full complexity of the phenomenon. Consequently, it is more beneficial to use a combination of tools rather than focus on a single measure (Hammer and Hamilton, 2018). The development in the design of surveys tends to build reliable measures of real corruption from various sources, including the transparency international and World Bank's Enterprise surveys. Therefore, testing the relationship between either the perception of corruption or corruption experiences and the protection of minority shareholders becomes possible and reliable.

Independent Variables: Protection of Minority Investors (PMI)

The independent variable used in this chapter is the Protection of Minority Investors (PMI). It is a governance indicator sourced from the World Economic Forum index and widely used in prior studies (Ophias *et al.*, 2020; Agyemang, *et al.*, 2019a; Alsubaie, 2012), to assess the strength of shareholder protections and CG framework. The World Economic Forum index measures the protection of minority investors in a country, with a scale ranging from 1 (indicating low protection) to 7 (indicating the best protection). These data are part of the Executive Opinion Survey that shows the views of business leaders and executives in more than 141 countries (Changwony and Paterson, 2019).

PMI refers to the extent to which regulations and laws safeguard minority investors from misuse of corporate assets by directors and majority investors. It is broadly known that the role of minority investors in the main decision-making process is limited, and it is rare for them to win in the stockholder voting process. For instance, the controlling (internal) investors can choose the board members who fulfil their interests and requirements, whereas the participation of the minority (external) investors are limited in such a process. Therefore, when external investors have a restricted role in the monitoring and oversight of an enterprise, the likelihood of corrup or opportunistic activities may increase. Hence, effective corporate governance mechanisms and accounting standards are important to protect investors' rights and ensure better accountability system and less corruption (Holzhacker *et al.*, 2015).

Control Variables

I control for several variables that have been identified as determinants of corruption, including the strength of auditing and reporting standards, the gross domestic product per capita (GDPPC), openness, and democracy.

- *Strength of Accounting and auditing standards (SARS)*

The strength of auditing and reporting standards (SARS) measures the development of a virtuous and sound financial reporting system. It is a governance indicator sourced from the World Economic Forum index and has been used in prior accounting studies (Ophias *et al.*, 2020; Rahman, 2024). The World Economic Forum index assesses the strength of financial reporting and auditing standards in a country, with a scale ranging from 1 (indicating low strength) to 7 (indicating the best strength). These data are part of the Executive Opinion Survey, which reflects the views of business leaders and executives across more than 141 countries (Changwony and Paterson, 2019).

- *GDP per Capita (log GDPPC)*

GDP is defined as the total gross value added by all residual producers in an economy, plus any product taxes and minus any subsidies not included in the value of the products. Countries with a high GDP per capita are more likely to have an effective accounting environment and institutions, which might restrict corruption. Moreover, several scholars believe a negative relationship exists.between GDP per capita and corruption (Adhikari *et al.*, 2019; Changwony and Paterson, 2019; Houqe and Monem, 2016). In addition, the demand for efficient governance is more lacking in poor nations than in rich rations, as human capital capacity is unlikely to be an obstacle in high-income nations, and better institutions are more affordable in such nations (Wu, 2005a).

Consistent with most previous studies on corruption, this study uses the natural logarithm of gross domestic product per capita (GDPPC, in constant 2010 US$), as provided by the World Bank's Worldwide Development indicators, divided by midyear population, as a measure of economic development (Eco_dev) (Malagueño *et al.*, 2010; Changwony and Paterson, 2019).

- *Openness (log)*

The third control variable, and the second related to economic development, used in this chapter is the openness of a country to international commerce and trade, measured as the natural logarithm of imports and exports divided by GDP. All relevant data are collected from the World Bank's Worldwide Development indicators. Several scholars have found that countries more open to foreign trade and investments, especially those with high imports, tend to be less corrupt. This can be attributed to increased market competition, which reduces the ability of public officials to offer profitable protection to potential bribe payers (Wu, 2005a).

- *Democracy*

The final control variable is the level of democracy in a country, used to account for the impact of political institutions on corruption. Several papers (Houqe and Monem, 2016) find that nations with more democratic experiences have lower levels of corruption. The distribution of power between local and central governments can also impact corruption. In this chapter, levels of democracies sourced from the Polity IV project have been used, which range from -10 to 10, and full democracy nations take a score of 6 or more.

In summary, the selection of control variables in this chapter is based on substantial evidence linking a nation's auditing and reporting standards, economic development, and political institutions to both actual and perceived corruption (Houqe and Monem, 2016).

Table 3.1 lists all the variables used in this chapter, with their definitions and sources. Furthermore, although several previous studies (e.g. Treisman, 2000; Treisman, 2007) have included additional variables to indicate the level of corruption, such as colonial traditions, media freedom, civil liberties, political competition and stability, etc., many of these are highly correlated with the control variables used in this chapter. therefore, they were excluded to avoid multicollinearity issues.

Table 3-1 Description of variables

Variable	Measure	Description of variable	Data source
Dependent variables	1. CC	'Control of corruption' index measures the perception of the extent to which public power exercises for private gain, ranging from −2.5 to 2.5 (less corrupted).	Worldwide Governance Indicators, World Bank
Corruption	2. CPI	Transparency International's Corruption Perception Index score (scale from 100 (very clean) to 0 (highly corrupt)).	Transparency International
	3. Bribe Index	Percentage of gift or informal payment requests during public transactions).	World Bank's Enterprise surveys
	4. Bribe Incidence	Percentage of firms who experiencing at least one bribe payment request).	
Independent variable			
Protecting Minority investors	PMI	Protection of minority shareholders' interests, 1-7 (best)	Global competitiveness index (World Economic Forum
Control variables			
1. Accounting standards	SARS	The strength of auditing and reporting standards, 1-7 (best)	
2. Economic development	a. GDPPC (log)	The logarithm of the gross domestic product divided by midyear population. (Data are in constant 2010 U.S. dollars)	World Bank's Worldwide Development Indicators
	b. Openness (log)	The logarithm of the imports plus exports as a share of the GDP	
3. Political system	Democracy	The level of democracy ranges from -10 to 10 and full democracy nations take a score of 6 or more.	The Polity IV Project

3.6 Empirical Model for the Study

This chapter aims to understand the influence of protecting minority investors (PMI) in a country on the level of corruption after using several control variables to control the strength of accounting standards (SARS), the economic development and the power of political institutions. However, it does not aim to identify all institutional variables related to corruption. Furthermore, since bribery data are available for most countries for only one or two years, country fixed effect cannot be applied in the regression analysis. In addition, a cross-sectional analysis has been applied due to this data limitation and availability. What is more, it is important to account for culture, historical, and other unobservable factors that may influence both corruption and the right-hand side (RHS) variables of interest. Hence, the following regression model is employed to test the proposed hypotheses, which aims to test the correlation between the protection of minority investors and corruption:

$$Corruption_{it} = a + b_1\,(PMI_{it}) + b_2(GDPPC_{it}) + b_3(\text{Openness}_{it}) + b_4(SARS_{it}) + b_5\,(Democracy_{it}) + b_6\,(Region_{it}) + \varepsilon_{it}$$

**Where i indicates countries and t indicates years.*

Where corruption variable can be perceived corruption (CPI or CC), or experience corruption (bribery index and bribery incidence). PMI is an indicator of the protection of minority investors. SARS refers to the strength of auditing and reporting standards. The control variables are GDP per Capita (GDPPC), Openness to trade (Openness) and democracy.

3.7 Descriptive Statistics

Table 3.2 provides the descriptive statistics of the key variables used in the study. It shows that the control of corruption (CC) variable ranges from −1.869 in Somalia (perceived as the most corrupt country) to 2.47 in Denmark (perceived as the least corrupt country) with a mean value of -0.014 over the period 2006-2018. Another widely used measure of perceived corruption is the Corruption Perception Index (CPI), which supports the CC results. The CPI has an average score of 43.092 over the years 2012–2018, with a maximum of 92 in Denmark (the cleanest nation) and a minimum of 8 in the Democratic Republic of Korea (the most corrupt). The mean scores of the Bribery Index and Bribery Incidence are 15.2 and 19.68, respectively, with maximum value of 65.2 in Yemen and 70.5 in Liberia, and a minimum of 0 in Eritrea. These averages suggest that bribery or informal gift requests during transactions are common in many countries.

The mean score for the protection of minority investors over the period 2006–2018 is 4.28, with values ranging from 1.998 in Mauritania to 6.371 in Sweden (the highest). Given that the scale ranges from 1 to 7 and the distribution is not highly skewed, the mean suggests that a substantial number of countries score above the midpoint (3.5). Therefore, it is reasonable to infer that a significant proportion of countries exhibit an above-average level of minority investor protection.

Regarding the control variables, the average score for the strength of accounting standards is 4.653, with South Africa scoring the highest (6.727) and Mauritania the lowest (2.134). Economic development is measured using the natural logarithm of GDP per capita, which ranges from 5.351 to 12.174, with a mean of 8.64. The mean of the natural logarithm of openness to trade and commerce is -0.198, ranges from -6.348 to 1.988, suggesting generally low levels of openness among the sampled countries. As for political system, democracy scores range from -10 to 10, with a mean of 4.107. This average falls within the anocracy range (-5 to +5), indicating that many countries exhibit characteristics of mixed regimes, neither fully democratic nor fully autocratic, often associated with political instability. Considering that full democracies score six or higher.

Table 3-2 Descriptive Statistics of Main Variables

Variable	Obs.	Mean	Std.Dev.	Min	Max
CC	2837	-0.014	1.004	-1.869	2.47
CPI	1413	43.029	19.478	8	92
Bribery Index	236	15.232	14.309	0	65.2
Bribery Incidence	263	19.688	16.649	0	70.5
PMI	1643	4.28	0.775	1.998	6.371
SARS	1643	4.653	0.89	2.134	6.727
Rule of law	2859	-0.017	1	-2.606	2.1
GDPPC (log)	2766	8.64	1.504	5.351	12.174
Openness (log)	2197	-0.198	0.541	-6.348	1.988
Democracy	1935	4.107	6.144	-10	10

Figure 3.1 shows that the average perceived corruption (CC and CPI) varies significantly among different regions, i.e. OECD, Sub-Saharan Africa and Latin America, Caribbean. It shows that perceptions of corruption are lower in the OECD region than in Latin America and the Caribbean, and Sub-Saharan Africa, indicating that the OECD is perceived to exercise strong control over corruption than the other regions in the comparison. In addition, the OECD demonstrates stronger systems for protecting minority investors and more robust accounting standards than the two other regions (see Figure 3.2), which might contribute to limiting corruption levels (see Figure 3.3). In contrast, Sub-Saharan Africa tends to have the lowest perception of corruption and the weakest accounting standards (see Figures 3.1 & 3.2).

Figure 3-1 Bar Charts of the Average CC and CPI by Region

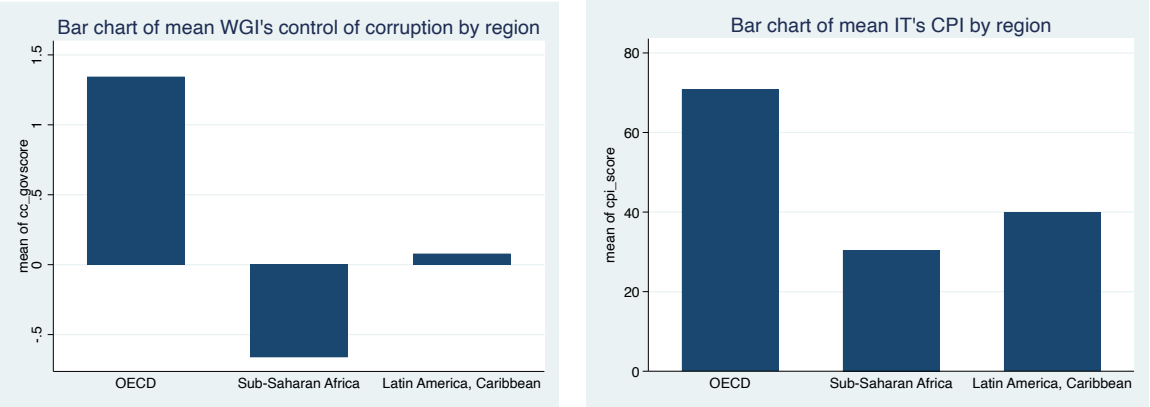
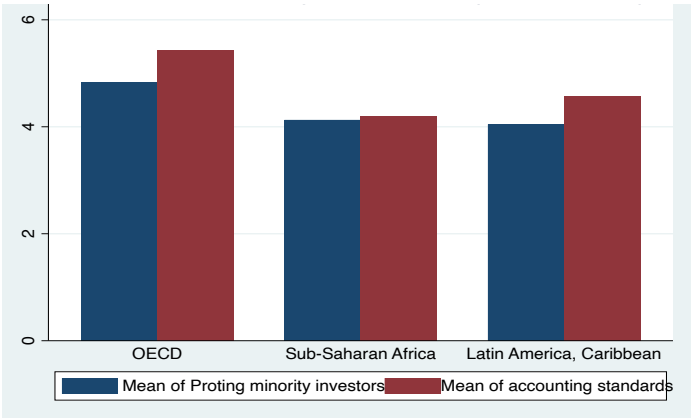


Figure 3-2 Bar Chart of Mean Protecting Minority Investor (GCR) and Accounting Standards by Region



In addition, Figure 3.3 shows a significant positive correlation between the level of perception of corruption and protecting minority investors (PMI), indicating that stronger PMI tends to decrease the perception of corruption. In contrast, Figure 3.4 shows a negative relationship between PMI and corruption experience (Bribery Index and Bribery Incidence), indicating that the PMI tends to increase corruption experience and bribes.

Figure 3-3 Scatter Plot of CC and CPI against PMI

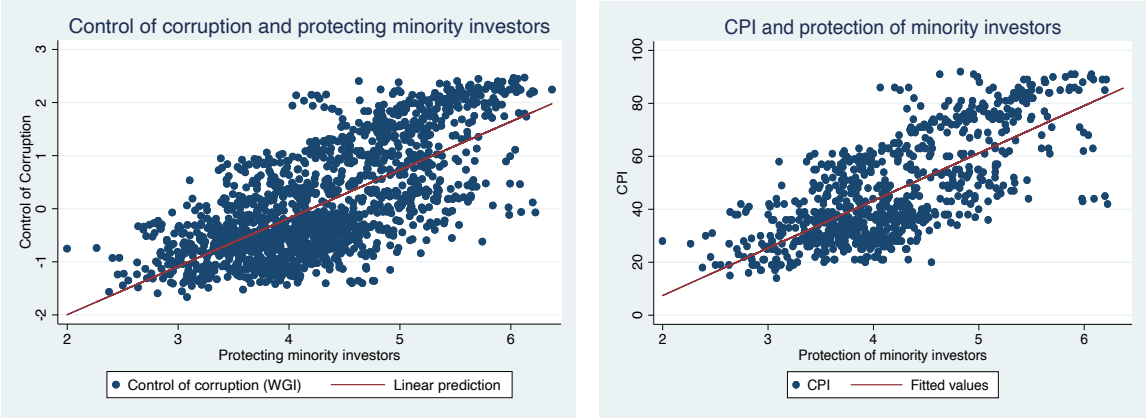


Figure 3-4 Scatter Plot of Bribery Index and Bribery Incidence against PMI

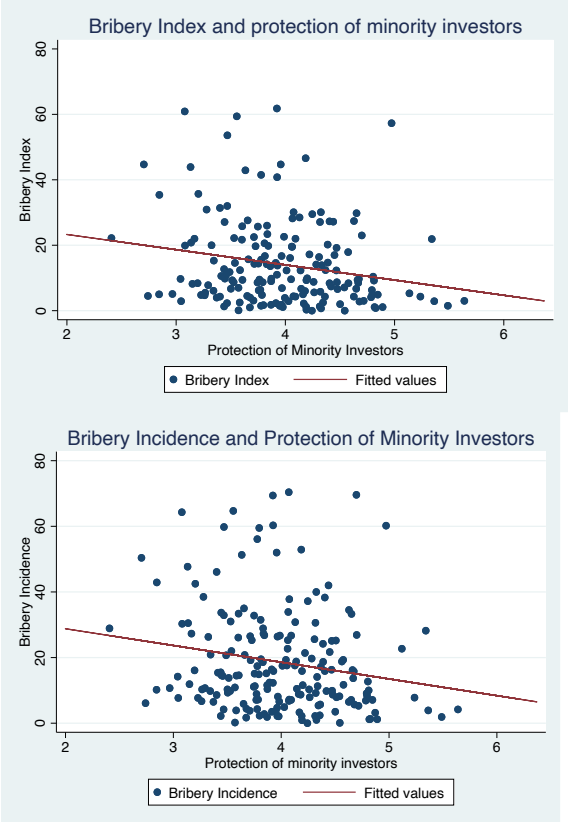
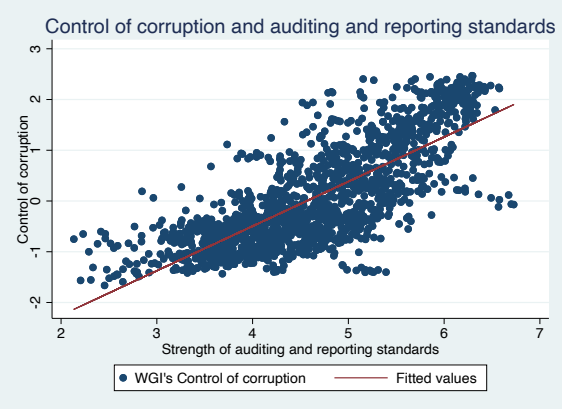


Figure 3-5 Scatter Plot of CC and CPI against the Strength of Auditing and Reporting Standards (SARS)



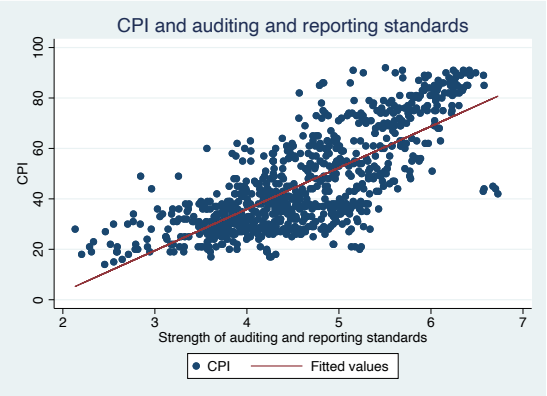
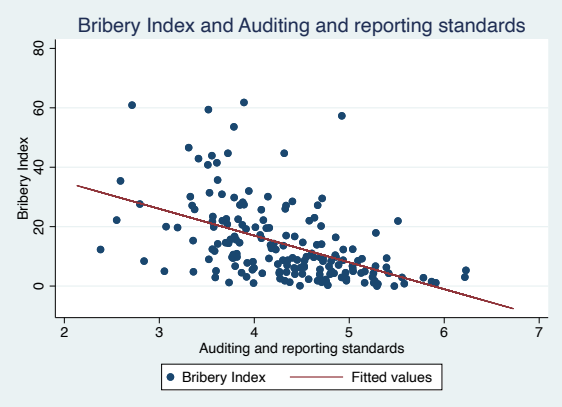
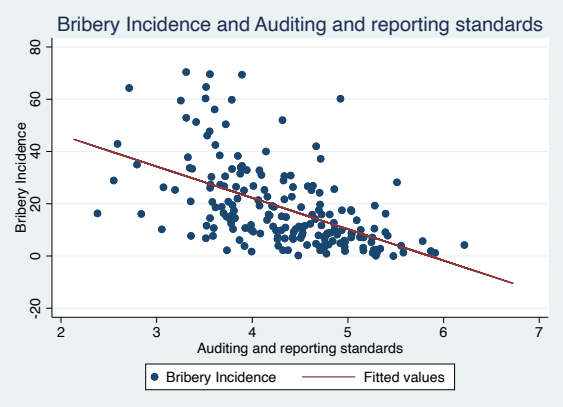


Figure 3-6 Scatter Plot of Bribery Index and Bribery Incidence against SARS





Correlation test:

In the combined sample among all the variables in Tables 3-3 and 3-4, the tables show that both the WDI's control of corruption (CC) and Transparency International's corruption perception index (CPI) exhibit the strongest positive correlation with the rule of law (r= 0.9), followed by GDP per capita (r= 0.77), the strength of auditing and reporting standards (r= 0.7), protection of minority investors (r= 0.7), democracy (r= 0.4), and openness (r= 0.2). In contrast, Tables 3-5 and 3-6 show that Bribery Index and Bribery Incidence are negatively correlated with the strength of auditing and reporting standards (r= -0.5), protection of minority investors (r= -0.2), rule of law (r= -0.5), democracy (r= -0.34) and the logarithm of GDP per capita (r= -0.5). In addition, among the other variables, protection of minority investors is strongly correlated with auditing and reporting standards (r= 0.85), while it is moderately correlated with the the logarithm of GDPPC (r= 0.542), and weakely correlated with openness (log) (r= 0.11) and democracy (r= 0.09).

In addition, Table 3-7 shows a negative correlation (r=-0.5) between perceived and experienced corruption. This means that when people experience more corruption, they tend to view it as a less widespread issue, and vice versa. This moderate negative relationship suggests a gap between people's actual experience and their broader perceptions of corruption, possibly influenced by factors such as media influence, cultural norms. Such gap can lead to weaker policies and less public trust in government. Addressing this disparity may help create fairer and more effective strategies to curb corruption.

Table 3-3 Correlation between Control of Corruption (CC) and other variables

Variables	CC	PMI	SARS	Rule of law	Democracy	GDPPC (log)	Openness (log)
(1) CC	1.000						
(2) PMI	0.6968	1.000					
(3) SARS	0.7736	0.8530	1.000				
(4) Rule of law	0.9445	0.6952	0.7858	1.000			
(5) Democracy	0.4603	0.0902	0.2747	0.482	1.000		
(6) GDPPC (log)	0.7690	0.5428	0.6914	0.789	0.3012	1.000	
(7) Openness (log)	0.2748	0.1164	0.2065	0.309	0.0135	0.297	1.000

Note: All variable definitions appear in Table 3.1.

Table 3-4 Correlation between Corruption Perception Index (CPI) and other variables

Variables	CPI	PMI	SARS	Rule of law	Democracy	GDPPC (log)	Openness (log)
(1) CPI	1.000						
(2) PMI	0.719	1.000					
(3) SARS	0.752	0.853	1.000				
(4) Rule of law	0.956	0.6952	0.7858	1.000			
(5) Democracy	0.455	0.0902	0.2747	0.482	1.000		
(6) GDPPC (log)	0.778	0.5428	0.6914	0.789	0.3012	1.000	
(7) Openness (log)	0.298	0.1164	0.2065	0.309	0.0135	0.297	1.000

Note: All variable definitions appear in Table 3.1.

Table 3-5 Correlation between Bribe Index and other variables

Variables	Bribe Index	PMI	SARS	Rule of law	Democracy	GDPPC (log)	Openness (log)
(1) Bribery Index	1.000						
(2) PMI	-0.202	1.000					
(3) SARS	-0.492	0.8530	1.000				
(4) Rule of law	-0.521	0.6952	0.7858	1.000			
(5) Democracy	-0.341	0.0902	0.2747	0.482	1.000		
(6) GDPPC (log)	-0.501	0.5428	0.6914	0.789	0.3012	1.000	
(7) Openness (log)	0.009	0.1164	0.2065	0.309	0.0135	0.297	1.000

Note: All variable definitions appear in Table 3.1.

Table 3-6 Correlation between Bribe Incidence and other variables

Variables	Bribe Incidence	PMI	SARS	Rule of law	Democracy	GDPPC (log)	Openness (log)
(1) Bribe Incidence	1.000						
(2) PMI	-0.1803	1.000					
(3) SARS	-0.5319	0.853	1.000				
(4) Rule of law	-0.5437	0.6952	0.7858	1.000			
(5) Democracy	-0.3423	0.0902	0.2747	0.482	1.000		
(6) GDPPC (log)	-0.5044	0.5428	0.6914	0.789	0.3012	1.000	
(7) Openness (log)	-0.0010	0.1164	0.2065	0.309	0.0135	0.297	1.000

Note: All variable definitions appear in Table 3.1.

Table 3-7 Correlation between Perceived and Experienced Corruption

Variables	CC	CPI	Bribe Index	Bribe Incidence
(1) CC	1.000			
(2) CPI	0.9881	1.000		
(3) Bribe Index	-0.5632	-0.5586	1.000	
(4) Bribe Incidence	-0.5948	-0.6055	0.9833	1.000

Note: All variable definitions appear in Table 3.1.

3.8 Empirical Results

In this analysis, the dependent variable is corruption, measured through both the perceived and experienced corruption, while the independent variable is the protection of minority investors, which represent a key component of a country's corporate governance framework. In addition, the control variables include auditing and reporting standards, measured by the quality of accounting and auditing standards; GDP per capita (GDPPC); openness and democracy. These variables are used to account for differences in economic development and political system across countries. They are commonly employed in both governance and corruption literature.

To examine the relationship between the protection of minority investors and corruption, each model was analysed using various corruption measures, including Kaufmann *et al*. (2012) Control of Corruption Index, Transparency International's Corruption Perceptions Index (CPI), and the World Bank's Enterprise Survey variables, including the Bribery Index and Bribery Incidence (see Table 3-1).

Additionally, regional dummy variables were included to account for cultural, historical, political, economic, and other unobservable factors that might influence the dependent variables and corruption levels. These regional dummies represent (1) the Organisation for Economic Co-operation and Development (OECD) member countries, (2) Sub-Saharan Africa, and (3) Latin America and the Caribbean. Since country-fixed effects could not be applied due to limited bribery data, available for only one or two years in many countries, regional categories serve as a practical way to account for such factors. This data limitation leads to the usage of a cross-country analysis that includes year and region fixed affects to help address potential endogeneity problems by controlling for unobserved factors and reducing omitted variable bias. However, because country fixed effects are not included, the ability to draw strong causal inferences is constrained. Therefore, the results should be interpreted as correlations or associations rather than causal effects**.**

Moreover, cultural values of these regional categories, for example, are often linked to business ethics, with countries exhibiting higher individualism generally emphasising ethical policies such as bribery control and corruption governance (Binhadab *et al*., 2018). The ordinary least squares (OLS) regression is chosen for this analysis because the main assumptions of the linear regression model are reasonably met. These include linearity, no perfect multicollinearity (VIF test), homoscedasticity, and the absence of endogeneity. Since the data is cross-sectional, GMM is not appropriate, making OLS a more suitable and interpretable method. The results from OLS estimation with year-fixed effects, conducted using STATA software, are presented in Table 3-8.

3.8.1 The Impact of the Protection of Minority Investors on Corruption

On the one hand, the first two columns in Table 3-8 represent the effect of the protection of minority investors and other control variables on perceived corruption. In column (1), I regress Kaufmann *et al*. (2012) corruption index, i.e. control of corruption (CC) against the proxy for protecting minority investors. The CC is found to be highly correlated with the protection of minority investors (b=0.442***) at a level of 1%, which is consistent with agency theory. The corruption proxy has been replaced with Transparency International's CPI measure in column (2), while keeping all other variables unchanged. The findings show a positive and highly significant influence, at a level of 1% of the impact of protection of minority investors (b=9.281***) on the CPI score. In consequence, since the higher values of CC and CPI indicate lower levels of perceived corruption, the results show that stronger protection of minority investors is associated with lower levels of perceived corruption in a country. At this point, the findings align with agency theory and the results of Houqe and Monem's (2016) research, which suggests that stronger investor protections can mitigate agency problems and reduce perceived corruption. Although the findings indicate that corruption is perceived as less problematic in countries with stronger protection of minority shareholders, the results differ when examining actual firm-level bribery experience variables (columns 3&4 of Table 3-8) (see Figures 3-3 & 3-4).

Among the control variables, the correlation is positive and significant at a level of 10% between CC and the quality of accounting standards (0.064*), which is consistent with agency theory and several studies (Wu, 2005b; Houqe and Monem, 2016). This indicates that stronger auditing and reporting standards lead to less perceived corruption (CC). In contrast, there is no significant relationship between the strength of accounting standards (b=0.037) and.

The level of democracy, the logarithm of GDPPC and the logarithm of openness to trade are significantly and positively related to either CC or CPI at a level of 1%, indicating that the higher economic and democratic levels lead to less perceived corruption and more clean nations. Several scholars confirm that countries with more democratic experiences and higher GDP per capita have lower levels of corruption (Adhikari *et al.*, 2019; Changwony and Paterson, 2019; Houqe and Monem, 2016). In addition, countries that are more open to foreign trade and investments, especially those with high import levels, tend to exhibit lower levels of corruption. This is largly because greater openness limits the ability of public officials to offer protection to bribe payers and increases market competition (Wu, 2005a).

On the other hand, columns 3 and 4 show the effect of the protection of minority investors and other control variables on experienced corruption and bribes. In column (3), the regression of the percentage of informal payment or gift requests during public transactions (Bribery Index) shows a positive and significant correlation with the proxy for protecting minority investors at a level of 5% (b=6.289**). Column (4) represents a positive but less significant relationship at a level of 10% between the percentage of firms who experienced at least one bribe payment request (Bribery Incidence) and protecting minority investors (b=5.75*), compared to the previous column. The results might suggest that offering gifts or informal payment is a strategy employed by some managers to secure favourable treatment or protections for minority investors.

This relationship could also be interpreted through several theoretical lenses, including managerial hegemony theory, stewardship theory, hidden cost of bribery theory and coordination game and bribery theory. Managerial hegemony theory posits that modern organisations are primarily managed by professional executives who possess the expertise and authority to direct company performance. Stewardship theory, on the other hand, views managers as stewards whose objective is to act in the best interests of shareholders, potentially even resorting to informal or illegal practices, such as gift-giving or bribery to protect investors interests. The hidden cost of bribery theory suggests that firms with a history of paying bribes may face increased pressure to continue doing it, making bribery a recurring cost rather than a one-off event. In other words, it becomes more difficult for companies that used to pay such bribes to resist paying bribes in the future. Finally, the coordination game and bribery theory argues that firms, especially in developing countries, may engage in bribery as a survival strategy or to avoid the negative consequences of non-compliance in environments where such practices are common.

Furthermore, over the control variables, there is a negative and highly significant correlation between either Bribery Index (b=-7.332***) or Bribery Incidence (b=-9.689***) and the quality of accounting standards at a level of 1%. Agency theory can explain these findings since it states that an effective CG and stronger accounting environment can control and reduce informal gifts or illegal payments, improve company performance and control problems relating to conflicts of interest and corruption. In addition, Wu (2005b) believes that effective accounting practices make it easier to prevent and detect other business flaws that may be harmful to companies.

The logarithm of GDPPC are related negatively but highly significant at a level of 1% with Bribery Index (b=-4.388***) and Bribery Incidence (b=-4.664***), which has been confirmed in several papers (Adhikari *et al.*, 2019; Changwony and Paterson, 2019; Houqe and Monem, 2016). This indicates that higher GDPPC could restrict informal gifts or bribe payments. Whereas no significant relationship found between the logarithm of openness to international trade and bribery index or incidence. What is more, the level of democracy is related negatively and significantly at levels of 10% and 5%, respectively, with Bribery Index (b=-0.5**) and Bribery Incidence (b=-0.458*). This negative relationship has been noted by Several researchers (Houqe and Monem, 2016). In Table 3-8, dummies for the OECD, Latin American and Caribbean, and sub-Saharan Africa were included to allow for unobserved heterogeneity between these regions.

In summary, the results reveal a surprising contrast: the protection of minority shareholders is negatively associated with perceived corruption but positively associated with experienced corruption and bribes. This means that in countries where investor protection is stronger, people tend to perceive less corruption, but actual experiences of corruption may still be more common. Notably, this pattern remains consistent even when the analysis is restricted to a smaller sample of countries (shown in column 5) that have available data for both types of corruption measures (experienced corruption and perceived corruption). In other words, column 5 includes only countries and years that have experienced corruption data.

Table 3-8 Regression results (1)

	(1) CC1	(2) CPI	(3) Bribery Index	(4) Bribery Incidence	(5) CC2
PMI	0.442***	9.281***	6.289**	5.750*	0.301***
	(0.036)	(1.059)	(2.666)	(2.952)	(0.103)
SARS	0.064*	0.037	-7.332***	-9.689***	0.173*
	(0.037)	(1.120)	(2.210)	(2.693)	(0.088)
Democracy	0.032***	0.617***	-0.500**	-0.458*	0.034***
	(0.003)	(0.070)	(0.223)	(0.262)	(0.007)
GDP per capita (log)	0.290***	5.237***	-4.388***	-4.664***	0.198***
	(0.017)	(0.461)	(1.389)	(1.557)	(0.049)
Openness (log)	0.211***	3.924***	1.536	1.061	0.144*
	(0.026)	(0.676)	(2.149)	(2.335)	(0.074)
OECD	0.423***	9.182***	-1.653	-1.725	0.285**
	(0.050)	(1.461)	(2.042)	(2.405)	(0.135)
Sub-Saharan Africa	0.198***	3.455***	-9.324***	-7.221*	0.083
	(0.043)	(1.131)	(3.469)	(3.756)	(0.104)
Latin America, Caribbean	-0.123***	-4.629***	-9.907***	-9.121**	-0.253*
	(0.043)	(1.294)	(3.594)	(4.148)	(0.137)
Constant	-4.912***	-44.269***	64.307***	80.986***	-3.833***
	(0.138)	(3.731)	(11.057)	(12.339)	(0.385)
Observations	1293	613	159	167	168
R-squared	0.814	0.810	0.495	0.471	0.650
Adjusted R-squared	0.812	0.813	0.444	0.448	0.6
Years fixed affect	Yes	Yes	Yes	Yes	Yes

Standard errors are in parenthesis
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Although GMM cannot be used for cross-sectional analysis, various corruption variables have been included to ensure the robustness of the results. In addition, If multicollinearity were an issue, R-squared would be high, and many individual coefficients would be insignificant. In this study, all control variables are significant, and a VIF test has been applied, as shown in the following table (Table 3-9).

Table 3-9 VIF test

Variable/DV	CC	CPI	Bribe Index	Bribe Incidence
ACC	6.24	7.08	3.79	3.43
PMI	5.22	5.94	3.10	2.91
GDPPC	4.42	4.50	3.37	3.21
Openness	1.26	1.27	1.48	1.47
Democracy	1.51	1.44	1.69	1.74

3.8.2 The Interaction of Rule of Law and the Protection of Minority Investors on Corruption

Without a robust and efficient legal system, efforts to protect minority investors may be undermined by corrupt practices that thrive in environments of legal uncertainty or weak enforcement. The Rule of Law reflects the extent to which agents have confidence in and abide by societal rules, including the protection of property rights, the quality of contract enforcement and the possibility of crime and violence. In addition, managers of companies in countries with effective rule of law and enforcement tend to avoid bribery payments (Houqe and Monem, 2013). In other words, corruption is often prevalent in countries where the rule of law is weak, leading to decreased investor confidence and inadequate accountability of corrupt individuals.

Given this context, the Rule of Law (RL_gov) may affect corruption directly and moderate the relationship between the PMI and corruption. Specifically, in theory, a stronger rule of law should improve the enforceability and credibility of investor protection mechanisms, thereby making them more effective at deterring corruption. Even well-designed investor protection laws may be circumvented or ignored in weak legal environments, rendering them ineffective.

However, the empirical findings in this study suggest a more complex dynamic: PMI is positively associated with bribes in contexts with a strong rule of law. This finding suggests that, in high rule of law settings, stronger investor protection may raise the stakes or expectations surrounding compliance and regulatory obligations, potentially increasing firms' incentives or opportunities to engage in bribery in order to avoid strict enforcement or secure preferential treatment. It may also reflect strategic behaviour by companies seeking to leverage formal investor protection as a façade while operating in corrupt networks under the surface.

To explore this further, RL_gov, sourced from the World Bank's Worldwide Governance Indicators (WGI), has been included as an interaction term with PMI. This interaction helps assess whether, and to what extent, the effectiveness of minority investor protection in reducing corruption varies with the strength of legal institutions. The rule of law variable is measured in standard normal units, ranging from −2.5 (weak) to 2.5 (strong). Thus, the empirical models are:

$$CC_{it} = a + b_1\ (Democracy_{it}) + b_2(GDPPC_{it}) + b_3(Openness_{it}) + b_4(PMI_{it}) + b_5(RL\_gov_{it}) + b_6\ (PMI_{it} * RL\_gov_{it}) + b_7\ (SARS_{it}) + \varepsilon_{it}$$

$$CPI_{it} = a + b_1\ (Democracy_{it}) + b_2(GDPPC_{it}) + b_3(Openness_{it}) + b_4(PMI_{it}) + b_5(RL\_gov_{it}) + b_6\ (PMI_{it} * RL\_gov_{it}) + b_7\ (SARS_{it}) + \varepsilon_{it}$$

$$Bribe\_Index_{it} = a + b_1\ (Democracy_{it}) + b_2(GDPPC_{it}) + b_3(Openness_{it}) + b_4(PMI_{it}) + b_5(RL\_gov_{it}) + b_6\ (PMI_{it} * RL\_gov_{it}) + b_7\ (SARS_{it}) + \varepsilon_{it}$$

$$Bribe\_Incidence_{it} = a + b_1\ (Democracy_{it}) + b_2(GDPPC_{it}) + b_3(Openness_{it}) + b_4(PMI_{it}) + b_5(RL\_gov_{it}) + b_6\ (PMI_{it} * RL\_gov_{it}) + b_7\ (SARS_{it}) + \varepsilon_{it}$$

**Where i indicates countries and t indicates years.*

Where PMI is an indicator of protecting minority investors. The control variables are the strength of auditing and reporting standards (SARS), GDP per Capita (GDPPC), Openness to trade (Openness) and democracy.

Table 3-10 shows a positive and significant relationship at a level of 1% between the rule of law and the perception of corruption (CC and CPI), which means that a stronger rule of law can restrict corruption, which is consistent with agency theory and Houqe and Monem (2013) study. This finding is not surprising as Houqe and Monem, (2013) found that strengthening the political institutions, including rule of law, will significantly control corruption in a country. Interestingly, there is a negative relationship between the rule of law and either the Bribery Index (column 3) or the Bribery Incidence (column 4), significant at the 5% and 1% levels, respectively. This suggests that countries with stronger rule of law tend to experience lower levels of experienced corruption and bribe payments, and vice versa.

The interaction variable between the rule of law and the protection of minority investors (RL_gov∗PMI) is positive and statistically significant at the 1% level with either CC or CPI. One plausible explanation is that stronger rule of law countries already have a strong minority investors protection system, and thus, the incremental benefit of a solid protecting minority investor system is marginal in these countries in terms of controlling corruption. In contrast, the interaction term (RL_gov∗PMI) is positively, though weakly, significant in its effect on the Bribery Index at the 10% level (Column 3). This suggests that when both the rule of law is strong and the PMI is high, the level of experienced corruption and bribery tends to increase. In other words, countries with better protection of minority investors may also exhibit higher levels of corruption and bribery practices. However, the interaction term does not show a significant effect on Bribery Incidence (column 4), indicating that this relationship does not extend to the frequency of bribery cases.

Table 3-10 Regression results (2)

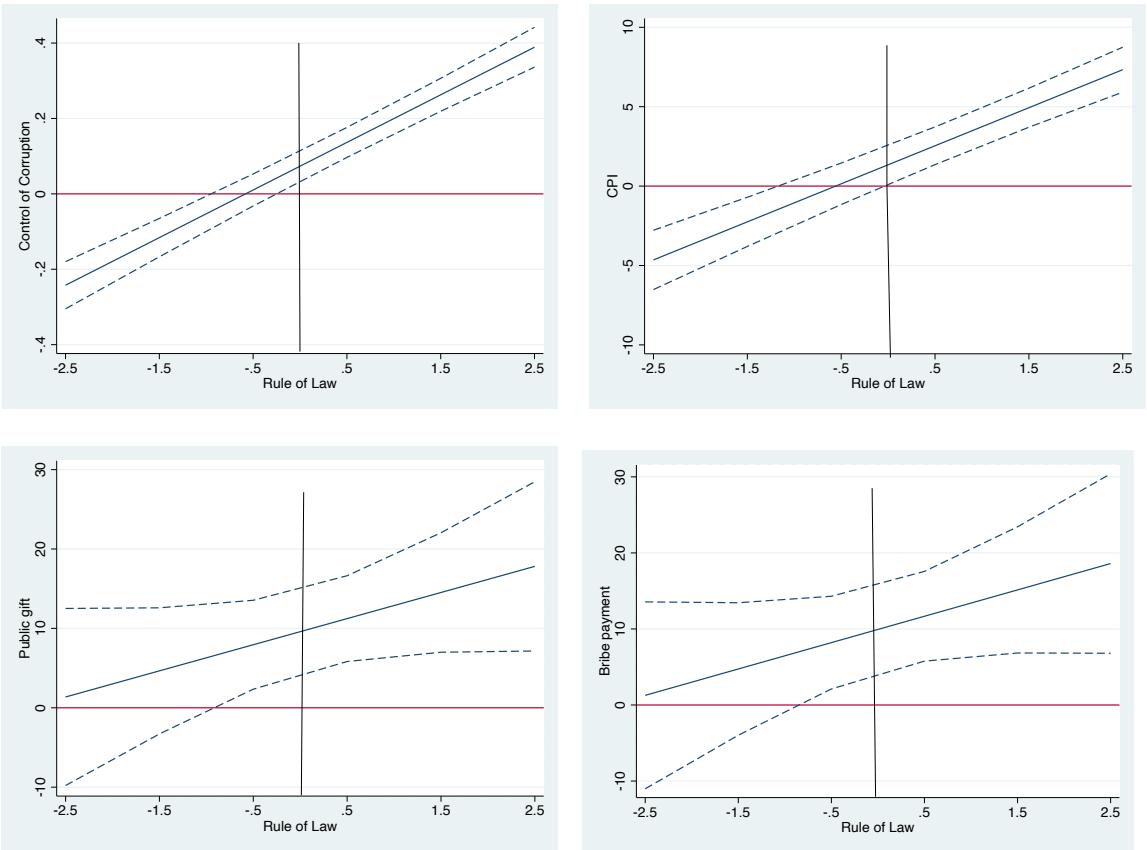
	(1) CC	(2) CPI	(3) Bribery Index	(4) Bribery Incidence
PMI	0.073***	1.342**	9.588***	9.936***
	(0.021)	(0.625)	(2.607)	(2.837)
Rule of law	0.420***	8.276***	-22.425**	-26.156***
	(0.045)	(1.226)	(8.804)	(9.565)
c.PMI#c. Rule of law	0.126***	2.396***	3.291*	3.466
	(0.008)	(0.226)	(1.945)	(2.158)
SARS	-0.046**	-0.718	-5.668**	-7.100***
	(0.020)	(0.597)	(2.199)	(2.598)
Democracy	0.001	0.109**	-0.169	-0.067
	(0.002)	(0.046)	(0.223)	(0.257)
GDP per capita (log)	0.031***	0.538*	-2.749**	-2.512
	(0.011)	(0.306)	(1.321)	(1.532)
Openness (log)	0.033**	0.158	2.486	2.495
	(0.015)	(0.372)	(2.029)	(2.172)
OECD	-0.035	-1.687**	1.039	1.946
	(0.027)	(0.769)	(2.113)	(2.424)
Sub-Saharan Africa	0.149***	2.153***	-9.207***	-7.347**
	(0.024)	(0.601)	(3.143)	(3.379)
Latin America, Caribbean	0.275***	2.845***	-14.294***	-15.030***
	(0.022)	(0.697)	(3.668)	(4.175)
Cons	-0.503***	35.500***	26.977**	31.580**
	(0.116)	(3.259)	(10.877)	(13.240)
Obs.	1293	613	159	167
R-squared	0.944	0.940	0.568	0.559
Adjusted R-squared	0.941	0.941	0.545	0.543
Years fixed affect	Yes	Yes	Yes	Yes

Standard errors are in parenthesis
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

The charts in Figure 3-7 display the marginal effect of the Protection of Minority Investors (PMI) on corruption across different levels of the Rule of Law, distinguishing between perceived corruption (measured by Control of Corruption and CPI) and experienced corruption (measured by Public Gift and Bribe Payment). The charts illustrate that the effect of PMI on corruption outcomes is not uniform, which crucially depend on the strength of the RL in a given context. Although PMI has no significant effect on corruption in weak rule of law environments, in contexts with strong legal institutions and a robust rule of law, PMI is associated with a statistically significant increase in experienced corruption and bribery, and a decrease in perceived corruption. In other words, interestingly, the charts reveal that as the Rule of Law strengthens, the marginal effect of Protecting Minority Investors (PMI) on expeienced corruption and bribery becomes positive and statistically significant.

This could be explained by several threories. From an agency theory perspective, CG mechanisms, e.g. PMI, are designed to mitigate self-serving behaviour by managers and restrict managerial opportunism, which would predict a universal reduction in corruption risk and perceived corruption under a strong rule of law, indicating that agency controls are ineffective without institutional backing. On the contrary, under strong legal enforcement, managers may respond to increased scrutiny by engaging in strategic corruption to retain control or affect outcomes or even protect private benefits. The managerial hegemony theory, suggests that even under robust legal regimes, dominant executives can reassert control through illicit means such as bribery, especially when their authority is threatened by enhanced shareholder rights. According to stakeholder theory, in contexts with a high rule of law, managers tend to prioritise the interests of powerful stakeholders. This can perversely incentivise corrupt practices and as a means to secure favourable treatment from regulators or to preserve shareholder value. In this context, bribery and gift-giving can be viewed as misdirected efforts to satisfy powerful stakeholders, e.g. regulators or minority investors when formal mechanisms threaten managerial control.

Figure 3-7 The Marginal Effect of Protecting Minority Investors on Corruption at Varying Levels of Rule of Law



3.9 Discussion

This research provides important insights into the association between PMI and corruption. By distinguishing between perceived corruption, measured by Control of Corruption (CC) and the Corruption Perceptions Index (CPI), and experienced corruption (measured by Bribery Index and Bribery Incidence), the findings are expected to extend the prior literature and contribute to ongoing debates in corporate governance (CG) and anti-corruption literature.

Consistent with agency theory and previous studies, such as Houqe & Monem (2016) and Wu (2005b), the results show that stronger PMI is significantly associated with lower levels of perceived corruption. This aligns with the theoretical argument that robust CG mechanisms can mitigate agency problems and improve transparency, thus increasing investor confidence and perceptions of institutional quality. On the other hand, a contrasting and novel findings emerges when the focus shifts to experienced corruption. PMI is found to be positively related both the Bribery Index and Bribery Incidence, indicating that, in practice, bribery and informal payments are more prevalent in countries with stronger investor protection laws. This illustrates that although legal reforms that strengthen investor protection may decrease corruption perceptions, it may not necessarily decrease corrupt practices and bribes, especially in environments where enforcement is weak.

Multiple theoretical frameworks give plausible explanations for this findings. Stewardship theory suggests that managers may act in the interest of shareholders, even if that means engaging in some corrupt actions such as bribery to secure favorable conditions. Managerial hegemony theory implies that dominant executives, may use informal mechanisms to retain control. This is especially relevant in environments where formal rules exist but enforcement is limited. The hidden cost of bribery theory further explains how companies can become stuck in cycles of informal payments when such behavior has been normalised. Furthermore, coordination game and bribery theory argues that where corruption is widespread, firms may engage in bribery as a survival mechanism to maintain competitiveness or avoid negative regulatory consequences. These theoretical lenses suggest that stronger formal governance structures i.e. PMI may not be adequate to restrict corruption unless effective legal enforcement and broader institutional integrity are applied.

The Rule of Law (RL) is important to understand the association between PMI and corruption. It is expected that stronger RL is associated with lower levels of both perceived and experienced corruption, which is consistent with Houqe and Monem (2013) and other studies that emphasising the importance of legal institutions in restricting corruption. However, despite that the interaction between RL and PMI shows a positive and significant impact on perceived corruption measures, it has a positive and weakly significant relationship with the Bribery Index (at a level of 10%). The findings suggest that in countries with a strong legal framework, improvements in PMI are more effective in lowering corruption perceptions but increased instances of bribery and experienced corruption. In addition, this suggests that in environments, where RL, legal and regulatory expectations are higher, companies may face greater pressure to comply, leading some to resort to strategic bribery. In such situations, companies may engage in bribery to expedite processes or secure preferential treatment, effectively masking corruption behind a veneer of regulatory compliance and strong governance. This phenomenon is supported by stakeholder theory, which highlights the pressures managers face in balancing conflicting interests.

The analysis of control variables provides additional support for the significance of institutional quality in shaping corruption outcomes. Improved accounting standards are significantly associated with lower experienced and perceived corruption, supporting the arguement that transparency in financial reporting is an important component of anti-corruption efforts (Wu, 2005b; Ophias et al., 2020). However, as noted by Wu (2005b), better accounting standards alone are insufficient without robust enforcement mechanisms. Moreover, the findings also support prior research showing that higher GDP per capita, democratic governance, and openness to trade are negatively associated with perceived corruption (Adhikari et al., 2019; Changwony & Paterson, 2019). Interestingly, openness to trade and commerce did not significantly relate to experienced corruption.

This study underscores the importance of using various measures of corruption in empirical analysis. It contributes to the literature by highlighting the complex relationship between investor protection and corruption, especially in the presence of strong legal institutions and shows that the Rule of Law plays a critical moderating role. Policies aimed at improving CG and investor protections must be accompanied by institutional reforms to curb corruption.

3.10 Conclusion

Corruption unfairly benefits many companies worldwide while increasing the cost of doing business for companies. To limit corruption's impact, this chapter uses cross-country data for more than 185 countries over the period 2006–2018 to investigate the impact of protecting minority investors on either perceived or experienced corruption after using several control variables that are widely used in empirical studies, e.g. accounting standards, democracy, GDP per capita, and openness.

Although the second chapter provides the theoretical foundation by identifying accounting as a key anti-corruption tool, this chapter expands the analytical lens by empirically testing PMI, with accounting as a control variable for in the model. This approach reflects the evolving structure of the thesis, from conceptual mapping to empirical testing, and ensures that the research maintains both internal coherence and incremental contribution across chapters. The regression coefficients of this chapter indicate that the findings of the effect of PMI on corruption are broadly consistent with prediction theories, including agency theory, stewardship theory, managerial hegemony theory, and stakeholder theory, the hidden cost of bribery theory and coordination game and bribery theory. The results provide evidence supporting a positive impact of PMI on reducing perceived corruption. Therefore, perceived corruption tends to be lower in countries where the interests and rights of minority investors are protected.

On the other hand, although from the first sign, many people might expect that stronger protection of minority investors might lead to less experienced corruption and bribes, surprisingly, the results show that Bribery Index (b=6.289**) and Bribery Incidence (b=5.75*) are positively and significantly correlated with protecting minority investors at 5% and 10% levels, respectively. This might indicate that giving gifts or informal payments could be a strategy managers use to protect minority investors and improve their wealth and profitability. This relationship can be explained by several theories, including management hegemony theory, stewardship theory, the hidden cost of bribery theory and the coordination game and bribery theory. The first two theories state that managers desire to work effectively and efficiently to protect investors and increase their wealth, may be by paying bribes. The hidden

cost of bribery theory states that there are hidden costs of past bribe payment experiences, such as the difficulty of rejecting such payment in the future. In addition, coordination game and bribery theory states that a director or a company might be involved in such bribe action to survive or avoid the penalty of not paying bribes, especially in developing countries.

Regarding control variables, the findings reveal lower perceived corruption in countries with strong accounting standards. Moreover, there is a significant negative correlation at a level of 1% between either Bribery Index or Bribery Incidence indices and the strength of accounting and auditing standards, which is consistent with agency theory. This indicates that stronger accounting and auditing standards could assist companies and countries in controlling actual corruption, informal gift and payments. In addition, higher openness, GDPPC, and democracy are expected to reduce perceived corruption, which indicates that better economic development and political systems negatively influence perceived corruption. In other words, countries that have been in democracy for a long time and have high levels of GDP per capita, tend to have lower levels of both kinds of corruption (perceived and experienced corruption and bribes).

Moreover, the rule of law, as an interaction variable, can moderate this relationship, as under a strong rule of law, PMI can increase experienced corruption and bribery, while reduce perceived corruption. This might indicate that countries, i.e. governments and policymakers, should pay more attention to enterprises and monitor them more effectively, even if they have strong rules of law and PMI systems, in order to restrict experienced corruption and bribe payments. Furthermore, according to Gillanders and Parviainen (2018), several countries have used Ease of Doing Business statistics, sourced from the World Bank, in their marketing strategy. Therefore, countries may use data from Transparency International, the World Bank's World Governance Indicators and the World Bank's Enterprise survey for their anti-corruption campaigns to restrict corruption and create attractive investment environments.

If, as this research suggests, stronger protection of minority investors is associated with less perceived corruption, countries, i.e. governments, policymakers and others, might be able to reduce corruption perceptions by strengthening the rights and interests of minority shareholders. This strengthens their economies' efficiency, effectiveness and business climate, encouraging investments and improving their overall productivity and GDP. However, although advanced accounting and auditing standards tend to reduce perceived and experienced corruption and bribery activities, stronger protection of minority investors seems to predict a higher rate of experienced corruption and bribery, which needs to be considered. This might encourage companies and countries to adopt (1) high-standards internal control and monitoring systems, (2) strong and effective governance mechanisms, and (3) developed accounting standards to prevent corruption and bribe actions.

In summary, despite that stronger PMI may improve perceptions of governance, they do not guarantee a reduction in actual corrupt behavior and bribes. Policymakers in emerging markets should recognise that in practice simply strengthening laws to protect minority investors is insuffienent to curb corruption. Although such reforms may strengthen perceptions of governance and restrict perceived corruption, they can contribute with higher levels of bribery and informal payments, if not supported by effective enforcement. This highlights the need to focus on legal frameworks and the quality of institutions that implement and monitor these laws. Improving the rule of law, ensuring judicial independence, and building capacity for regulatory enforcement are significant to translate formal protections into actual anti-corruption pratices.

Moreover, the findings show that stronger accounting and reporting standards are associated with lower levels of both experienced and perceived corruption. Thus, policymakers should prioritise increasing transparency, adopting developed accounting standards, enforcing auditing regulations, and supporting internal compliance systems within companies. Legal reforms should be adjusted to the local environment and accompanied by broader institutional efforts to efficiently protect minority investors and fight corruption.

Limitations

Although this chapter uses several strong and reliable corruption metrics from trusted sources to strengthen the robustness of the results, the findings are still subject to several limitations, in particularly concerning measuring corruption. This is because each of the corruption variables is problematical in its particular way (Aidt *et al.*, 2020), and all corruption variables are necessarily biased towards a certain dimension of corruption, which makes it more beneficial to use a combination of variables rather than focus on a single one (Hammer and Hamilton, 2018). To measure perceived corruption, Transparency International's corruption perception index and WDI's control of corruption have been used, whereas the World Bank's Enterprise Surveys variables named Bribery Index and Bribery Incidence have been used to measures experienced corruption and bribes.

In addition, some expected limitations of corruption metrics are as follows: first, perceived corruption is not fact, as noted by many scholars. It consists of survey responses compromised by expressive attitude, which makes it subject to perception bias (Binhadab *et al.*, 2018). Second, the methodology of measuring CPI has been changed in 2012, which makes the years before 2012 and after 2012 incomparable. Thus, the post-2012 period has been used. Third, experienced corruption is biased toward petty corruption because it is gathered from enterprise-level surveys (Adhikari *et al.*, 2019). To address this issue and strengthen the robustness of the findings, the tests have been replicated using alternative measures of both corruption experiences and perceptions of corruption. Fourth, according to Hammer and Hamilton (2018), several key problems are associated with using the bribery variables as a measure of experienced corruption: (1) Data availability is limited for OECD countries; (2) The definitions of bribery varies across jurisdictions; posing significant challenges for cross-country comparisons; and (3) prosecution data for bribery is not typically used as a measure of overall corruption levels.

Therefore, while incorporating various corruption measures can strengthen the reliability of the findings, each indicator presents specific weaknesses and strengths. Several scholars, e.g. Treisman (2007), have raised concerns about the limitations of perception-based corruption measures, particularly the potential biases inherent in expert survey responses (Adhikari *et al.*, 2019). Also, Razafindrakoto and Roubaud (2010) reveal that in Sub-Saharan Africa, expert assessments of corruption often diverge from individual surveys responses based on personal experiences, which may be attributed to cultural and ideological biases influencing expert evaluations (Adhikari *et al.*, 2019).

Another major limitation stems from the possibility of reverse causality. While the analysis assumes that protecting minority investors (PMI) reduces corruption, it is equally plausible that lower levels of corruption lead to stronger investor protection frameworks. This reciprocal relationship complicates efforts to establish a clear causal direction. More comprehensive and reliable data are needed to overcome this, ideally through longitudinal or experimental tests.

The previous Systematic Literature Review (SLR) chapter, highlighted that various accounting techniques have been proposed to curb corruption, and emphasised the need for more empirical and theoretical clarity in understanding how governance mechanisms such as accounting and investor protection influence corruption outcomes. Consistent with the thesis's broader objective, to identify specific governance mechanisms that influence and constrain corruption and affect investments, this chapter contributes to the conversation but leaves space for further exploration. Therefore, the next chapter builds on this by asking whether PMI and strengthening accounting standards can moderate the impact of corruption on foreign direct investment (FDI).

Chapter Four. Do Protecting Minority Investors and Accounting Standards Moderate the Impact of Corruption on Foreign Direct Investment: A Panel Data Analysis

4.1 Introduction

Foreign Direct Investment (FDI) has grown worldwide and become an increasingly vital tool for promoting relationships between nations and strengthening economic growth (Dornean *et al*., 2012; Xu *et al.*, 2021). A large number of economies are making significant efforts to create an attractive investment environment in order to attract more FDI and improve their economies in terms of enhancing income, technology transfer, management skills, job opportunities, human capital development and governance, etc. (Castro and Nunes, 2013). However, these benefits might differ from a host country to another depending on the FDI country of origin and the economic, legal and social systems of the host country (Alsubaie, 2012)

Corruption is widely expected to hinder the growth and development of both organisations and economies. This is because corruption can lead to the misallocation of resources and negatively affect FDI in the host country, as foreign firms and investors might avoid economies with high levels of corruption due to the associated investment risks (Houqe and Monem, 2016; Malagueño *et al.*, 2010).

Corruption and governance are important determinants of FDI (Quazi *et al.*, 2014). Countries with more effective CG measures and lower corruption levels, which can provide investors with a more attractive and transparent climate, are expected to attract more FDI. In other words, economies with transparent political institutions that effectively combat corruption tend to offer more stable business costs and a more favourable investment environment for foreign investors (Castro and Nunes, 2013). Therefore, countries with high levels of corruption must deal with corruption issues to attract more foreign direct investments and enhance economic development (Kuvvet, 2021).

Several research studies have examined corruption's effects on FDI (Quazi *et al.*, 2014). However, no one has evaluated the impact of PMI or accounting standards on the relationship between FDI and corruption. Therefore, this study is a part of the emerging literature. It examines whether PMI or accounting standards can moderate the relationship between FDI and perceived corruption.

This chapter builds directly on the findings of the previous chapters by shifting the focus from how corruption relates to investor protection or accounting to examining how these governance mechanisms moderate the impact of corruption on an important economic outcome called foreign direct investment (FDI). Instead of introducing new dependent variables unrelated to the earlier analysis, this chapter extends the previous insights by examining whether stronger PMI or SARS can moderate the negative effects of corruption on FDI inflows. Using panel data, it deepens the investigation into the practical implications of governance quality in attracting investment in corrupt environments.

In general, due to concerns over bribery, unethical business practices, and the lack of transparency, corruption might deter or restrict foreign investors. PMI and accounting standards could reduce these concerns. Testing the moderating role of PMI and accounting standards in the relationship between FDI and Corruption can lead to a better understanding of how foreign investors make decisions in corrupt contexts. If PMI and accounting standards can decrease the influence of corruption, investors may feel more confident to invest in risky markets. The relationship between PMI, accounting standards, corruption and FDI can vary significantly across countries. By exploring this dynamic, this study aims to determine whether PMI or accounting standards contribute to countries' ability to attract FDI despite the presence of corruption. Therefore, the main research question is:

To what extent do the protection of minority investors and accounting standards moderate the effect of perceived corruption on foreign direct investment across countries?

There are two sub-questions that guide this study:

i. Can strong PMI moderate or change the relationship between corruption and FDI?
ii. Can robust accounting standards moderate the relationship between corruption and FDI?

A cross-country dataset, comprising a sample of up to 133 countries worldwide, has been investigated at a macroeconomic level over the span of 2006-2017. It includes several control variables to account for economic development and financial globalisation: the logarithm of GDP per capita, the logarithm of openness and the KOF financial globalisation index (de jure). These control variables are crucial in understanding the broader economic context in which FDI operates. Different data sources have been used, including the World Bank's Worldwide Development Indicators, the World Bank's Worldwide Governance Indicators, the Global Competitiveness Index (World Economic Forum) and the KOF financial globalisation index. In addition, the analysis has been extended to include dummy variables for the OECD, Latin American, Caribbean and sub-Saharan Africa regions. The Ordinary least square (OLS) regression module has been used in this study with years fixed effect.

The results reveal a significantly positive relationship between FDI per capita and protecting minority investors or control of corruption. This suggests that economies with stronger PMI framework or more effective corruption control mechanisms are more likely to attract higher levels of FDI, consistent with the predictions of agency theory. In contrast, while strong accounting standards are positively associated with FDI, the effect is statistically insignificant. Importantly, the interaction terms between perceived corruption and either accounting standards or PMI are negative and highly significant with FDI, indicating that higher levels of PMI or stronger accounting standards can effectively mitigate the adverse impact of perceived corruption on FDI. Furthermore, when both interaction terms (Control of corruption*PMI and Control of corruption*Accounting standards) are included in the same model, the interaction between control of corruption and accounting standards shows insignificant effect on either FDI per capita, or FDI as a share of GDP. Moreover, FDI tends to be higher in wealthier countries and countries more open to international investment and trade.

Additionally, this study uses the two-step Generalised Method of Moments (GMM) estimator. GMM is widely used in cross-country analysis to examine relationships between variables such as accounting standards, PMI, corruption, and FDI, due to its numerous advantages. These include its ability to address endogeneity issues, handle dynamic panel data, account for unobserved heterogeneity, and reduce measurement error. Furthermore, GMM offers flexibility in dealing with both stationary and non-stationary variables and facilitates the implementation of robustness checks, thereby enhancing the reliability of the empirical results.

The findings carry significant policy implications. They suggest that strong PMI or robust accounting systems could potentially moderate the adverse impact of perceived corruption on FDI. In other words, the ability of PMI or accounting standards to offset the negative impact of corruption highlights their critical role in shaping the investment landscape. By enhancing PMI and SARS, policymakers and other shareholders could effectively fight corruption and attract more domestic and foreign investments. This, in turn, can contribute to increased productivity and overall economic growth (Malagueño *et al.*, 2010). Therefore, these insights offer valuable guidance for policymakers seeking to promote a more transparent, investor-friendly environment and foster a more conducive climate for investment.

Contribution of the study

This study is expected to make a significant contribution to the empirical literature on CG, corruption, and FDI. First, limited papers have tested the association between PMI and FDI. Lien *et al.* (2005) suggest that further analysis of the effect of corporate governance on FDI is needed. Moreover, Choi *et al*. (2016) call for more research on the effect of minority investor protection distance between host and home countries using various home countries. Al Farooque *et al.* (2009) also suggest further examination and investigation in governance, accounting, and FDI areas, focusing on the individual dimensions of governance at micro-economic and macro-economic levels and their possible roles on FDI flows, and vice-versa.

Second, to the best of the researcher's knowledge, this research is the first to provide empirical evidence of the association between PMI, accounting, corruption and FDI. Again, it introduces the benefits and costs of protecting minority investors, strong accounting standards, and their influence on corruption and FDI relationships. Further, controlling variables such as openness to trade, GDP per Capita, and KOF financial index could significantly improve this study.

Third, the research offers additional explanations for the conflicting findings in the existing literature on the relationship between FDI and corruption. Although many studies have focused on estimating the impact of corruption on FDI inflow, most of these studies relied on smaller samples, which may limit the generalisability and robustness of their findings, e.g. Quazi *et al.* (2014) focus on the African region only. Considering that many countries in the sample of this chapter have been included in other papers, none of them studied exclusively for OECD, Latin American, Caribbean and sub-Saharan Africa regions. Moreover, Zander (2021) suggests some topics to be expanded in future research using several groups of countries or regions. This research is expected to make a unique contribution to the CG, FDI, and corruption literature and improve the understanding of whether PMI and accounting affect the relationship between FDI and corruption in various regions.

Fourth, most of the data used in this study were retrieved and merged from several international sources, covering an 11 year period from 2006 to 2017. The use of wide range of variables acorss a large sample of countries over an extended time frame is expected to make a meaningful contribution to the existing literature and help bridge identified gaps in prior research. Thus, it enables policymakers, business practitioners, and academic scholars to build broad inferences from the empirical findings. In addition, different modern econometric techniques are applied to strengthen the reliability and consistency of the results and control for endogeneity bias.

Fifth, this study offers some recommendations that might help managers, investors, policymakers, regulators and researchers in their policies and studies towards FDI: (1) developing good policies to motivate local production and attract more foreign investors, which is expected to contribute to creating jobs, transferring knowledge, benefits and other opportunities to the country or region. In other words, regulators and policymakers could recognise the major FDI determinants and generate policies expected to improve FDI, such as improving market size or making regulations more flexible to international trade. (2) Issuing more infrastructures to provide quality accounting and auditing standards. (3) Building a strong institution(s) to reduce corruption practices (Xu *et al.*, 2021). Business leaders can also benefit from this research by improving their understanding of the potential costs, opportunities, and risks associated with corruption and FDI, thus allowing them to execute suitable strategies that best fit specific business atmospheres and organisational characteristics. Moreover, the empirical findings suggest that although massive government efforts have been made to increase FDI, corruption is still considered a dominant constraint for the entry of foreign companies. This encourages governments around the world to adopt more suitable bureaucratic procedures to attract the desirable kinds of FDI and restrict corruption.

This chapter is organised as follows: The first section introduces the research and its contribution. The second section introduces FDI and corruption. The third section shows the FDI, corruption and governance theoretical framework. The fourth section provides an empirical literature review, followed by the methodology in section five. Section six and seven illustrate the empirical model, descriptive analysis. Section eight reports and discusses the findings. Last section concludes this chapter, including the limitations and suggestions for future studies.

4.2 Foreign Direct Investment (FDI) and Corruption

4.2.1 The Definition and Features of FDI

In the last few decades, the globalisation of the world economy has become a significant trend worldwide. It facilitates the growth of foreign direct investment (FDI) and helps to generate new opportunities for companies that wish to expand abroad and invest worldwide (Castro and Nunes, 2013, p.63). Foreign direct investments (FDI) are investments by an investor, company, or government abroad in capital shares or assets (Drabek and Payne, 2002). What is more, the database methodology of the United Nations Conference on Trade and Development (UNCAD) defines FDI inflows as ”an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)” (UNCTAD, 2016).

There are four main types of FDI: (1) First occurs when purchasing or acquiring plants and equipment in a foreign country; (2) Second occurs when an entity has voting control by acquiring reasonable number of common shares in a foreign company; (3) Third occurs by shifting funds abroad by an enterprise to finance an expansion of a foreign subsidiary; (4) Fourth occurs when reinvesting the earnings of an enterprise’s foreign subsidiary in the foreign subsidiary instead of returning it to the mother company (Drabek and Payne, 2002, p.799).

On the other hand, Dunning (1988, 1998), recognised four main kinds of FDI: market seeking, resource seeking, efficiency-seeking, and strategic asset seeking. Knowledge has become an increasingly vital asset in global economy, shaping how firms approach international expansion. Firms engaging in market-seeking FDI often expand into foreign markets to access new customer bases, acquire local knowledge, and enhance their competitive position within a knowledge-driven global economy. Resource seeking FDI invloves the use of resources, e.g. professionals and other intellectual resources, by enterprises from various countries in different disciplines to integrate multinational enterprises (MNEs) operations. Meanwhile, the collaboration of MNEs with local governments often facilitate their FDI activities. Efficiency-seeking behaviour encourages investors to engage more closely with host economies. Finally, strategic asset seeking has gained increasing importance as firms shifts their focus from accessing basic, natural resources or markets to acquiring knowledge-intensive assets and learning opportunities. This asset-acquiring investment strategy emphasises the locational advantages of host countries, where firms can absorb innovation and advanced technologies to sustain long-term competitiveness (Dunning, 1998).

This highlights the importance of synergistic effects, that shows the combined impact diverse cultures, systems, and institutions. Such effects are particularly relavent for multinational enterprises (MNE), which must navigate varying consumer preferences and purchasing demands across different markets. Meanwhile, the objectives and expectations of local governments often differ from those of the private sector, adding further complexity. Moreover, a potential or target country with locational advantages should aim to balance international activities with the external transaction environment. Undoubtedly, the configuration of the MNE location can enhance its competitiveness, e.g. by better resource allocation and increasing market share (Yuan, 2016, p.15).

Several ways in which foreign direct investment promotes economic growth have been identified, notably: (1) FDI provides capital, (2) removes the balance-of-payments constraint, (3) brings technology, management and marketing skills; (4) generates a competitive environment in the host country; (5) increases employment opportunities; (6) results in higher wages; and (7) promotes exports of the host developing country. The positive effect of foreign direct investment and trade openness on economic growth is expected to be translated into economic development (Xu *et al.*, 2021, p.194).

Moreover, according to Quazi *et al.* (2014), FDI can bridge at least three main development gaps: (1) Providing capital for investment can fill the Investment gap, (2) Providing foreign currency through export profits and investments can fill the foreign exchange gap, and lastly (3) generating tax revenues through economic activities can fill tax revenue gap. In addition, FDI can also play an important role in promoting relationships between countries (Dornean *et al*., 2012) and creating domestic investment in equivalent funds (Quazi *et al.*, 2014). These benefits might differ from one host country to another depending on the FDI country of origin and the host country's economic, legal and social systems (Alsubaie, 2012).

In summary, to be an attractive location for FDI, economies must bear in mind that foreign investors typically consider many factors before making investment decisions (Smailbegović, 2015). Most studies revealed that market size, growth rate, corruption, infrastructure, domestic economic environment, openness to commerce and trade, return on capital, human capital, political stability, business facilitation, and institutional framework, etc. are among the main determinants of FDI (Quazi *et al.*, 2014, p.1).

4.2.2 The Effect of Corruption on FDI

Corruption undermines investor confidence, deters FDI and hampers economic development, including reductions in gross domestic product per capita (GDPPC) (Everett *et al*., 2007; Farooq and Shehata, 2018; Jetter and Parmeter, 2018; Rock and Bonnett, 2004; Zarb, 2011). It can be viewed as an additional tax on economic activities, eroding expected investment returns and increasing the financial risk associated with investing in a country (Andersen *et al.*, 2018; Jalil *et al.*, 2016; Malagueño *et al.*, 2010). When corruption is widespread, foreign investors may be compelled to pay bribes or engage in unethical practices to navigate bureaucratic processes, obtain licenses, or secure contracts. This is expected to distort market mechanisms and add unpredictable costs. Moreover, corruption undermines the rule of law and weakens institutional frameworks, making it difficult for investors to rely on the enforcement of contracts and legal protections. The lack of transparency, fairness, and consistency in decision-making processes poses significant threats to foreign investors, thereby negatively affecting the investment environment, decreasing operational efficiency, and increasing political instability (Yuan *et al.*, 2022).

As a consequence, corruption leads to a rise in the cost of doing business, restrict long-term growth opportunities and reduce the country's attractiveness for foreign investment.

Several kinds of corruption exist, including grand, petty, pervasive, and arbitrary corruption. Cuervo-Cazurra (2008) argued that while all forms of corruption negatively affect FDI, the magnitude of this effect appears to be less pronounced in transition economies. Pervasive corruption is expected to have a more harmful effect in transition countries, primarily due to the additional operational costs it imposes. In such environments, firms are likely ro encounter corruption in almost every interaction with government officials, making it a systemic barrier to doing business by increasing the cost and complexity of maintaining operations, thereby deterring investment.

In contrast, arbitrary corruption is expected to have a relatively less severe impact. This is because investors in high-risk or uncertain environment, e.g. transition economies, may have already focus in a certain level of unpredictability and risk when making investment decisions. Consequently, the additional uncertainty introduced by arbitrary corruption may not significantly change their investment calculus (Cuervo-Cazurra, 2008). In other words, arbitrary corruption represents the uncertainty associated with corruption at the country level rather than at the transaction level. In such cases, where the company encounters uncertainty regarding the kind and request for bribes and the delivery of the promised services, this type separates the two challenges that corruption creates for investors or FDI: additional costs and additional uncertainty of operation in the economy. Therefore, a country with arbitrary corruption may or may not ask a foreign investor for bribes. In addition, bribe payments to a government official or others do not necessarily lead to the promised services being delivered.

Arbitrary corruption is also called disorganised corruption, where the bribe payment to one government official does not prevent others from asking for another kickback for the same services or blocking service delivery unless an additional bribe is paid. As a result, foreign investors will reduce their investments due to the lack of knowledge of being asked for a bribe or delivery of services, which increases the uncertainty of operating in the economy (Cuervo-Cazurra, 2008).

4.3 Corruption, Governance and FDI - Theory

PMI ensures that the rights of minority investors are protected, which is essential in highly corrupt countries. Examining the effect of PMI on the relationship between corruption and FDI can determine whether the strength of PMI in a country can buffer the negative impact of corruption on FDI and could explain whether enhanced protections can reassure foreign investors that their investments will be safe, even in corrupt environments. Moreover, strong accounting standards lead to accurate and reliable financial reporting, ensuring foreign investors have access to accurate and transparent financial data, decreasing the risks associated with investing in corrupt economies. Examining whether accounting standards moderate the association between corruption and FDI can better explain how legal and regulatory frameworks impact investor confidence. It is important to find whether PMI and accounting standards may serve as mitigating factors in corrupt countries, making investors more comfortable investing in such environments.

According to Quazi (2014), the FDI theoretical framework models are typically grounded in the ownership, location, and internalisation (OLI) paradigm. The ownership (O) aspect is affected by the availability of the company's capabilities and resources. It deals with the 'why' factor of the production of external countries. The location (L) aspect is motivated by exploring new efficiency, markets and strategic assets. It deals with the 'where' factor to trace overseas production. The internalisation (I) aspect is influenced by coordination expenditures and transactions. It deals with the 'how' factors of companies internalise markets. OLI paradigm, developed by Dunning (1988, p.1), aims to recognise and assess the importance of the aspects that affect the early stage of overseas production and its progression and development. For instance, several aspects, such as PMI, accounting standards, and corruption of a country, are expected to influence the locational features of a host nation; thus, it is typically treated as a location (L) factor. Moreover, some aspects can also cause higher expenditures of transactions, such as corruption, which therefore influence the internalisation (I) factor (Habib and Zurawicki, 2002; Voyer and Beamish, 2004; Caetano and Caleiro, 2005), etc.

The eclectic theory, attributed to Dunning (1993, p.45, 62), posits that FDI flows vary among countries due to ownership, power, and location advantages that internalise transaction costs. However, due to the increasing pressures of competition, globalisation, and economic integration, the ownership and locational features presumably fail to illustrate why some countries attract more FDI more than others. This underscores the need for further studies to enhance the understanding of the main determinants of FDI.

Improving foreign investment in a country could be highly affected by several governance and institutional factors such as strong accounting standards, protection of minority investors measures, and the control of corruption. Previous literature launched several other appropriate theories, including the Agency Theory, the Institutional Theory, the Monopolistic Advantage Theory, the Product Life-Cycle Theory (PLC), etc. Some of these theories are discripe in the following paragraphs.

Agency theory states that people are typically self-interested and cannot be trusted to act in the best interests of others. Prior literature has discussed two main problems associated with corporate governance practices. The first problem is the agency problem when separating ownership and management. It illustrates the non-alignment correlation between principals (managers) and their agents (investors). This is due to the conflict of interests and the difficulties owners usually face in assuring that their funds are managed well and not expropriated or wasted by managers on unproductive projects. For instance, if the manager desires to safely manage the company far from the risk and the foreign investors pursue high-risk investment to receive a high return (Ramdani and van Witteloostuijn, 2012). The foreign owner can control the manager act and has the voting right in the corporate action or decision making. Therefore, the higher level of agency problems or conflicts of interest could decrease business efficiency, performance, and investments, thus increasing the risk level and the possibility of corrupt actions, and vice versa. Meanwhile, an efficient corporate governance system could overcome this issue by giving the manager the right to act following the company's objectives and limiting the influence of foreign owners on the enterprise's decision towards their private goals (Holzhacker *et al.*, 2015).

The second issue is the conflict of interest when majority shareholders take actions that serve their own gains, such as excessive compensation or loan guarantees or issuing dilutive shares at the expense of the minority shareholders. This is because the larger investors in an enterprise with a concentrated ownership structure typically have (1) stronger power to enforce their interests, (2) more incentive to monitor managers and (3) more capability to absorb monitoring costs and (Ramdani and van Witteloostuijn, 2012). On the contrary, external investors cannot be engaged in such actions due to the lack of control, access to information, decision-making participation, and monitor rights (Holzhacker *et al.*, 2015).

In many cases, the inside majority of investors are typically family owners who can easily utilise company resources and use their control rights for corrupt actions, e.g. controlling top managers, accessing to financial reports, and other significant information. In such a situation, an agency problem occurs when controlling shareholders who have complete control of an enterprise would prefer to serve their private gains instead of sharing benefits with other minority stockholders (La Porta *et al*., 2000; Alsubaie, 2012). Therefore, it is crucial for foreign investors to play a significant role in enhancing the company's performance, e.g. accountability, transparency, technology transfer, risk sharing, monitoring, control of corruption, additional capital and improving the decision-making process.

Sound and effective CG mechanisms that improve accounting practices and market performance seem to decrease agency issues whether between principle-agents or principal–principals (Arora and Sharma, 2016) and create an attractive and reliable investment environment. Ramdani and van Witteloostuijn (2012, p.495) confirm that to solve agency problems, a strong CG structure and reliable accounting standards are needed to ensure acting in the best interests of others and avoid any selfish or corrupt actions. Considering that in the modern corporate system, several enterprises are experiencing corruption (Wu, 2005). Better governance systems tend to increase FDI inflows and protect investors, provide equal treatment for all kinds of shareholders across business organisations and increase the participation of minority shareholders in corporate decisions (Agyemang *et al.*, 2019a). In other words, based on agency theory, FDI could be restricted and negatively affected under weak governance and institutional measures. Thus, having strong accounting and auditing measures and effective investor protection measures are

essential to boost FDI and restrict corrupt activities (Alghamdi, 2012; Beekes *et al*., 2015; Arora and Sharma, 2016).

In summary, conflict between managers and owners (principal-agent conflicts) or minority versus majority investors (principal–principal conflicts) might be due to dissimilar interests, goals, and risk attitudes. These might lead to extra costs, resulting from information asymmetries, e.g. monitoring costs, a decrease in company performance and an increase in corruption chances. Therefore, it erodes the company's and its stockholders' earnings (Arora and Sharma, 2016). The principle- agent problem is expected to be reduced under a strong governance system in which the accounting environment is effective and minority investors are well protected (Turnbull, 1997; Alghamdi, 2012; Beekes *et al*., 2015). Thus, it enhances both the market performance and the quality of financial reporting (Alghamdi, 2012) and creates more attractive economies with fewer corruption practices, attracting more foreign investment inflows.

Besides the agency theory, other theories may also explain foreign investment phenomena, such as the transaction cost theory and the efficient market hypothesis. The transaction cost theory indicates that every company can build a governance structure limiting the total transaction cost, including contract and monitoring costs. In addition, foreign ownership may increase or decrease these costs. Thereafter, the efficient market hypothesis, developed by Fama (1980), states that the market would react with some new relevant information, whether foreign ownership is relevant or not. Whereas the institutional theory, introduced by North (1990, cited in Alghamdi, 2012), views CG techniques, such as regulations or practices, as key to strengthen organisational effectiveness (Alghamdi, 2012). Beyond traditional macroeconomic factors, it emphasises the important of a country's governance infrastructure, both formal institutions, such as laws and regulations, insurance, taxations and government policies, and informal norms of behaviour, such as habits, traditions and customs, in influencing FDI flows (Mengistu and Adhikary, 2011).

Monopolistic advantage theory clarifies FDI motivation and its influence on international business flow and pattern at the firm level. It holds that the monopolistic advantage is the key motivation for FDI, assuming market competition is perfect and fair. The core concepts of this theory are market imperfections and monopolistic gain. Cross-border competition

and foreignness liability could be overcome, helping firms to have a sound reputation in foreign markets.

The Product Life-Cycle Theory (PLC) focuses on the product itself, as specific characteristics of various countries and regions might not create different trends and curves of the product life cycle. Nothing that identical products may face different competitive dynamics across countries, creating the need to determine the changes and differences of global investment and trade. Similarly, Ricardo's (1817) theory of comparative advantage explains that international transactions occur where relative production costs are lower, forming basis for international capital flows. Aligned with the cost-benefits principles, this theory suggests that rational investor commit capital only when expected returns justify the investment. This can explain why investors do not prefer to pay a premium in bribes for their investments.

Empirical literature views two parts of corruption's effects on FDI: (1) corruption as sand, where corruption restricts FDI because it raises uncertainty and costs, and (2) corruption as grease, where corruption improves FDI because it helps to avoid the operating costs in poorly-developed regulations countries (Cuervo-Cazurra, 2008).

The grabbing hand or sanding the wheels hypothesis suggests corruption sands the wheels of government and reduces FDI by increasing transaction costs and risk for investors, lowering the profitability of investment and negatively affecting other FDI determinants, such as economic growth, infrastructure quality, cost of doing business and education and healthcare services (Quazi *et al*., 2014; Andersen, *et al*. 2018). It focuses on how corruption becomes an additional tax to investors by establishing additional costs and uncertainty for investors, which leads to decreased FDI. The additional cost is because entities must devote financial and human resources to manage bribes rather than investing these resources in other profitable activities (Kaufmann, 1997). Given that costs vary by FDI source country, and that not all foreign investors are equally concerned about corruption in the host country, it is important to assess investor behaviour accordingly.

Bribery activities may induce government officials to establish extra bureaucratic regulations and controls to increase bribes, which increases the costs to an entity and discourages FDI. Therefore, restricting the bribery acts of local government officials in the host country of foreign investment may attract more investment, enhance the global reputation and improve legitimacy within the international business community in the country. In addition, corruption leads to allocating resources inefficiently towards more prone bribe payment areas. The payment of a bribe generates additional uncertainty because bribery is illegal, and investors cannot appeal to the courts to enforce the fulfilment of the promise. These increases in costs and uncertainty ultimately lead to decreased FDI inflows into a country (Cuervo-Cazurra, 2008).

Furthermore, economic theory suggests that bribery can help navigate inefficient legal systems and bypass burdensome regulations, potentially aiding foreign investors in entering a country (Hakkala *et al.*, 2008). Moreover, corruption motivates corrupt public officials to create complex, capital-intensive, or large infrastructure projects where bribes are easier to conceal. In summary, while corruption is illegal, it can increase the risks associated with weak rule of law (Meon and Sekkat, 2005).

The helping hand hypothesis states that corruption positively impacts FDI, especially in weak regulatory frameworks. This is because it helps supplement low wages and lower the tax burden, which improves economic growth (Quazi *et al*., 2014). It also speeds up permission for new entities and transactions (Andersen *et al*., 2018). In other words, some researchers believe corruption can positively influence investment and FDI by easing transactions in countries with excessive regulation (Leff, 1989). Several countries with high levels of corruption, e.g. China and Nigeria, are the receivers of a significant portion of FDI. As a result, corruption does not keep FDI away from corrupt countries, which raises the question of how corruption influences FDI (Cuervo-Cazurra, 2006).

In summary, the theoretical perspectives on FDI and corruption are inconsistent. Several scholars believe that corruption in the host country leads to unfavourable outcomes and discourages foreign direct investment (FDI), as corruption generates uncertainty regarding the costs of operation and acts as an additional tax on business, which distorts incentives to invest in the country. In other words, corruption is negatively related to FDI in the host country (e.g. Kwok and Tadesse, 2006), which harms an economy and restricts it from

experiencing positive change in the future (Cuervo-Cazurra, 2008). In addition, agency and economic theories support this negative relationship and provide many reasons to explain why corruption is harmful to investments. Corruption increases costs, uncertainty and act as a deterrent, thus discouraging FDI (Hakkala *et al.*, 2008).

On the contrary, other researchers argue that corruption can play a positive 'greasing the wheels' role in trade (Zander, 2021), potentially leading to efficiency benefits on investments. This is because they believe that corruption facilitates transactions and speeds up procedures, although it is rarely justified on ethical grounds. Therefore, corruption could be a way to introduce market procedures in an economy of misguided or excessive regulation in what is otherwise a monopolistic environment. The company with the lowest costs can provide the highest bribe to win a permit or contract, supply and demand are equal, to decrease their time queuing for the input (Cuervo-Cazurra, 2008). The empirical literature has shown also evidence that supports both the grease the wheels and sand the wheels of FDI hypotheses (Zander, 2021).

In conclusion, the empirical literature has extensively examined the adverse effects of corruption on FDI, consistently finding that high corruption levels undermine investor confidence by increasing uncertainty, operational costs, and expropriation risk. Several researchers have turned to institutional factors that may mitigate these risks. Protecting Minority Investors (PMI) has emerged as a vital governance mechanism, as robust shareholder protections tend to reduce insider abuse and agency conflicts, thus fostering a more secure environment for foreign investors. Studies, such as La Porta et al. (2000), provide evidence that effective investor protection encourages FDI inflows, particularly in countries where other institutions may be weak. Similarly, the strength of accounting and auditing standards is vital in curbing corruption and promoting financial transparency. High-quality accounting systems tend to decrease information asymmetry, facilitate regulatory oversight, and signal institutional reliability to foreign investors. These findings suggest that PMI and accounting standards can moderate the negative relationship between corruption and FDI**,** acting as institutional safeguards that buffer foreign investors against the harmful effects of corrupt environments. This also shows that these two governance tools might condition the influence of corruption on cross-border investment decisions.

4.4 Prior studies and hypotheses development

Corruption tends to negatively affect FDI. It increases costs through bribery, reduces the efficiency of legal frameworks and discourages investors due to the lack of transparency. Protecting minority investors (PMI) and strong accounting standards are expected to boost FDI by promoting a transparent, stable, and secure business environment. PMI ensures that the interests of foreign investors are safeguarded, while strong accounting standards offer transparent financial reporting, thereby enhancing trust and decreasing investment risks. Together, these factors can moderate the negative effects of corruption on FDI by mitigating the risks and inefficiencies corruption creates.

4.4.1 Foreign Direct Investment (FDI)

Foreign direct investment (FDI) can play a vital role in the growth dynamics of host economies and in promoting relationships between nations (Dornean *et al*., 2012). Since the early 1980s, many developing economies have reduced restrictions on FDI and become more open to global trade and business operations to benefit from FDI and boost their economic growth (Quazi *et al.*, 2014, p.1). In addition, while wealthier economies tend to attract more FDI than poorer ones (Gillanders and Parviainen, 2018, p.210), countries with less population tend to attract less FDI than countries with larger population (Quazi *et al.*, 2014). Moreover, the growth of FDI in multinational companies (MNCs) has outpaced most other forms of global transaction activities (Quazi *et al.*, 2014).

FDI and its determinants have become a major research focus among development economists, given the increasingly important role FDI plays in driving growth in developing countries. Most empirical literature has generally revealed that the following economic factors are the main FDI determinants: economy size, growth rate, openness to commerce and trade, business facilitation, institutional framework, local economic environment (Quazi *et al.*, 2014, pp.1-2; Aziz ana Mishra, 2015, p.325), control of corruption, return on capital, human capital, infrastructure, political stability, etc. (Quazi *et al.*, 2014, pp.1-2). Several scholars (Kinda, 2010; Quazi *et al.*, 2014, pp.1-2; Elimam, 2017) have confirmed the positive relationship between FDI and trade openness,

infrastructure availability, market size, government regulation, economic growth, financial development and corruption reduction. However, researchers believe that the impact of FDI on economic growth, technology transfer, managerial skills and productivity of local firms and other factors may differ from one country to another depending on the origin country of FDI and the economic, legal and social systems of the host economy (Alsubaie, 2012, p.147).

Aziz and Mishra (2015, pp. 348-349) reveal a positive relationship between market size, GDP and GDP growth rate, and FDI and emphasised the need for strong reforms to enhance institutional quality, particularly judicial reform, transparency and the rule of law, while easing investment and business constraints. Furthermore, they recommended reducing reliance on natural resources, unskilled labour, underdeveloped financial markets, and low transparency to increase in order to expand the limited share of global FDI received by Arab countries. Furthermore, Kumari and Sharma, (2017) used an unbalanced panel data set over the period of 1990-2012 to identify the main determinants of FDI inflows among 20 developing countries in South, East and South-East Asia. They used Fixed effect estimation and found that market size is the most significant determinant of FDI inflow. In addition, they find that trade openness, interest rate and human capital significantly impact FDI inflow (out of the other four explanatory variables used in the study: market size, inflation, infrastructure and research and development).

Kondyan and Yenokyan (2019) examine the impact of FDI, as a percentage of GDP, on economic growth in a sample of 130 economies over the 1995- 2008 span, considering corruption as an absorptive factor They indicate that FDI solely does not directly boost economic growth. Instead, FDI has a significantly positive influence on economic growth when interacting with perceived corruption (CPI), particularly in countries with high levels of corruption, and vice versa. One possible explanation is that corruption can weaken the enforcement of governance regulations, creating a more favourable operating environment for multinational enterprises (MNEs), thus boosting FDI and economic growth. Nonetheless, the study highlights the potential negative societal effects of corruption on the host country (Kondyan and Yenokyan, 2019).

4.4.2 FDI and Corruption

Corruption is a major political, economic, social, and ethical issue that is a global phenomenon in terms of scope, content, and implications (Andersen *et al.*, 2018; Jalil *et al.*, 2016; Malagueño *et al.*, 2010). Corruption might be considered a key determinant of FDI, and its effect on FDI might vary from one economy to another depending on the FDI country of origin, as not all foreign investors have concerns about corruption in the host country (Cuervo-Cazurra, 2008). The influence of corruption on FDI inflow has been extensively launched in the prior empirical literature, mostly using perceptions-based indicators (Gillanders and Parviainen, 2018; Jan *et al.*, 2019).

Corruption tends to attract increasing attention over the years for the following reasons: (1) Several international organisations, i.e. the World Bank and the International Monetary Fund (IMF), require a reduction in corruption as a condition for foreign aid or financial support in a host country. (2) Profit-seeking companies dealing with FDI might prefer to invest in countries where regulations are poorly enforced. (3) Several corrupt countries with high FDI inflow can achieve high economic growth (Kondyan and Yenokyan, 2019, p.209). For instance, despite that Cambodia ranked as one of the most corrupt countries in the world (162 out of 179 countries by Transparency International) with a CPI of 2.0 out of 10 in 2007, its FDI net inflow (as a percentage of GDP) was 10.38% in the same year, which is higher than the world average. Cambodia also had an economic growth rate (GDP per capita) of 8.3% in 2007, which can be attributed to various factors, among which FDI is undoubtedly important (Kondyan and Yenokyan, 2019, p.209).

On the one hand, corruption might reduce FDI and sand the wheels of government by raising transaction costs and investment risk. It reduces investment profitability, harms reputation, and negatively impacts key FDI determinants, such as economic growth, and the cost of doing business (Quazi, 2014). This aligns with Caetano and Caleiro's (2005) study which investigated 97 countries and stated that corruption significantly reduces FDI in high-corruption countries, but the impact is weak in low-corruption countries. This finding is consistent with the study consucted by Zhao *et al*. (2003), using panel data of 40 developing and developed economies, among three important regions: Asia, OECD and emerging countries, from 1991 to 1997. They find that the lack of transparency and increased corruption considerably decrease FDI inflows across regions. Ketkar *et al*. (2005) also used a sample of 54 developing and developed countries worldwide. They find that corruption negatively affects FDI inflows, and a one-degree improvement in the corruption index can improve FDI by 0.5% of GDP (Ketkar *et al*., 2005, cited in Quazi *et al*., 2014, p.2) .

Rock and Bonnett (2004) found no significant link between corruption, growth and investment, unless accounting for country size and regional or country differences in the political economy of corruption. They define large economies as those with populations over 20 million, whereas small developing as those with less (Rock and Bonnett, 2004, p.1011). They reveal that while corruption typically hinders growth and investment in small developing countries, it can have positive, or less harmful, effect in larger, politically stable East Asian countries, newly industrialising economies. In other words, corruption is more harmful to investment and growth in small developing countries than in large countries. This suggests that international institutions should emphasise their anti-corruption campaigns on small developing countries (Rock and Bonnett, 2004, p.1010).

Furthermore, source countries of FDI, generally wealthier, tend to have lower levels of corruption (Gillanders and Parviainen, 2018, p.210; Zander, 2021, p.369). Most FDI flows originate from developed countries with low corruption levels. According to Habib and Zurawicki (2002), regulatory pressure from home countries and the international business community, including OECD Convention on Combating Bribery and the U.S. Foreign Corrupt Practices Act, could constrain the behaviour of multinational companies operating in host countries. They examined bilateral FDI flows from seven home economies to 89 host economies, and emphasised the importance of considering the variation in corruption levels between home and host economies. This is because foreign investors tend to prefer environments with greater operational certainty, which is often effected by the degree of corruption in the host economy.

Al-Sadig (2009) used a panel study of 117 host countries from 1984 to 2004 and finds that every one-degree increase in the level of corruption leads to an approximately 11% decrease in per capita FDI inflows (Al-Sadig, 2009, p.268). This means that there is a negative coefficient between FDI inflows and Corruption. Moreover, when controlling other factors, such as the quality of institutions in the host countries, the negative coefficients of corruption disappear, which suggests that sound, reputable institutions are more likely to attract FDI than economies characterised by high levels of corruption. Wei (2000) also explores the effect of taxation and corruption on FDI using 12 source countries to 45 host countries. He found that corruption restricts inward FDI in the host country.

Another study by Kwok and Tadesse (2006) examine the effect of the institutional environment of corruption during the 2000s on the behaviour of multinational enterprises. They reveal that corruption levels are significantly lower in countries with high FDI flows based on the lagged values from the 1970s, 1980s, and 1990s. In addition, historical FDI apprears to contribute to reducing corruption in a host country over time (Kwok and Tadesse, 2006). By recognising that FDI values are not necessarily contemporaneous with the corruption data, the analysis minimises the risk of reverse causality. What is more, by analysing the interaction effect, rather than the direct effects, of FDI with culture and education factors, they found that countries with higher histrorical FDI experienced a lower negative influence of culture on corruption and a higher positive effect of education. These findings suggest that FDI can moderate the negative impact of culture or improve the positive impact of education on fighting corruption (Kwok and Tadesse, 2006).

Using a gravity model with dyadic and time-fixed effects, and bilateral FDI data from the OECD alongside the World Bank's control of corruption measure, Zander (2021) finds that corruption is negatively associated with FDI in origin countries but positively linked to FDI inflows in host country. To deepen the analysis, the study incorporates the Panama Papers revelation and the OECD Anti-Bribery Convention. The Panama Papers leak led to a decrease in FDI, suggesting that corruption has complex, country-specific effects requiring tailoring anti-corruption policies in both host and source countries. Overall, the findings indicate that while corruption generally harms FDI, reducing corruption improves FDI (Zander, 2021). In addition, using GLS methodology, Quazi *et al*. (2014) analyse FDI inflows in two major regions, South and East Asia, covering 16 countries between 1995 and 2011. Applying Dunning's (1988) OLI paradigm, the findings reveal a significantly negative and robust relationship between corruption and FDI, supporting the 'grabbing hand' hypothesis. Furthermore, Voyer and Beamish (2004) also confirmed a negative association between corruption and Japanese FDI in emerging countries, except industrialised countries, using a sample of approximately 30,000 Japanese FDI enterprises over 59 economies.

Brada *et al.* (2012) propose a simple model examining the impact of home-country corruption on FDI location, suggesting a non-monotonic relationship. Using a sample from six East European transition countries, which had negligible no FDI outflows before 1995, targeting 84 host countries between 2000 and 2003. They find a linear, negative, but only marginally significant association between host-country corruption and FDI location. In addition, higher levels of corruption in the home country are associated with a decreased likelihood of FDI occurring in other countries (Brada *et al.*, 2012). Moreover, Hakkala, *et al.* (2008) used microeconomic data at the firm level on Swedish multinational companies and a set of control variables related to FDI and found that corruption reduces the probability of a company investing in a foreign country.

Delgado *et al.* (2014) use balanced panel dataset of 60 non-OECD countries from 1985 to 2002, the study finds a positive and significant impact of FDI on economic growth in approximately 57% of the countries. A 10% improvement in net FDI inflows relative to GDP is associated with a 0.11% to 4.32% increase in economic growth rate. However, corruption significantly decreases the effectiveness of FDI on economic growth in about 70% of the sample, with a one-degree rise in corruption leading to a 0.07% to a 5.91% reduction in the FDI returns, which reducing economic growth. Intersetingly, they also find that corruption has a positive impact on economic growth rates in roughly 30% of countries, while a negative but statistically insignificant influence on growth in 11% (Delgado *et al.*, 2014, p.314). Overall, the findings show that although FDI does not universally drive strong growth, its benefits can be substantially enhanced bu reducing corruption (Delgado *et al.*, 2014, p.314). In addition, Egger and Winner, (2005) used a panel data of 73 developed and less developed economies from 1995 to 1999. Their findings suggest that corruption may stimulate FDI (Egger and Winner, 2005).

Luu *et al.* (2019) investigate the impact of corruption on FDI and its two main entry modes: greenfield investment, the creation of a new company, and cross-border mergers and acquisitions (M&As). Using a longitudinal data from 131 countries between 2003 and 2015, and applying advanced econometric strategies, including the generalised method of moments (GMM), two-stage least square (2SLS), and two-step system GMM estimators, they find that corruption generally reduces FDI inflows and sand in the wheels of commerce. However, when disaggregating FDI types, corruption is found to encourage foster greenfield investments, while consistently hinders cross-border M&As over time (Luu *et al.*, 2019).

On the contrary, some scholars argue that corruption can grease the wheels of government and trade**,** and increasing FDI, particularly in countries with weak regulatory institutions. According to the helping-hand hypothesis, corruption facilitates bureaucratic process, making it easier and faster to obtain premits and approval for new enterprises (Andersen *et al*., 2018). In such contexts, corruption lowers transaction costs, helps supplement low wages and reduces the tax burden, thus improving FDI and economic growth (Quazi *et al*., 2014). Quazi (2014) analysed 53 African countries between 1995 and 2012 using a dynamic system generalised method of moments (GMM) modelling framework and found that corruption helps FDI inflows.

Cuervo-Cazurra (2008) believes that the type of corruption, rather than its overall level, is what determines whether it facilitates or deters FDI in transition economies. Although both types of corruption negatively impact FDI by increasing costs and uncertainty, different forms of corruption can have varying effects on FDI in transition economies. In his study, he distinguishes between pervasive, specific and widespread corruption, and arbitrary, uncertain, corruption, and proposes that corruption tends to have a less negative impact on FDI in transition economies. He believe that pervasive corruption is a stronger deterrent to FDI because it introduces an additional, predictable cost to foreign investors in transition economies. In contrast, arbitrary corruption creates higher uncertainty in investment decisions but does not act as a deterrent to FDI, as transition economies often have vague rules governing business operations, and corruption is already widespread. Managers may prefer to deal with an unpredictability of arbitrary corruption rather than the certainty of pervasive corruption (Cuervo-Cazurra, 2008).

Cuervo-Cazurra (2006) believes that the relationship between FDI and corruption is influenced by the FDI country of origin. Host countries with low corruption attract more FDI from high-corruption countries, while those with high corruption levels receive less FDI from countries with anti-bribery laws. As a result, corruption affect foreign investors differently. Investors from corrupt countries might not restrict their FDI in similar corrupt countries, whereas those from countries with anti-bribery laws are likely to limit FDI in high-corruption areas (Cuervo-Cazurra, 2006). Cuervo-Cazurra (2006) concludes that corruption can both hinder and inhance FDI. It hinders FDI due to additional costs and uncertainty, especially from countries that have signed the OECD Convention on Combating Bribery, but might attract FDI from countries familiar with bribery, where corruption is prevalent. Therefore, investors from relatively more corrupt home countries are expected to invest in corrupted host countries.

Furthermore, Jalil, Qureshi and Feridun (2016) examine the dynamic relationship between perceived corruption, sourced from International Country Risk Guide (ICRG 2013), and FDI inflows as a share of GDP (UNCTAD 2013) across 42 countries from 1984 to 2012, using a pooled mean group estimator in a dynamic heterogeneous panel framework. The findings show that corruption has a significantly positive impact on FDI inflows in Asian and African countries, where bribe payments can offset institutional inefficiencies and poor governance, thereby encouraging FDI inflows. Conversely, in Latin American countries, corruption has a negative effect on FDI, as it increases uncertainty, inefficiency and risk, leading to potential resource misallocation and distorted investment outcomes. Furthermore, macroeconomic factors such as economy size, inflation, trade openness, public debt, and government expenditure also significantly influence FDI. The key takeaway is that the impact of corruption FDI varies across regions, suggesting the need for context-sensitive anti-corruption strategies (Jalil, Qureshi and Feridun, 2016).

Helmy (2013) finds a significant positive association between corruption and FDI using a sample of 21 MENA countries, from 2003 to 2009. She finds that other determinants tend to influence FDI more than CPI and the control variables used in her study, including GDP per capita, and openness to international trade, are significantly and positively related to FDI inflows in the MENA region. Moreover, investment freedom and the security indicator tend to increase FDI, whereas the tax burden tend to restrict FDI (Helmy, 2013).

Although several researchers find either a beneficial effect or harmful effect of host-country corruption on FDI inflows, others found no relationship of host-country corruption on FDI (Brada *et al.*, 2012; Quazi *et al.*, 2014). For instance, Akcay (2001) uses a cross-section dataset of 52 developing nations and two different corruption indices and did not find evidence to support that corruption markedly influence FDI (Quazi *et al.*, 2014). In general, if a host country successfully attracts initial FDI, it can enhance investor confidence, which can attract more FDI inflows. In addition, FDI tends to be positively associated with higher government effectiveness and larger market size, often measured by per capita real income. In such context, government strategies that promote pro-growth economic policies are crucial, as economic growth can enhance per capita real income further attracting FDI (Quazi *et al.*, 2014). Moreover, several studies have argued that several economic factors may be more important determinants of FDI than corruption, especially strong domestic institutions.

4.4.3 Corporate governance, FDI and Corruption

FDI can be almost three times more beneficial than local investment to economic growth (Meon & Sekkat, 2013, p.2). Companies that rely on international capital to finance their activities must develop their CG systems (Al Farooque, 2009). Corporate Governance (CG) is considered a monitoring system that reduces information asymmetry between management and stockholders, improves the quality of financial reporting and, thus, prevents accounting fraud and manipulations (Alghamdi, 2012). Transparency and disclosure are important components of CG to ensure the comprehensive, reliable and timely disclosure of financial information (Wanjau, *et al*., 2018).

Since the global financial crisis, effective corporate governance (CG), accountancy, transparency, advanced accounting and auditing systems and sufficient disclosure have become essential to improve financial performance, attract local and foreign investors and increase their confidence, especially in less-developed nations (Wu, 2005a, p.1; Wu, 2005b, pp.56, 65, Al Farooque *et al*., 2009, p.4). The World Bank has emphasised the need to develop CG, particularly in emerging nations, with a focus on improving government effectiveness, regulatory quality, the rule of law, political stability, accountability, and the control of corruption (Al Farooque *et al*., 2009, p.5). However, several scholars believe that every nation needs to develop a system of corporate governance that fits its political, technological and cultural conditions (Mulili and Wong, 2011).

The lack of CG mechanisms might lead to several deficiencies, such as information asymmetries. Conversely, better CG and transparency are expected to reduce agency problems (Beekes *et al*. 2015) and information asymmetry between shareholders and management, thereby improving financial reporting quality and reducing earnings management (Alghamdi, 2012). Several scholars confirm that foreign investors prefer to invest in firms with less information asymmetry, which tend to decrease information acquisition costs and monitoring activities. Thereby, having higher levels of governance standards (Das, 2014). This is because information asymmetry tends to make determining the actual economic value, risks, and the extent of expropriation activities more difficult (Das, 2014). In addition, companies with higher information asymmetry tend to rely more on external mechanisms of control, e.g. shareholders rights, than internal mechanisms e.g. board and auditing committee (Das, 2014).

Corruption and fraud tend to negatively influence CG (Andersen *et al*., 2018) and investments, especially foreign investment (Castro and Nunes, 2013). A study by Wu (2005a, p.151) exploring the linkage between CG and corruption in a cross-country context revealed that effective CG suppresses preveived corruption and increases performance, and international investors are happy to pay more for better-governed firms. Corruption and fraud are expected to reduce economic growth, development, efficiency and effectiveness (Cuervo-Cazurra, 2006; Malagueño *et al.*, 2010), especially in economies with strong institutions (i.e. robust regulatory and legal frameworks), and to have the opposite effect in economies with weak institutions. Corruption appears to restrict government spending on health and education (Kondyan and Yenokyan, 2019), global and local aid flows and the efficiency of taxes generated as a part of government revenues and increase the cost of doing business, which leads to budgetary deficiencies. Corruption also shifts the ownership structure related to FDI towards joint ventures, negatively influencing the real exchange rate of the host country (Houqe and Monem, 2016).

In addition, corruption is expected to slow down the growth and development of organisations and countries due to two potential factors: First, corruption can misallocate resources that could be efficiently invested in productive assets, exploration or other activities to enhance the living standard and improve the economic growth, whereas other economies are improving their economic income and competitive feature. Second, harmful influence of corruption on FDI is expected in the host country because foreign organisations and individuals might avoid investing in economies with high perceive corruption and, thus hight investment risk (Houqe and Monem, 2016; Malagueño *et al.*, 2010). Andersen *et al*. (2018) studied 12 transition countries using a gravity model and found that nations with higher rates of corruption often have higher levels of risk and lower levels of transparency and investment. This approves that corruption could significantly costs economies and reduces FDI. For instance, the estimated economic cost of corruption to the Chinese economy from 1995 to 1998 ranges between %13.2 and %16.8 of China's GDP (Malagueño *et al.*, 2010, p.5).

Raza *et al.* (2021) used fixed effect model and the GMM estimator to investigate the nexus of FDI, labour, capital and five determinants of institutional quality on the economic growth in the OECD economies over the period 1996–2013. The OECD is a relatively homogenous group of mostly well-developed and wealthy economies with strong institutions and relatively low to moderate levels of corruption. Control of corruption, GDP, FDI, regulatory quality and voice, accountability and government effectiveness are significantly positive with economic growth. Therefore, better institutional quality improves in the economic growth and the FDI inflows in the OECD countries. This sheds light on the important role policymakers can play in drafting effective laws and government policies against corruption to enhance regulatory control measures and institutional quality. Moreover, transparent government spending can be a way of controlling corruption (Raza *et al.*, 2021).

Drabek and Payne (2002) reveal that the degree of transparency is a significant factor in attracting foreign investors to a country. Their study, which covers 52 countries along the 1991-1995 timespan, confirmed that, on average, a one-degree increase in transparency ranking in a country might lead to an approximately 40% increase in FDI (Drabek and Payne, 2002, pp.777, 803). In other words, a country that takes action to improve the transparency level in its institutions and policies could expect a major improvement in FDI inflows. Coversely, non-transparent policies could lead to lower levels of FDI, welfare and efficiency in the host economy, which lead to fewer resources and reduce social welfare and economic efficiency (Drabek and Payne, 2002, p.777).

In addition, Cicatiello *et al.* (2021) investigate the relationship between fiscal transparency and FDI inflows across 72 countries with diverse institutional and macroeconomic conditions from 2006 to 2015. While fiscal transparency shows a positive but statistically insignificant impact on FDI inflows, transparency during the budget execution phase has a strong and statistically significant positive effect. Specifically, a one-point rise in budget execution transparency is associated with a 1.26% increase in FDI inflows in the sample, 1.47% in non-OECD economies, and 1.46% in low and lower-middle-income economies (Cicatiello *et al.*, 2021, p.8). These findings highlight the importance of adhering international fiscal transparency guidelines, especially in developing countries, to attract foreign investment and stimulate economic growth (Cicatiello *et al.*, 2021).

Although transparency and disclosure are important components of CG (Wanjau *et al*., 2018), using strong, high quality and accepted accounting standards is expected to create an attractive investment environment and improve the quality, transparency, consistency, and disclosure and thus encourage overseas customers and investors (Akpomi & Nnadi, 2017). In other words, reducing information asymmetries and information processing costs by adopting high accounting and auditing standards can strengthen accounting systems and, thus, attract foreign investors. Strong accounting and reporting standards can improve comparability, understandability, control systems and the quality of financial reporting (Gordon *et al*., 2012; Emalereta & Akandu, 2017). In addition, Emalereta and Akandu (2017) find that high-quality accounting information that reflects effective CG can easily attract more FDI.

Investor protection is widely recognised as fundamental pillars of any effective corporate governance framwork. A company's reputation is likely to be enhanced when investors' rights are well-protected through strong governance measures (Agyemang, *et al*., 2019b). This inhanced credibility and trust can attract foreign investors (La Porta *et al*., 2000). For instance, the accountability of the corporate boards to the shareholders, particularly minority investors, as well as independent and competent corporate board members, who honestly represent the interests of investors, can assist in avoiding the opportunistic behaviours of the inside shareholders and managers. Thus, increasing FDI. Reese and Weisbach (2002) also believe that economies associated with weak protection of the interests of minority shareholders attract less FDI from the USA, compared to economies with strong minority shareholder protection. Therefore, PMI is essential to rescue the reduced investment opportunities of an economy (Agyemang *et al.*, 2019a).

As a result of the weak protection of the interests of minority shareholders, economies have been seeking to develop governance codes (Cuervo-Cazurra, 2008) that give minority shareholders the same rights as majority shareholders in order to protect all investors and attract more FDI (Agyemang *et al.*, 2019a). CG can reduce agency costs and conflicts between either shareholders and managers (Alghamdi, 2012; Beekes *et al*., 2015; Arora and Sharma, 2016) or majority and minority shareholders, thereby improving both accounting and market performance (Arora and Sharma, 2016) and protecting all types of investors.

Aggarwal *et al*. (2009) revealed a strong relationship between shareholder and governance in countries with high investor protection and transparency levels, taken into account that civil law countries tend to provide less investor protection than common law countries (Choi, *et al*., 2016). Das (2014) studied the effect of corporate governance on the investment allocations of fund managers on foreign equity holdings of mutual funds from 37 countries worldwide. He found that fund managers are more likely to tilt their portfolio weights toward enterprises with better governance systems and less information acquisition and monitoring costs, i.e. satisfied board characteristics and independent auditors. Therefore, high-governed companies tend to attract more foreign investments regardless of country-level governance indicators such as investor protection level, disclosure requirements and legal origin. This means that shareholder rights and protecting investors are not attributed with foreign investment decisions. Therefore, he encourages directors of enterprises who desire to attract foreign stockholders to put more emphasis on improving board characteristics and audit quality.

Lien *et al* (2005) used a sample of 228 Taiwanese listed firms from 1995 to 1999. They revealed that family control and share ownership by domestic financial institutions in Taiwan are associated with FDI decisions. These findings are consistent with strategic diversification theory. Family control is positively related to investment decisions in China, whereas state and institutional stock ownership is positively related to FDI worldwide. Their paper could be interested in countries with low minority investor protection. However, Choi *et al*. (2016) examined the effects of institutional distance of FDI using international Mergers and acquisition (M&A) activities of US companies invested in 38 countries over the span of 1981-2008. They found that better general environmental institutions (GEI) in the host country attract more FDI, whereas minority investor protection institutions (PMI) attract less FDI. The negative relationship between PMI and FDI might be due to the lower flexibility and profitability for inward international M&A by multinational corporations. However, Sudarat (2006) found a negative relationship between CG and FDI, by testing 365 listed firms on the Thai Stock Exchange. This is because weak CG could result in foreign investors exploiting minority shareholders (Al Farooque, 2009).

The development of the hypotheses is grounded in agency theory, particularly in environments where regulatory and legal enforcement is weak. In other words, agency theory suggests that information asymmetries between agents (managers) and principals (investors) can lead to opportunistic behavior, especially in weak governance context. High-quality accounting standards improve financial transparency, credibility, consistency, and comparability across companies. Such standards also reduce asymmetry, and signal stronger investor protections, which are vital in reducing corruption and creating an investment-friendly environment that attracts FDI. Moreover, strong minority investor protections ensure that all shareholders are treated fairly and are safeguarded from expropriation or misuse of corporate assets by majority stakeholders. This builds investor trust and reduces any unethical or corrupt behaviour. PMI also reduces the risk of managerial misconduct, especially in markets where corruption is prevalent. This protection is particularly valuable to foreign investors, who often hold minority shares. The benefits of PMI are amplified if the legal and institutional environment is effective and corruption is restricted, helping to offset the deterrent effect corruption usually has on FDI. In other words, when anti-corruption institutions are strong, PMI mechanisms become more credible and effective, thus creating an attractive investment environment in the host country.

In addition, Institutional theory suggests that higher institutional quality, i.e. regulatory frameworks and enforcement, tends to attract more investors. Developed accounting standards, along with effective anti-corruption measures, improve institutional credibility, which might moderate the negative influence between corruption and FDI by reassuring foreign investors through a more predictable and transparent investment environment. Institutional theory supports Hypothesis 2 by highlighting that investor behavior is shaped by broader than micro-level contexts.

In general, several governance mechanisms are expected to create a more attractive business environment to foreign investors. Therefore, the interaction between either high-quality accounting standards or strong PMI and strong anti-corruption measures is expected to moderate the negative impact of corruption on FDI, as proposed in Hypothesis 1 and 2. This is because they can enhance transparency and accountability, making it more difficult for corrupt practices to go undetected or unpunished. The two hypotheses of this chapter are:

Hypothesis 1. The interaction between accounting standards and control of corruption can moderate the negative relationship between Corruption and FDI.

Hypothesis 2. The interaction between PMI and control of corruption can moderate the moderate relationship between Corruption and FDI.

In conclusion, lower corruption levels positively influence a country's overall quality of governance. Similarly, economies with strong governance mechanisms are more likely to attract high levels of FDI. Since the early 1980s, the advantages of FDI have prompted many developing economies to ease restrictions on foreign capital inflows. The rise of globalisation, the expansion of multinational corporations, the deepening of capital markets, and advances in Information and communication technologies (ICT) have further accelerated the global flow of capitals (Quazi *et al.*, 2014, p.231). FDI offers numerous benefits to host economies, including human capital development, technology transfer, increased local market competition and reduced unemployment, particularly in emerging markets (Quazi *et al.*, 2014, p.231). It also brings in foreign currency and capital and can simulate domestic investment through matching funds and knowledge spillovers. Therefore, a country's ability to attract and benefit from FDI depends on a combination of institutional and governance factors, the overall level of social and economic development, and the capacity of national governments and domestic firms to effectively leverage the opportunities that FDI presents (ibid).

4.5 Research Methodology

This section introduces the data collection and analysis methods to examine the association between protecting minority investors and accounting and auditing standards on the relationship between corruption and FDI among countries.

4.5.1 Sample Selection and Data Collection

The general purpose of the chapter is to test the impact of protecting minority investors and the strength of accounting standards on the relationship between FDI and corruption, while controlling for economic development and finance factors. Therefore, the research question is: To what extent does protection of minority investors (PMI) and accounting affect the association between Foreign Direct Investment (FDI) and corruption?

The sample size affects the validity and ability to generalise the research findings (Jankowicz, 2005, p. 205). A well-designed sample should be representative, precise and adequate in size (Krishnaswami and Satyaprasad, 2010). Initially, the sample of the study comprises annual observations of up to 133 economies worldwide between 2006 and 2017. The reason for choosing this time period is that PMI and SARS data, collected from the World Economic Forum, were only available from 2006 to 2017. The sampling strategy aims to include as many countries as the data availability allows, resulting in a dataset that is nearly comprehensive. The panel data was collected from various international sources, including the World Bank, the World Economic Forum and KOF globalisation index; however, it was unavailable for certain countries, leading to some gaps in coverage.

FDI, CG and corruption variables are tested using ordinary least square (OLS) regression. The data sources and measurement of each variable are outlined in Table 4.1, and Stata software is used for analysis.

4.5.2 Main Variables Used in the Study

Foreign Direct Investment (FDI)

The dependent variable is Foreign Direct Investment (FDI). FDI refers to the net inflows of investment from a foreign investor to acquire a lasting management interest, i.e. 10% or more of the voting stock, in a company operating in a host country, outside the investor's country. It consists of equity capital, short- and long-term capital, and reinvestment of profits or intracompany debt or loans (UNCTAD, 2016; Gillanders and Parviainen, 2018, p.198).

For the purpose of this study, the most appropriate indicators of FDI are FDI per capita and FDI as a percentage of GDP. FDI per capita represents the constant-values foreign direct investment (FDI) inflows divided by total population. Data on FDI in current values were collected from the United Nations Conference on Trade and Development (UNCAD 2005-2018) and subsequently converted into constant values using a GDP deflator. Current (nominal) values are values that are not adjusted for volatility or inflation, thereby not reflect the prices at the time of measurement. A deflator is a numeric pricing measure used to convert nominal values into real (constant) values, to be adjusted for price movements, thereby accounting for inflation and enabling meaningful comparisons over time. In addition, data on population were sourced from the World Bank's World Development Indicators.

FDI as a percentage of GDP, equals to the net inflows in the host economy from foreign investors divided by GDP. Net FDI inflows represent the total value of new FDI inflows into a country minus disinvestment. Data on FDI as a proportion of GDP were obtained from the World Bank's World Development Indicators (WDI) in constant U.S. dollars. This FDI measure has been used by several studies e.g. (Agyemang, *et al.*, 2019a; Drabek and Payne, 2002; Efobi *et al.*, 2018; Freckleton *et al.*, 2012; Jan *et al.*, 2019; Kondyan and Yenokyan, 2019; Quazi, 2014).

Protection of Minority Investors (PMI)

The independent variable in this study is Protecting Minority Investors (PMI), a governance indicator that has been widely used in the prior literature, e.g. (Ophias *et al.*, 2020; Agyemang, *et al.*, 2019a; Alsubaie, 2012). PMI respresents the extent to which regulations and laws safeguard minority investors from misuse or corrupt activities by majority investors and directors. Due to the limited participation of minority investors in the decision-making process and monitoring system of a company, the incidence of bribery and corruption is expected to be greater, which therefore may discourage foreign investors from investing in a host country. Hence, effective CG mechanisms and strong accounting standards are vital to protect investors' rights and ensure transparency and accountability and, thus less corruption (Holzhacker *et al.*, 2015).

PMI is a governance indicator sourced from the World Economic Forum index and ranges from 7 (best) to 1 (low). It is part of the Executive Opinion survey conducted by the World Economic Forum, reflecting the opinions of business leaders and executives in more than 141 economies (Changwony and Paterson, 2019).

Strength of accounting and auditing standards (SARS)

The strength of auditing and reporting standards (SARS) in a country is a governance indicator that has been used in a series of prior accounting studies (Ophias *et al.*, 2020). It can strengthen the governance system of companies and restrict manipulations and fraud, thereby encouraging the transfer of capitals worldwide (Al Farooque *et al.*, 2009).

SARS is sourced from the World Economic Forum index with a scale ranging from 7 (best) to 1 (low), as a part of the Executive Opinion questionnaire that reflects the opinions of business executives and leaders in more than 141 countries (Changwony and Paterson, 2019). Malagueño *et al*. (2010) confirmed that the increased presence of the Big Four firms and accounting quality can restrict corruption in a country. Therefore, better auditing and accounting standards are more likely to associated negatively with corruption (Malagueño *et al.*, 2010).

Control of Corruption

Several scholars believe that the prevalence of corruption is more likely to be lower in wealthier economies (Kwok and Tadesse, 2006; Gillanders and Parviainen, 2018, p.210; Zander, 2021, p.369) and economies with larger FDI in the past (Kwok and Tadesse, 2006). There are two types of corruption: perception-based corruption and experienced-based corruption (Gillanders and Parviainen, 2018).

Prior literature typically relies on perception-based corruption indicators rather than measures of actual corruption experience, as they are more widely available, covers larger number of countries and years, and better capture the broader institutional environment in which corruption takes place. The perception of corruption measures often reflect how corruption is viewed by citizens, businesses, and experts, making them useful for assessing its impact on investment decisions, trust, and governance (Aidt *et al.*, 2020). Perceptions are more subjective and often more strongly correlated with macroeconomic indicators and governance outcomes, offering a practical proxy for understanding the impact of corruption (Aidt *et al.*, 2020). Aidt *et al.*, (2020) believe that perceived corruption is often significantly associated with factors commonly linked to the causes of corruption, such as the burden of business regulations and the quality of governance institutions. Hence, they are expected to reflect the actual corruption in a country. In contrast, measures of actual corruption experience tend to show weak or inconsistent correlations with these factors (Aidt *et al.*, 2020). In addition, the actual experience of corruption may be underreported due to fear, legal risk, or limited survey reach. According to Hammer and Hamilton (2018), several key issues are associated with experienced-based corruption measures. These include limited data availability from OECD countries, the variation in legal definitions of bribery across jurisdictions, and the fact that prosecution data are not designed to reflect overall levels of corruption.

This chapter uses an indicator of perceived corruption, which is the Control of Corruption (CC) index, developed by Daniel Kaufmann *et al*. (2012) as part of the Worldwide Governance Indicators (WGI) project. The CC index captures perceptions of the extent to which public power exercised for private gain, including both kinds of corruption: petty and grand.

The WGI measures are reported as a percentile rank of countries from zero (weakest control of corruption) to 100 (stronger control of corruption), and standard normal units of governance indicator scaling from −2.5 to 2.5, with lower scores indicating high levels of perceived corruption, and vice versa (Kaufmann *et al*., 2011).

Control of corruption measure is used in this study due to its consistant methodology and better comprehansive data availability over the proposed period, Compared to CPI, the CC index is constructed using a broader range of sources, drawing on over thirty different sources, making it one of the most comprehansive perception-based corruption indicators available. It forms part of the WGI projext, which includes six aggregate governance dimentions: control of corruption, regulatory quality, government effectiveness, the rule of law, political stability, voice and accountability, and absence of violence/terrorism. The WGI uses an unobserved components model to generate aggregate governance indicators, enhancing the reliability and comparability of the measures (Kaufmann, *et al*., 2011). Nonetheless, it is important to acknowledge the possibility of biases inherent in perception-based measures, particularly those based on of expert surveys (Adhikari *et al.*, 2019).

Control Variables

Although PMI, accounting and corruption have each been shown to be important determinants of FDI in previous studies, other control variables have also been found to be important. These variables are commonly employed in the empirical literature on FDI, reflecting their relevance for understanding the determinants of FDI. Therefore, GDP Per Capita (GDPPC), Openness to trade and commerce (Kondyan and Yenokyan, 2019) and KOF Financial globalisation index have been used as control variables for this study. GDPPC and trade openness are included as control variables to account for macroeconomic factors. Both variables are measured in constant 2015 U.S. dollars and are sourced from the World Bank's WDI. In addition, KOF Financial globalisation index has been used as a control variable.

- GDP per Capita (log GDPPC)

Following the majority of prior literature in FDI context, the natural logarithm of the gross domestic product per capita (GDPPC; in 2015 US$ constant) is used in this study as an indicator of the economic development level (Eco_dev) (Agyemang, *et al.*, 2019a; Cicatiello *et al.*, 2021; Delgado *et al.*, 2014a; Epaphra, 2017; Hossain and Zayed, 2016; Jalil *et al.*, 2016). GDP Per Capita (GDPPC), represents the gross domestic product as a percentage of the average population, sourced from the World Bank's Worldwide Development indicators (WDI).

GDPPC can measure the difference in economic wealth across nations (Kwok and Tadesse, 2006; Wu, 2005a) as well as the market size of any host country (Jalil *et al.*, 2016). As mentioned before, wealthier economies appears to have less prevalence of corruption (Changwony and Paterson, 2019; Kwok and Tadesse, 2006; Gillanders and Parviainen, 2018, p.210; Zander, 2021, p.369). This might be due to the strong institutions and accounting traditions (Changwony and Paterson, 2019). In addition, endogenous growth theory suggests that economies with larger size of market are more likely to experience sustained economic growth, which in turn make them more attractive environments for FDI inflows. Taking into account that substantial market usually provides opportunities to international investors, including economies of scale, which result in lower costs of production and distribution per unit (Mengistu and Adhikary, 2011).

- Openness (log)

The second control and economic development variable is the openness to international commerce and trade, measured as the ratio of the sum of imports and exports to GDP, expressed in constant 2015 U.S. dollars. This data are obtained from the World Bank's Worldwide Development indicators (WDI). Several papers have found that countries more open to international investments and trade, particularly those with high import values, tend to exhibit higher levels of market competition and attract greater FDI, while also experiencing lower levels of corruption. This is because public officials cannot provide profitable protection to bribe payers (Wu, 2005a), which encourage more foreign investment in that country. Openness to commerce appears to have a positive impact on growth due to its improvement in productivity (Kondyan and Yenokyan, 2019). Moreover, economies with high-quality accounting practices tend to have more competitive features, making them more open to trade, attracting larger amounts of FDIs, and thus limiting corrupt activities (Changwony and Paterson, 2019).

- KOF Financial Globalisation Index (KOFFi), de jure

The KOF Globalisation Index is developed by the KOF Swiss Economic Institute to measure the extent of globalisation in countries over time. The Index measures three dimensions of globalisation: First dimension is the economic globalisation, which weights 33.3% of the index. It consists of Trade Globalisation and Financial Globalisation (see Figure. 4.1). Second dimension is the Social globalisation, which weights 33.3% of the index. It consists of Interpersonal Globalisation, Informational Globalisation, and Cultural Globalisation. Third and last dimensions is the Political Globalisation, which also weights 33.3% of the index.

In this study, the financial globalisation (de jure) has been used as a control variable. It aims to measure the extent and intensity of a country's financial integration into that global financial markets, as well as the influence of financial openness, e.g. trade policies and regulations, on FDI inflows. By controlling for financial globalisation, the study aims to provide a more accurate evaluation of how accounting practices and the protection of minority investors may moderate the relationship between corruption and FDI. The KOF Globalisation Index is useful, as globalisation influence economic openness, investor confidence, and the strength of regulatory frameworks, which might moderate corruption and FDI relationship. The financial globalisation, de jure consists of investment restrictions, capital account openness, and international investment agreements (see Figure 4-1). The Index is calculated on a yearly basis from 1970 to 2020, with a scale ranging from one to one-hundred, where 100 is assigned to the maximum value of a specific. However, not all data are available for all countries and years. The overall KOF Globalisation Index is calculated as the average of the de facto and the de jure Globalisation Index.

Figure 4-1 KOF Economic Globalisation Index

Globalisation Index, de facto	Weights	Globalisation Index, de jure	Weights
Economic Globalisation, de facto	***33.3***	***Economic Globalisation, de jure***	***33.3***
Trade Globalisation, de facto	*50.0*	*Trade Globalisation, de jure*	*50.0*
Trade in goods	38.1	Trade regulations	27.9
Trade in services	42.6	Trade taxes	28.1
Trade partner diversity	19.3	Tariffs	26.4
		Trade agreements	17.5
Financial Globalisation, de facto	*50.0*	*Financial Globalisation, de jure*	*50.0*
Foreign direct investment	26.3	Investment restrictions	30.6
Portfolio investment	16.5	Capital account openness	38.8
International debt	29	International Investment Agreements	30.6
International reserves	0.8		
International income payments	27.5		

(Source: KOF Swiss Economic Institute)

What is more, broad regional dummies have been added to the regression model, including the Organisation for Economic Co-operation and Development (OECD), which is an international body with 37 member nations, aiming to create more efficient policies for better lives, Sub-Saharan Africa, and Latin America and the Caribbean.

In summary, the selection of variables, dependent, independent and control variables, in this chapter is motivated by the substantial argument that corporate governance, corruption and the economic development of a country are expected to be associated with foreign direct environment (FDI) (Houqe and Monem, 2016). Table 4.1 summarises all variables used, including breif description, appreviations and sources. However, although several prior papers (e.g. Treisman, 2007) have used other variables to explore the main determinants of FDI, such as the rule of law, democracy, etc., many of these variables are ignored as they are greatly correlated with some variables that were used in this study, which might lead to multicollinearity issues. In other words, this research does not intend to include all institutional variables related to foreign investment.

Table 4-1 Description of Variables

Variable	Measure	Description of variable	Data source
Dependent variables Foreign direct investment	FDI Per Capita (FDIPC)	Constant value of FDI* divided by total population. * *FDI after converting FDI current into constant using GDP deflator*	United Nations Conference on Trade and Development (UNCAD, 2005-2018) & World Bank's Worldwide Development Indicators (WDI)
	FDI%GDP	FDI as a percentage of GDP (constant 2015 U.S. dollars).	
Independent variable			
Protection of Minority investors	PMI	Protection of minority investors, scale ranging from 1 to 7 (best).	Global competitiveness index (World Economic Forum)
Accounting standards	SARS	The strength of reporting and auditing standards, 1-7 (best).	
Corruption	CC	Control of corruption index ranging from −2.5 to 2.5 (less corrupted).	Worldwide Governance Indicators, World Bank
Control variables			
Economic development	b. GDPPC (log)	The logarithm of gross domestic product divided by midyear population (constant 2015 U.S. dollars).	World Bank's Worldwide Development Indicators
	b. Openness (log)	The logarithm of the imports plus exports as a share of the GDP (constant 2015 U.S. dollars).	
KOF Financial Globalisation Index, de jure	KOFFi	The KOF Financial Globalisation index, which consists of investment restrictions, capital account openness & international investment agreements	KOF Globalisation Index

4.6 Empirical model for the study

The chapter aims to examine the impact of protecting minority investors (PMI) and the strength of auditing and reporting standards (SARS) on the association between perceived corruption (CC) and foreign direct investment (FDI). It includes three control variables: GDP per Capita (GDDPC) and Openness to trade (Openness) to control for economic development, and KOF financial globalisation index. Hence, the following regression models have been applied to examine the proposed hypotheses regarding the correlation between the protection of minority investors (PMI), SARS and Corruption and FDI, with year-fixed effects:

$$FDI_{it} = a + b_1(GDPPC_{it}) + b_2(Openness_{it}) + b_3(PMI_{it}) + b_4(Koffi_{it}) + \varepsilon_{it}$$

$$FDI_{it} = a + b_1(GDPPC_{it}) + b_2(Openness_{it}) + b_5(SARS_{it}) + b_4(Koffi_{it}) + \varepsilon_{it}$$

$$FDI_{it} = a + b_1(GDPPC_{it}) + b_2(Openness_{it}) + b_6(CC_{it}) + b_4(Koffi_{it}) + \varepsilon_{it}$$

$$FDI_{it} = a + b_1(GDPPC_{it}) + b_2(Openness_{it}) + b_3(PMI_{it}) * b_6(CC_{it}) + b_{4it}(Koffi_{it}) + \varepsilon_{it}$$

$$FDI_{it} = a + b_1(GDPPC_{it}) + b_2(Openness_{it}) + b_5(SARS_{it}) * b_6(CC_{it}) + b_{4it}(Koffi_{it}) + \varepsilon_{it}$$

$$FDI_{it} = a + b_1(GDPPC_{it}) + b_2(Openness_{it}) + b_3(PMI_{it}) * b_6(CC_{it}) + b_5(SARS_{it}) * b_6(CC_{it}) + b_4(Koffi_{it}) + \varepsilon_{it}$$

**Where i indicates countries and t indicates years.*

Where FDI can be measured as: (1) the FDI per capita, or (2) FDI to GDP ratio in country i, at time t. PMI is an indicator of protecting minority investors; SARS refers to the strength of accounting standards; CC is an indicator of perceived corruption. The control variables are GDP per Capita (GDPPC), Openness to trade (Openness) and KOF Financial globalisation index (Koffi). The regressions were estimated using the Stata 13 software, employing a pooled Ordinary Least Squares (OLS) approach.

4.7 Descriptive Statistics

Table 4-2 provides the descriptive statistics of the main variables used in the study. It shows that the FDI per capita ranges between $-79,900 in Luxembourg and $119,000 in Malta. Also, FDI as a share of GDP (FDI%GDP) ranges between -57.532 in Luxembourg and 449.083 in Malta. These statistics indicate the existence of data outliers in the research sample, and Figure 4-2 shows that Malta, Cyprus and Luxembourg have extreme values of FDI. Therefore, these countries have been eliminated from the sample (see Figure 4-3) and the number of total countries included in the study was reduced to 133 countries.

Table 4-2 Descriptive Statistics of the Main Variables 1

Variable	Obs.	Mean	Std. Dev.	Min	Max
FDIPC	1622	1411.112	7047.97	-79900	119000
FDI%GDP	1627	6.623	21.209	-57.532	449.083
Control of Corruption	1632	.062	1.018	-1.664	2.47
PMI	1555	4.287	.774	1.998	6.371
SARS	1555	4.673	.883	2.134	6.727
GDPPC (log)	1620	8.741	1.445	5.657	11.63
Openness (log)	1474	4.293	.54	2.963	6.021
KOF Financial index	1632	59.935	17.877	20.582	94.471

Figure 4-2 Outliers of FDI among Countries

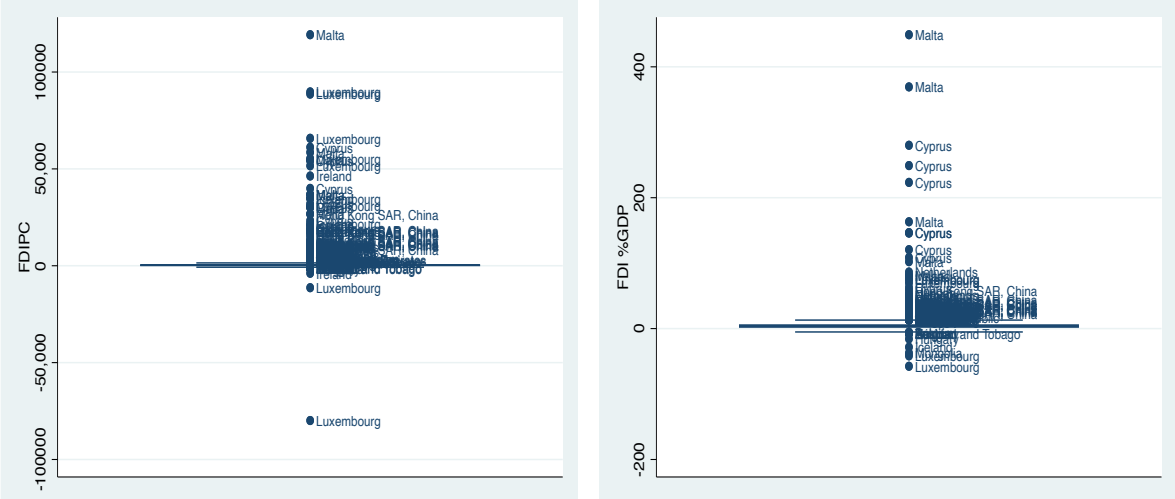
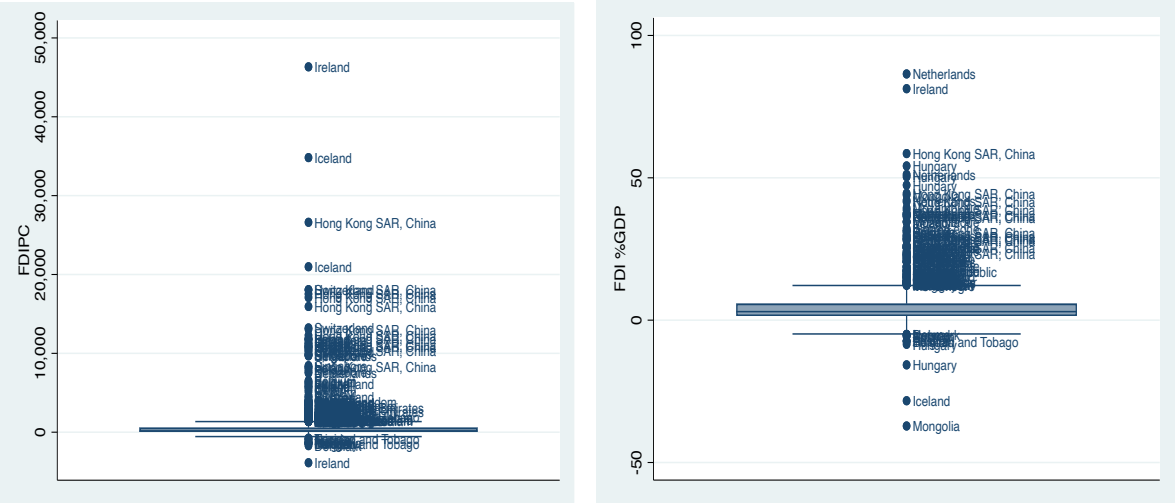


Figure 4-3 FDI among Countries after Eliminating Malta, Cyprus and Luxembourg



Outliers have been eliminated to ensure the robustness of the results. This is because countries with extreme or abnormal values could distort the regression outcomes. Table 4.3 provides the descriptive statistics of major variables used in the study after eliminating the outlires, Malta, Cyprus and Luxembourg, due to their extreme FDI values, which can help in improving the reliability and interpretability of the regression coefficients. It shows that the FDI Per Capita ranges between 46,335.73 in Ireland and -3,870.23 in Ireland. FDI as a share of GDP (FDI%GDP) ranges between 86.479 in the Netherlands and -37.173 in Mongolia. In addition, the control of corruption variable ranges between 2.47 in Denmark (perceived as the cleanest country) and -1.664 in Yemen (the most corrupt country), with a mean value of 0.034 over the period 2006-2017. The protection of minority investors with a mean score of 4.27 over the years 2006–2017, has a maximum score of 6.371 in Sweden (best PMI) and a minimum of 1.998 in Mauritania (weakest PMI). Similarly, the mean score of the strength of accounting standards (SARS) is 4. 649, with a minimum of 2.134 in Mauritania and a maximum score of 6.727 (best) in South Africa. These values suggest that a significant proportion of economies demonstrate a satisfactory level of minority investor protection and relatively strong accounting and auditing standards.

In terms of control variables, which express the level of economic development and financial globalisation, three variables have been included. The natural logarithm of GDP per capita (GDPPC) ranges from 5.657 to 11.363, with a mean of 8.7, whereas the natural logarithm of openness has a mean of 4.265, with a minimum value of 2.963 and a maximum value of 6.02. KOF financial index ranges between 20.582 and 89.625, with a mean of 59.448.

Table 4-3 Descriptive Statistics of the Main Variables 2

Variable	Obs.	Mean	Std. Dev.	Min	Max
FDIPC	1586	734.051	2441.654	-3870.23	46335.73
FDI%GDP	1591	4.859	7.312	-37.173	86.479
CC	1596	.034	1.009	-1.664	2.47
PMI	1519	4.27	.773	1.998	6.371
SARS	1519	4.649	.877	2.134	6.727
GDPPC (log)	1584	8.699	1.43	5.657	11.363
Openness (log)	1438	4.265	.512	2.963	6.021
KOF Financial index	1596	59.448	17.737	20.582	89.625

Tables 4-4 and 4-5 show the correlation results between FDI and other variables used in the study. The reported correlations are significant as they help evaluate the potential for multicollinearity among the variables. The correlation matrices show that FDI is not highly correlated with any variable, reducing immediate concern for multicollinearity affecting the FDI regressions. In addition, PMI, SARS, and GDPPC, are highly correlated with Control of Corruption (approximately 0.7), and that PMI and SARS are strongly correlated with each other (0.85). These high correlations among explanatory variables highlight a potential risk of overlapping effects in models where two interactions are included. This becomes especially relevant in the later regression results, where including both interaction terms (CC#PMI and CC#SARS) and leads to an insignificant combined effect on FDI, possibly due to multicollinearity between PMI and SARS.

Table 4-4 Correlation Test-1

	FDIPC	CC	PMI	SARS	KOFFI	GDPPC (log)	Openness (log)
FDIPC	1.000						
CC	0.3861	1.000					
PMI	0.2680	0.7013	1.000				
SARS	0.2919	0.7737	0.8550	1.000			
KOFFI	0.2774	0.6397	0.4967	0.6263	1.000		
GDPPC (log)	0.3416	0.7921	0.5399	0.6919	0.6949	1.000	
Openness (log)	0.3684	0.3238	0.1207	0.2518	0.3482	0.3502	1.000

Table 4-5 Correlation Test-2

	FDIGDP	CC	PMI	SARS	KOFFI	GDPPC (log)	Openness (log)
FDIGDP	1.000						
CC	0.1834	1.000					
PMI	0.1064	0.7013	1.000				
SARS	0.1251	0.7737	0.8550	1.000			
KOFFI	0.2137	0.6397	0.4967	0.6263	1.000		
GDPPC (log)	0.1135	0.7921	0.5399	0.6919	0.6949	1.000	
Openness (log)	0.4193	0.3238	0.1207	0.2518	0.3482	0.3502	1.000

4.8 Empirical Results

The novelty of this chapter is to test whether PMI and accounting standards can change the negative impact of corruption on FDI. The dependent variable of the study is foreign direct investment, i.e. FDI divided by mid-year population, and FDI divided by GDP. The independent variables are the protection of minority investors (PMI), the strength of auditing and reporting standards (SARS) and the control of corruption (CC), which are considered components of corporate governance indicators in a country. The control variables are openness to trade and GDPPC in 2015 constant U.S. dollars, which are used to control economic development in a country, and KOF financial globalisation index. The GPDPC and openness are commonly used in FDI and governance literature.

Furthermore, three broad regional dummies have been added to the regression model: the Organisation for Economic Co-operation and Development (OECD), Sub-Saharan Africa, and Latin America and the Caribbean. These regional dummies are expected to take history, culture, economy, politics and other unobservable factors into consideration. The results of an ordinary least squares (OLS) regression with years-fixed effects using STATA software are shown in Table 4-6.

In Table 4.6, where FDI per capita is the dependent variable, columns 1 and 3 show that there are significantly positive relationships, at the 1% significant level, between FDIPC and either protecting minority investors or control of corruption, which indicate that stronger levels of protection of minority investors or control of corruption lead to an improvement in FDI levels, which is consistent with the economic and agency theories. However, column 2 shows a positive but insignificant relationship between FDI and the strength of accounting and auditing standards (SARS).

Regarding the control variables, GDPPC and trade openness are positively and significantly associated with FDI inflows, at the 1% significant level. Thereby, indicating that a higher level of economic development, i.e. larger market size and more open economies to trade and investments, leads to an increase in FDI levels. However, no significant association between FDI and KOF financial globalisation indicator.

Table 4-6 Regression Results-1

	(1) FDIPC	(2) FDIPC	(3) FDIPC	(4) FDIPC	(5) FDIPC	(6) FDIPC
PMI	384.690***			36.848		158.386
	(90.215)			(75.428)		(328.872)
SARS		171.352			-43.179	-129.123
		(141.521)			(158.926)	(429.404)
CC			782.071***	-1183.074***	-1689.893***	-1580.920***
			(120.105)	(339.297)	(585.673)	(577.035)
CC##PMI				397.049***		-219.561
				(78.871)		(370.664)
CC# ACC					468.192***	642.727
					(112.814)	(428.038)
GDPPC (log)	521.564***	594.302***	249.148***	314.245***	348.138***	343.881***
	(67.118)	(80.331)	(46.395)	(50.091)	(57.830)	(60.805)
Openness (log)	1523.735***	1458.856***	1324.434***	1418.316***	1393.298***	1410.080***
	(238.080)	(230.842)	(216.983)	(227.055)	(211.675)	(248.196)
KOFFI	-2.676	-0.573	-2.895	-1.926	0.249	0.011
	(5.610)	(6.475)	(5.411)	(5.443)	(6.116)	(6.312)
OECD	-334.137	-379.499	-752.842***	-806.672***	-908.225***	-893.283***
	(244.625)	(245.542)	(260.229)	(249.941)	(238.854)	(284.249)
Sub-Saharan Africa	570.064***	746.020***	338.723***	434.501***	442.602***	378.986***
	(132.513)	(166.240)	(126.956)	(127.865)	(145.991)	(129.598)
Latin America and Caribbean	80.445	5.206	90.965	125.861	184.244**	226.974***
	(82.948)	(76.844)	(80.023)	(81.228)	(81.476)	(84.572)
Constant	-11592.766***	-11187.035***	-6593.829***	-8055.297***	-8124.078***	-8438.271***
	(1519.086)	(1475.298)	(1194.906)	(1396.780)	(1196.187)	(1378.437)
Obs.	1367	1367	1431	1367	1367	1367
R-squared	0.214	0.208	0.231	0.244	0.251	0.253
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes

*Standard errors are in parenthesis - *** p<0.01, ** p<0.05, * p<0.1*

In table 4-7, where the dependent variable is FDI as a share of GDP, columns 1 and 2 show positive but insignificant association between either the strength of protecting minority investors or accounting standards and FDI inflows. However, there is a significantly positive relationship, between FDI and control of corruption, at the 1% significant level. This indicates that less corrupt countries can attract more foreign direct investments (FDI), which is consistent with the economic and agency theories.

Regarding the control variables, the association between FDI, as a percentage of GDP, and GDP per capita (GDPPC) is negative, at the 10% significant level in column 1 and 1% significant level in column 3. This might be due to mathematical issues as GDP is a part of both sides (FDI as a percentage of GDP and GDP per capita). Conversely, there is a strongly positive relationship, at a level of 1%, between FDI and either openness to trade or KOF financial index, which indicates that countries that are more open to international trade and have more institutional settings that enable or restrict financial flows can attract more FDI inflows.

Table 4-7 Regression Results-2

	(1) FDIGDP	(2) FDIGDP	(3) FDIGDP	(4) FDIGDP	(5) FDIGDP	(6) FDIGDP
PMI	0.452			-0.347		0.104
	(0.278)			(0.282)		(0.754)
SARS		0.051			-0.415	-0.551
		(0.323)			(0.359)	(0.886)
CC			1.492***	-3.340***	-3.478***	-3.565***
			(0.312)	(1.032)	(1.328)	(1.340)
CC #PMI				1.033***		0.423
				(0.230)		(0.758)
CC #Acc					0.982***	0.610
					(0.257)	(0.831)
GDPPC (log)	-0.423*	-0.276	-1.024***	-0.885***	-0.834***	-0.825***
	(0.220)	(0.232)	(0.206)	(0.209)	(0.218)	(0.219)
Openness (log)	6.254***	6.173***	5.959***	6.001***	5.994***	6.030***
	(0.568)	(0.554)	(0.534)	(0.557)	(0.528)	(0.595)
KOFFI	0.060***	0.065***	0.052***	0.063***	0.067***	0.067***
	(0.013)	(0.013)	(0.012)	(0.013)	(0.013)	(0.014)
OECD	-0.572	-0.641	-1.383*	-1.611**	-1.742**	-1.692**
	(0.724)	(0.719)	(0.748)	(0.768)	(0.729)	(0.814)
Sub-Saharan Africa	1.054**	1.344***	0.397	0.777**	0.663	0.699*
	(0.422)	(0.458)	(0.403)	(0.395)	(0.418)	(0.398)
Latin America and Caribbean	0.853**	0.749**	0.880***	0.971***	1.136***	1.105***
	(0.351)	(0.332)	(0.322)	(0.349)	(0.343)	(0.368)
Constant	-22.864***	-22.370***	-13.833***	-14.989***	-15.360***	-15.430***
	(3.100)	(2.979)	(2.663)	(3.218)	(2.782)	(3.234)
Obs.	1371	1371	1436	1371	1371	1371
R-squared	0.214	0.213	0.221	0.234	0.236	0.236
Year fixed affect	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors are in parenthesis. *** $p<0.01$, ** $p<0.05$, * $p<0.10$

The Moderating Effects of Accounting and PMI on the Relationship between Corruption and FDI:

In this section, the control of corruption variable was interacted with two sets of different variables: the protection of minority investors (PMI) and the strength of accounting and reporting standards (SARS) to examine whether these interactions can moderate the negative relationship between corruption and FDI.

In Tables 4.6 and 4.7, column 4 indicates that the interaction between control of corruption and PMI (CC#PMI) is positive and highly significant, at a level of 1%, with FDI. In addition, column 5 shows that the interaction between control of corruption and the strength of accounting and reporting standards (CC#SARS) can strengthen the positive effect, at a level of 1%, of accounting standards and control of corruption on FDI, which might indicate that either stronger PMI level or strength of accounting standards can control corruption and thus increase FDI inflows. These findings are consistent with agency theory, which suggests that better protection of investors and accounting standards lead to a reduction in corruption and, thus greater FDI inflows. However, on the one hand, column 6 in both Tables 4.6 and 4.7 show that when including two interactions (between control of corruption and PMI, as well as between control of corruption and SARS) in the same model, no significant effect on FDI. This might be due to multicollinearity or overlapping effect problems, as PMI and SARS are highly correlated.

The objective of this section is to provide evidence of the significantly positive effect of PMI and control of corruption on FDI inflows. Also, examining interaction, rather than direct. effects can address the potential endogeneity problem and shows that the interactions between either between CC and PMI or between CC and SARS, but not both at the same model, can moderate the negative impact of corruption on FDI.

In addition, the charts in Figures 4-4 and 4-5 present the association between corruption control and FDI, showing how this relationship shifts dramatically depending on the strength of the protection of minority investors (PMI) and the strength of accounting standards (SARS). In Figure 4-4, and 4-5 the marginal effect of control of corruption on FDI (FDIPC and FDIGDP) is conditional: at low levels of PMI or weak accounting standards, corruption correlates with lower FDI inflows. In other words, the positive effect of perceived corruption on FDI is significant when PMI and accounting standards are weak. However, as PMI and accounting standards improve, this relationship reverses slightly, suggesting that in well-governed environments, perceived corruption can lead to attract more FDI inflows.

These results can illustrate why the literature on corruption and FDI often produces mixed findings. Researchers may have overlooked the role of complementary governance institutions, such as PMI or SARS, and one could misinterpret the true relationship between corruption and FDI. When a country has weak governance infrastructure, e.g. poor PMI or weak accounting standards, corruption is a clear deterrent to foreign capital, and vice versa. This underscores the need for further academic research and policy design surrounding FDI and anti-corruption measures.

Figure 4-4 The Marginal Effect of Control of Corruption on FDIPC at Varying Levels of PMI and SARS (at 90% confident level)

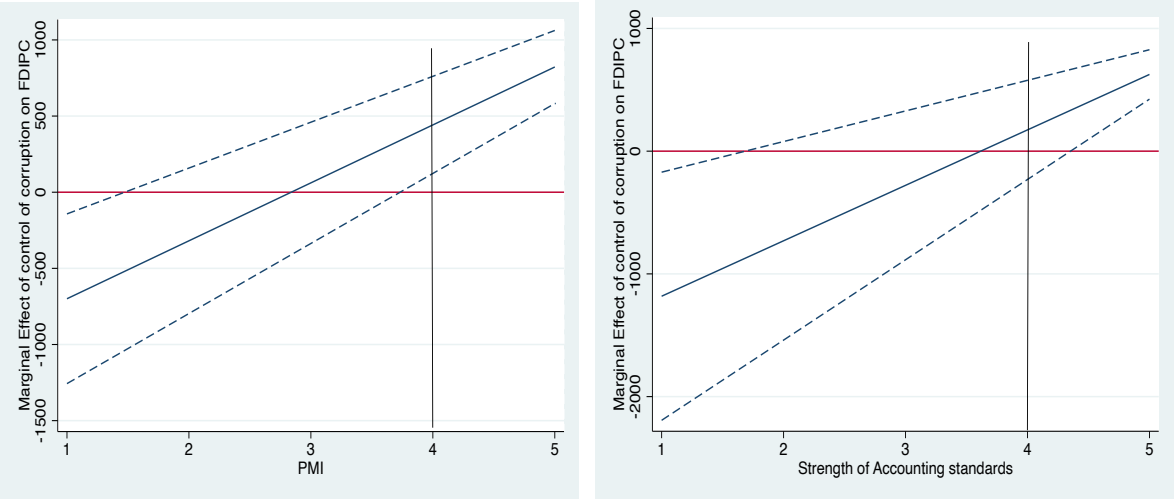
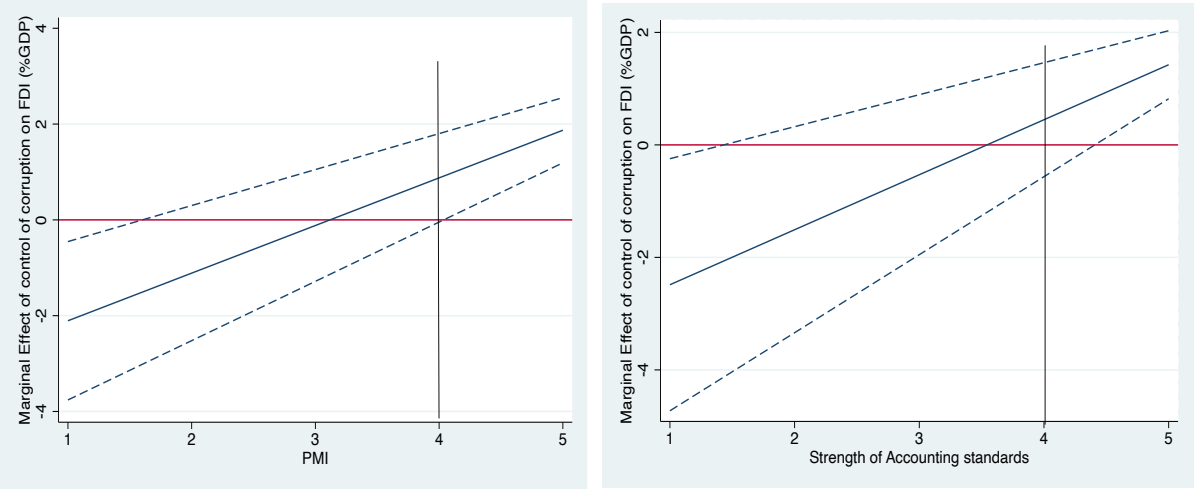


Figure 4-5 The Marginal Effect of Control of Corruption on FDIGDP at Varying Levels of PMI and SARS (at 90% confident level)



Generalised Method of Moments (GMM) Estimation

The dynamic panel generalised method of moments (GMM) estimators is used in the study. GMM was developed by Holtz-Eakin and Rosen (1990) and Arellano and Bond (1991) and later improved by Arellano and Bover (1995) and Blundell and Bond (1998). It aims to solve simultaneity bias and other country-specific effects (Arellano and Bond, 1991).

In this chapter, the two-step GMM estimator was used to address endogeneity issues and increase confidence in claims of causality in the available panel data. However, the cross-sectional nature and limited data availability in the previous chapter (Chapter Three) prohibited the use of GMM. There are two alternatives to the system GMM estimator, namely the one-step GMM estimator, and the two-step GMM estimator, to address the endogeneity issues. The two-step estimator with corrected standard errors was used in this chapter due to its theoretically acclaimed efficiency. It also allows the control of endogeneity of the independent variables and is appropriate for studies with long-time horizons that have quite a sizeable number of countries (Roodman, 2006). In addition, to check the reliablility of the estimates, the Hansen J test of over-identification restrictions and the Arellano and Bond test for second-order serial correlation in the disturbance term (Arellano and Bond, 1991) were used. The Hansen J test computes the validity of the instruments by testing sample equivalents of the moment conditions employed in the estimation.

GMM has often been used in economics and accounting literature. As such, two diagnostic tests were applied: the Durbin-Wu-Hausman for endogeneity, under which the null hypothesis is that all variables are exogenous; and the Hansen test for over-identifying restrictions, under which the null hypothesis is that over-identifying restrictions are valid. Thus, based on the preceding discussion, this study uses the two-step GMM analysis to indicate the overall fitness of the model and gain an understanding of the empirical relationships between PMI, SARS, FDI and corruption in over 133 countries throughout 2006–2017. The two-step GMM regression results, in Table 4-8, confirm that the results are robust. The test tells the same story of the simple method, and either the PMI or accounting standards has a significant positive influence on the relationship between control of corruption and FDI.

Table 4-8 GMM Regression Results

	(1) FDIGDP	(2) FDIGDP	(3) FDIGDP	(4) FDIPC	(5) FDIPC	(6) FDIPC
PMI	1.063***	0.972***	1.513***	331.202***	267.535***	252.292***
	(0.302)	(0.319)	(0.367)	(56.156)	(58.830)	(57.744)
SARS	-0.927***	-0.781**	-1.307***	-309.626***	-208.627***	-209.174***
	(0.276)	(0.313)	(0.366)	(54.637)	(62.961)	(61.895)
CC	-2.232**	-1.758*	-2.172*	-575.938***	-681.266***	-703.007***
	(0.910)	(0.952)	(1.126)	(130.064)	(145.578)	(141.369)
c.PMI#c.CC	0.620***		1.226***	197.146***		103.905**
	(0.183)		(0.427)	(27.746)		(50.729)
c.ACC#c.CC		0.469***	-0.604		199.298***	110.728**
		(0.168)	(0.390)		(27.783)	(51.752)
L.FDIPC			0.001***	0.414***	0.414***	0.414***
			(0.000)	(0.002)	(0.002)	(0.002)
L.FDIGDP	0.257***	0.259***				
	(0.012)	(0.011)				
KOFFI	0.041***	0.041***	0.062***	3.997**	4.199**	3.778**
	(0.011)	(0.012)	(0.012)	(1.565)	(1.748)	(1.756)
GDPPC (log)	-0.855***	-0.846***	-1.191***	44.443	31.603	32.517
	(0.231)	(0.231)	(0.291)	(39.817)	(39.183)	(38.984)
Openness (log)	3.927***	3.840***	4.824***	923.158***	905.153***	913.367***
	(0.409)	(0.408)	(0.419)	(48.870)	(47.281)	(47.862)
Constant	-9.228***	-9.174***	-10.709***	-4279.024***	-4324.007***	-4267.380***
	(2.674)	(2.644)	(3.096)	(392.019)	(377.651)	(372.171)
Obs.	1271	1271	1270	1269	1269	1269
Pseudo R^2	.z	.z	.z	.z	.z	.z

Standard errors are in parenthesis
*** *p<0.01,* ** *p<0.05,* * *p<0.1*

4.9 Discussion

This chapter builds directly on the findings of Chapter Two and Three by shifting the focus from understanding how corruption is influenced by governance mechanisms, such as PMI and SARS, to exploring how these governance mechanisms moderate the relationship between FDI and corruption. Instead of changing the dependent variable, this chapter extends the logic of Chapter Three by testing the consequences of the same effective governance mechanisms and decreased corruption for economic performance and FDI.

Consistent with agency theory, the findings show that strong investor protections or accounting standards can reduce agency problems and mitigate the negative impact of corruption on FDI. This supports prior studies (e.g. Arora & Sharma, 2016; Holzhacker et al., 2015), which argue that effective corporate governance can contribute effectively with improving transparency and accountability and building investor trust, especially among foreign investors who face higher information asymmetries. Furthermore, this study reveals how strong governance institutions can buffer or reverse the negative impact of corruption in investment. Bajestani and Li (2025) support the finding of this chapter by showing that investor responses to corruption differ depending on their home-country context.

In summary, this study suggests that host country governance quality, particularly PMI or SARS, can play a major role in shaping FDI flows and restrict corruption. Therefore, the study reinforces the argument that FDI is not deterred by corruption alone, but also by the absence of trustworthy institutional safeguards. The findings provide empirical support for agency theory, which states that in environments where governance structures are strong, foreign investors may invest, trusting that effective safeguards exist to safeguard their interests.

4.10 Conclusion

FDI is expected to have massive benefits on the economies, such as strengthening economic growth and market competition (Dornean *et al*., 2012), improving human capital development, management skills and technology transfer and reducing unemployment, particularly in emerging markets (Emalereta & Akandu, 2017). In addition, it tends to stimulate local investment, capital creation and expansion and improve productivity, competitiveness, management techniques and skills via mergers, acquisitions, joint ventures and greenfield investments (Denisia, 2010; Nnadi & Soobaroyen, 2015). FDI can also provide foreign currency and foreign capital for investment (Quazi *et al.*, 2014). However, corruption is expected to reduce foreign direct investment and the economic growth of countries worldwide. It leads to reduced spending on public expenditures for operation, education, health, and maintenance of investments. It distorts public investment, decreases revenue received through taxation and erodes trust in the political system and society (Malagueño *et al.*, 2010).

This chapter examines whether PMI and Accounting standards can moderate the negative relationship between corruption and FDI among 133 countries from 2006 to 2017. It contributes to the theoretical and empirical literature by arguing that the impact of corruption on FDI in a country might be affected by certain factors. It provides potential solutions to the theoretical discussion and empirical tests on whether these factors can moderate or change the negative influence of corruption on FDI.

The findings of this chapter suggest that although countries with lower levels of corruption can significantly attract more FDI, there is an insignificant nexus between FDI and accounting standards. However, despite that the strong protection of minority investors being related positively and significantly with FDI per capita, this positive relationship was insignificant between PMI and FDI as a share of GDP. In addition, FDIs appear to be higher in wealthier countries or countries that are more open to international trade and commerce.

Moreover, the interaction between either PMI or accounting standards with control of corruption is positive and highly significant with FDI, which indicates that either stronger PMI level or accounting standards can control corruption and can moderate the relationship between perceived corruption and FDI. However, although the interaction between either PMI or Accounting and corruption can moderate the negative effect of corruption on FDI, both interactions cannot moderate this relationship, which might be due to multicollinearity or overlapping effects issues.

Despite large government efforts to attract FDI, corruption remains a dominant constraint on foreign company entry. As a result, governments are suggested to dedicate more appropriate procedures to restrict corruption and attract the desirable kinds of FDI, i.e. enhancing transparency, improving accounting environment and PMI to curb corruption and attract more FDI. This chapter holds important implications that might help managers, investors, policymakers, regulators, business leaders and researchers in their policies and studies towards FDI: (1) Policymakers and regulators would be able to recognise the major FDI determinants and execute suitable strategies that expected to improve FDI, such as making regulations more flexible to international trade or improving market size. (2) Generate more infrastructures to provide developed reporting and auditing standards. (3) Understand how to deal with corruption abroad by shed lighting the potential opportunities, costs, risks and uncertainty associated with corruption in foreign operations that tend to restrict the incentive to invest abroad (Xu *et al.*, 2021). As a result, this allows stakeholders to apply strategies that best fit the organisational characteristics and specific business environment and countries in general.

Limitations

A sample of 133 countries for 12 years over the span of 2006-2017 was used, using available data sourced from the World Economic Forum, i.e. PMI and Accounting standards, World Bank's World Governance Indicators, KOF Globalisation Index and other available sources. Some limitations arise from the nature of the data presented in the study. For instance, several variables are perceptions which can be subjected to biases, such as perceived corruption, PMI and accounting standards. This is because these variables reflect opinions and perceptions of experts, business leaders and executives' surveys, but not facts, as indicated by many scholars (Adhikari *et al.*, 2019), especially in countries with limited transparency.

Another limitation is that the findings may not be generalisable across all regions or income categories. For instance, the influence of institutional quality on FDI may vary between emerging and developed countries or between resource-rich and service-based countries. This heterogeneity may require further subgroup analyses, which can be considered in further research.

The study is also limited by data availability and coverage. In particular, missing data for certain years and countries results in an unbalanced panel, potentially introducing selection bias. In addition, countries with weaker institutions or less transparent governance systems often have the least reliable or complete data, which may skew the analysis toward more institutionally developed economies.

Recommendations for Future Research

Despite these limitations, this research contributes to the growing literature on institutional quality and FDI by highlighting how PMI and accounting interact with corruption in shaping investment flows. By building on the findings and limitations of this research, several approaches for future research are recommended to enhance understanding of the complex relationships among corruption, institutional quality, and FDI. Future research may consider using experimental or quasi-experimental approaches, improved measurement tools, sector-specific or region-specific case studies to explore these dynamics further. In this context, future studies could examine how industry characteristics influence the effect of corruption on FDI. Moreover, using firm level data could help uncover differences in investor behaviour, even among companies originating from the same country. This could reveal how firm size, ownership structure, or international experience shapes responses to corruption and institutional quality. Further studies could consider disaggregating institutional indicators. In addition, rather than using PMI and accounting standards, researchers could examine certain legal provisions, such as shareholder rights, audit requirements, and enforcement quality, to examine which components most effectively influence the relationship between corruption and FDI.

It can also use alternative measures of FDI and other variables, and explore how different characteristics of the host countries can affect FDI. Also exploring how different types and levels of corruption can affect FDI. It could be useful to analyse the relationship between host-country corruption and FDI, as well as the sensitivity of FDI from the country of origin to corruption levels in the host country, using various moderating and control factors. Future research could also benefit from incorporating a wider range of control variables, such as exchange rates, inflation, population size, labour costs, and political risk. Factors such as culture, historical context, and other unobservable institutional influences may also be relevant and should be considered where feasible, as they can play a significant role in shaping both corruption levels and investment decisions.

Chapter Five. Conclusion

Corruption is considered a disease, cancer and scourge of the world economies (Neu, *et al*., 2013a). Transparency International defines corruption as abusing public office or entrusted power for private gain (Everett *et al.*, 2007; Houqe and Monem, 2016; Zarb, 2011). Corruption involves acts of fraud, bribery, illegal payments, money laundering, smuggling, extortion (Zarb, 2011), nepotism, cronyism, patronage or embezzlement in the accounting and investment field (Andersen *et al*., 2017). Moreover, it is often considered an additional cost of doing business or access tax or cost on profits and economic activities, which damages the expected profitability of investments (Andersen *et al.*, 2018; Jalil *et al.*, 2016; Malagueño *et al.*, 2010).

Corruption is often seen as a major obstacle to economic development that influences the economic growth and performance, gross domestic product per capita (GDPPC), and foreign direct investment (FDI) of any economy (Rock and Bonnett, 2004; Everett *et al*., 2007; Zarb, 2011; Farooq and Shehata, 2018; Jetter and Parmeter, 2018). It diverts funds that could be reinvested into the economy to foster growth (Malagueño *et al.*, 2010a; Yuan *et al.*, 2022). Several organisations, including the World Bank, identify corruption as one of the most significant obstacles to the social and economic development of developing countries. While corruption is often more pervasive in developing countries, it also exists in developed economies, such as the US (Chen *et al.*, 2020; El-Helaly *et al.*, 2020; Everett *et al.*, 2007; Farooq and Shehata, 2018; Neu *et al*., 2013a; Picur, 2004; Rock and Bonnett, 2004). These organisations emphasize that corruption undermines governance, weakens institutions, and distorts economic decision-making.

Corruption undermines investor confidence and deters investment. Foreign investors and organisations are often hesitant to invest in countries with high levels of corruption, as they fear their investments may not be secure or faily treated (Malagueño *et al.*, 2010a; Yuan *et al.*, 2022). In other words, high levels of corruption and weak governance structures can deter foreign investors, as they create an environment of risk and uncertainty (Houqe and Monem, 2016). On the contrary, studies have shown that countries with robust investor protection frameworks are expected to attract foreign capital as investors seek environments where their investments are safeguarded. Thus, it is important to improve governance structures, including transparency, accounting environment, investor protection and confidence, etc., in order to fight corruption (Paterson *et al.*, 2019) and increase FDI inflow.

Effective governance, characterised by transparent accounting and auditing systems, can mitigating risks, significantly shaping the investment climate and fighting corruption in any economy (Houqe and Monem, 2016; Malagueño *et al.*, 2010). The typical financial information and data of a company coupled with the non-financial information provided by the accounting system, and quality indicators of CG could assist investors in having a comprehensive view and analysis of the risk profiles of companies for investing purposes (Wan Yusoff and Alhaji, 2012). Accounting and auditing systems can also offer the necessary control and transparency to build trust in financial markets and ensure suitable functioning of economic systems (Everett *et al.*, 2007; Kurniawati and Achjari, 2022; Malagueño *et al.*, 2010). In addition, accounting and auditing systems that are rigorous, independent, and subject to enforcement are essential in ensuring that corporate financial statements reflect the accurate picture (Ferry and Lehman, 2018; Jeppesen, 2019; Khalil *et al.*, 2015), which, in turn, improves investor confidence (Paterson *et al.*, 2019). In other words, without reliable financial reporting and auditing, investors, especially minority stockholders, are at a heightened risk of exploitation, which discourages investment and economic growth (Paterson *et al.*, 2019).

Governance structures that protect minority investors are fundamental to attracting and retaining FDI and restricting corruption. Effective governance mechanisms ensure that shareholders, especially minority investors, are protected from expropriation by controlling interests or directors (Beck *et al*., 2003). Therefore, the strength of legal protections for investors, including laws regulating corporate transparency, enforcement of property rights, and corporate governance practices, significantly influences FDI flows and limits corruption.

As FDI flows into a country, foreign investors often bring with them sophisticated accounting and auditing standards, which can lead to improvements in the governance framework of the host country. In this way, FDI can act as a tool for improving transparency and reducing corruption by encouraging the adoption of higher accounting and auditing standards. Conversely, countries with high levels of corruption may find it more difficult to attract FDI due to the perceived risks associated with doing business in such an environment (Transparency International, 2019). This establishes a cyclical relationship where poor governance and corruption deter FDI.

This thesis aims to examine the role of some governance mechanisms, particularly accounting standards and PMI in tackling corruption and promoting FDI. Drawing on agency theory and supported by several other theories, e.g. institutional perspectives, the overarching research question address how accounting practices and PMI influence corruption and shape investment outcomes in various countries. The thesis provides a cohesive narrative that stronger governance infrastructure can curb corruption, strenthen institutional credibility, and thereby create an attactive business environment for foreign investors. In other words, this research explores the complex association between corruption, governance, i.e. PMI and accounting standards, and FDI.

In summary, the research emphasises the suitable accounting mechanisms that can assist in the battle against corruption, Then, explaining the effect of PMI on both perceived and experienced corruption and bribes. In addition, by testing the effects of some governance tools on moderating the negative effects of corruption on FDI, this research highlights the crucial importance of transparent and equitable legal frameworks for fostering an attractive investment environment and restricting corrupt activities.

The first chapter introduces the thesis, including the research question, its significance, and contribution of the study along with definitions and types of corruption, as well as the main anti-corruption measures. The second chapter presents a systematic literature review (SLR) analysis on how several accounting and auditing mechanisms are used as tools to compat corruption. It provides a clear overview of the literature concerning the effects of accounting and auditing on corruption. The chapter outlines the methodology, presents the results, discusses the limitations, and implications, and concludes with recommendations for future research. The Scopus database was used to identify peer-reviewed journal articles published between 2000 and 2023, focusing on the keywords 'Accounting', 'Auditing' and 'Corruption'. Initially, 1653 articles were screened, which were narrowed down to 302 based on titles and abstracts, and further reduced to 58 after applying specific inclusion and exclusion criteria.

The chapter includes an overview of the topic, a discussion aof findings, and a overview of the limitations regarding the impact of accounting and auditing on corruption. Moreover, the findings suggest that the main accounting techniques used to curb corruption include accounting and auditing standards, accounting education and profession, internal and external auditors, accounting quality, professional accounting bodies and organisations, as well as New Public Management (NPM) and decentralisation. This literature review issue the stage for the empirical investigation by showing that some institutional frameworks surrounding accounting matter for governance outcomes.

Building on this foundation, Chapter Three conducted a cross-country analysis to assess whether protecting minority investors (PMI) reduces corruption. It explores the role of protecting minority investors (PMI) in reducing corruption using dual measures of corruption: perceived (CC and CPI) and experienced corruption (Bribery Index and Bribery Incidence), at the macroeconomic level. It includes several control variables that have been widely used in the governance and corruption literature, including accounting standards, GDP, openness, and democracy. A dataset of 185 countries from 2006-2018 was analysed, with regional dummies for OECD, Latin America, and sub-Saharan Africa.

The findings indicate a significantly negative relationship between PMI and perceived corruption, suggesting countries with stronger PMI are perceived to be less corrupted, which is supported by agency theory. Meanwhile, in contrast to expectations, PMI is positively correlated with Bribery Index and incidence, indicating a significantly positive relationship between PMI and experienced corruption. The rule of law moderates these relationships. The positive relationship between PMI and experienced corruption can be interpreted through several theories, including management hegemony theory, stewardship theory, and the hidden cost of bribery theories. It suggests that informal payments and gifts can be a strategy used by some company insiders to improve the value of the company and signal stronger investor protections. In addition, it suggests that companies and countries should adopt higher standards of internal control and monitoring, implement robust governance mechanisms, strengthen institutional frameworks, improve enforcement of anti-corruption laws, and promote transparent business practices, particularly in high-growth or developing economies.

Chapter Four extended this analysis by examining whether PMI and accounting standards moderate the link between corruption and foreign direct investment (FDI). A dataset of 133 countries from 2006-2017 is analysed using OLS regression and the two-steps GMM estimators. Results show a significant positive relationship between FDI per capita, and either PMI or control of corruption, suggesting that countries with stronger PMI or anti-corruption measures can attract more FDI inflows. However, no significant relationship is found between accounting standards and FDI. The interaction between either PMI or accounting standards and control of corruption is highly significantly, indicating that stronger PMI or accounting standards can moderate the relationship between perceived corruption and FDI. This finding is consistent with agency theory. Meanwhile, when including both interactions (CC#PMI and CC#Accounting) in the same model, the results show no significant on FDI, which might be due to the highly correlation between PMI and SARS and other multicollinearity or overlapping effects issues. The two-step GMM has been applied to address endogeneity and reverse causality, increasing the robustness of the results.

Overall, these chapters offer a rich, layered view of the corruption, accounting, investment nexus. The SLR confirmed that accounting is foundational to governance and anti-corruption. The empirical work shows that althought formal investor protections reduce perceived corruption and enhance investment, they may also exist with higher levels of bribery unless robust enforcement exist. It is important to consider that governance mechanisms, e.g. accounting or PMI work more effectively when interacting with broader institutional controls, such as the rule of law and control of corruption, to influence both the perception of corruption and foreign investors behaviour. In other words, this work may contributes to the broader literature on corporate governance and anti-corruption by providing a systematic literature review (SLR) and empirical evidence on how enhancing governance can assist in mitigating the negative effects of corruption on economic development and foreign investements.

This research highlights the importance of implementing more effective procedures to curb corruption and attract desirable FDI by governments. It challenges the assumption that certain governance mechanisms can reduce corruption or enhance investment. It is among the few studies to employ both perceived and experienced corruption measures, using data from up to 185 countries over 12 years. It aims to provide a more comprehensive picture of corruption dynamics and offer broader in scope than most previous studies. By including regional controls to capture environmental variation. The noval finding that PMI is positively associated with experienced corruption, despite reducing perceived corruption, suggests that the effectiveness of governance reforms is uneven. These findings extend agency theory by highlighting that formal governance structures, may not necessarily solve agency issues where enforcement is weak or power is greatly concentrated.

Moreover, although previous empirical work has examined the relationship between corruption and FDI (e.g., Quazi, 2014; Brada et al., 2012; Zander, 2021), they have not considered the potential influence of certain governance tools such as protecting minority investors (PMI) or accounting standards on this relationship. This study addresses that gap by incorporating these governance dimensions into the analysis, using data from 133 countries between 2006 and 2017. It adds value by addressing this gap and by using new, extensive, and nuanced evidence and data. By using interaction terms and marginal effect analysis, this research evaluates the effectiveness of anti-corruption efforts and how it depends on the presence of strong accounting standards and investor protections.

Furthermore, this research contributes also to agency theory by empirically extending its logic to macroeconomic contexts. It goes beyond the traditional agency theory, which usually focuses on firm-level issues, to the country level, where weak institutional environments allow corporate actors and political to pursue private gains at the expense of minority stakeholders and public interest. The findings show that SARS and PMI reduce agency costs by improving transparency, restricting managerial discretion, and strengthening investors, consistent with theoretical claims (Ramdani & van Witteloostuijn, 2012; Holzhacker et al., 2015). However, other theories have also been integrated such as managerial hegemony theory, stewardship theory, and coordination game theory to explain the reasons why companies bribe, despite the existence of formal governance systems.

The thesis holds important implications that can assist managers, investors, policymakers, business leaders, scholars and others in their policies and studies towards more proper strategies to curb corruption and thus improve economies and investment context, such as detecting the main FDI determinants and executing suitable strategies that are expected to improve FDI, as well as recognising the factors influencing corruption. They can also generate more infrastructures to offer advanced reporting and auditing environment. It also enhance the understandability of how to deal with corruption abroad by focusing on the potential opportunities, risks, costs and uncertainty associated with corruption in foreign operations that tend to limit the incentive to invest abroad (Xu *et al.*, 2021). This allows the investors to implement strategies that best fit the organisational characteristics and certain business climate.

Although many governance and anti-corruption recommendations remain general in nature, this thesis provides certain, implementable guidlines for accounting institutions, policymakers and regulators. It recommends accounting bodies to improve the role of local audit oversight bodies and alignment with international standards e.g., IFRS, IPSAS. Moreover, accounting education should focus on transparency and ethics. Therefore, generating more infrastucture to improve the reporting environment. Ultimately, the thesis provides valuable policy insights for governments and regulators aiming to establish a more transparent, accountable and an attractive investment environment and assist in strengthening governance and restricting corruption over time. It recommends policymakers to emphasise improving PMI frameworks through legal reforms that give minority shareholders more rights e.g. access information, voting rights, and restrict managerial misconduct, whereas encourage regulatory bodies to enforce compliance more rigorously to decrease opportunities for concealment of corrupt actions. Investment agencies should also address concerns of foreign investors, as investors are more likely to invest in firms or countries that confidently protect their rights and restrict rent-seeking behaviours.

Limitations and Directions for Future Research

Despite the theoretical and empirical contributions of this thesis, several limitations should be acknowledged. First, systematic literature review (SLR) was conducted using the Scopus database and limited to Q1 and Q2 English-language journal articles, which may exclude relevant studies published in lower-ranked journals, non-English publications, or grey literature.

Second, the use of macroeconomic data may mask within-country variations in governance quality or investor experiences.

Third, the possibility of bias and subjectivity in the data used in the empirical chapters. This is because several key variables are perception-based indicators derived from expert and executive surveys, such as perceived corruption, accounting standards, and the protection of minority investors. Despite that these variables are widely used in cross-country and panel

analyses, they may not accurately capture the full complexity of actual practices or institutional effectiveness, especially in countries with weak reporting mechanisms or cultural differences. As such, the findings may not be fully generalisable across all regions or countries. In addition, although dual corruption measures were used to capture both perceived and experienced corruption, these variables are subjected to bias toward certain dimensions of corruption and may not fully represent its multifaceted nature. In addition, prior literature on corruption state that there is no single optimal way to measure corruption and bribery, as each measurement is problematical in its particular way (Aidt *et al.*, 2020), and no indicator can consider the full complexity of the phenomenon. Consequently, it is more beneficial to use a combination of tools rather than focus on a single measure (Hammer and Hamilton, 2018).

Fourth, potential issues of endogeneity and reverse causality, such as the possibility that corruption levels may influence governance reforms or investor protections. Additionally, data limitations in some years and countries restricted the use of more dynamic or country-specific modelling approaches.

Building on these limitations, future research could extend this study in several ways. First, expanding the scope of data sources to include non-English publications, regional databases, or grey literature, particularly from emerging and developing countries. Other topics to consider might include auditing and fraud, or tax evasion.

Second, the use of firm-level data could provide deeper insights into how corporate governance practices, and auditing quality influence corruption and investment decisions at the firm-level. Future research could also examine sector-specific dynamics to see whether governance reforms have uniform or varied effects across industries. In addition, it could also explore how political regimes, cultural factors, or digital reporting tools interact with accounting standards or investor protection to affect corruption and FDI. Additionally, investigating the moderating role of other factors such as technological innovations, blockchain, e-governance systems, and digital financial reporting, may offer valuable value into how digital transparency tools can complement traditional governance reforms in restricting corruption and fostering investment.

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Appendices

Appendix I: Regression Table of the Impact of Democracy, GDPPC and Openness on Corruption (Chapter Three)

	(1) CPI	(2) CC	(3) Bribery Index	(4) Bribe payment	(5) Corruption constraint	(6) Corruption obstacle
Democracy	0.707***	0.040***	-0.496***	-0.557***	0.362	0.026
	(0.053)	(0.003)	(0.187)	(0.208)	(0.294)	(0.092)
GDPPC (log)	9.700***	0.466***	-5.714***	-7.111***	-4.321***	-0.166
	(0.211)	(0.011)	(0.823)	(0.966)	(1.290)	(0.404)
Openness (log)	2.588***	0.111***	4.018*	4.047*	-7.292**	1.891*
	(0.598)	(0.030)	(2.084)	(2.356)	(3.267)	(1.024)
cons	-42.582***	-4.095***	51.449***	65.299***	51.084***	4.945
	(2.108)	(0.105)	(8.532)	(9.949)	(13.377)	(4.192)
Obs.	1647	1663	193	202	193	193
R-squared	0.663	0.647	0.347	0.346	0.225	0.051
Years fixed affect	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors are in parenthesis
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Appendix II: Summaries of Major Studies used in the Third Chapter.

Ref.	Research issue	Sample size	Period covered	Findings	Suggestions for future study
(Wu, 2005a)	Exploring the linkage between corporate governance and corruption in a cross- country context.	102 countries	2002	Improvement in CG could break the vicious cycle of bribery and corruption. Shareholders and investors in countries that are experiencing a high level of corruption may receive double dividends from the improvement in CG.	
(Wu, 2005b)	Examine the importance of accounting practices in reducing bribery, as well as the effectiveness of accounting reform as an anti-corruption strategy.	1867 firms in 12 Asian countries	1999-2000	Better accounting practices can help reduce both the incidence of bribery activities and the amount of bribe payments but merely conforming to high quality accounting standard alone will not necessarily enhance the quality of accounting practices and thus will not automatically bring down the level of bribery.	
(Malagueño *et al.*, 2010)	Understanding the relationship between accounting and auditing quality and the perceived level of corruption.	57 countries	2003	Countries with more transparent reporting and higher level of accounting and auditing standards and quality have lower levels of perceived corruption.	
(Everett *et al.*, 2007)	Examining role of accounting in enhancing decentralisation monitoring mechanisms and in thereby reducing corruption	Meta-Analysis		They reveal that accounting can be either a potential constrainer or a potential enabler in corruption fight.	
(Zarb, 2011)	Investigate whether transparency and investor protection influence the perception of corruption.	180 countries	2009	Transparency and investor protection show a statistically significant negative relationship with corruption. In other words, negative linear statistical	Further research could focus on expanding the independent variables. It could therefore use variables such as, political climate, the level of accounting sophistication, and different measures of corruption.

				relationship between corruption perception and each of director liability, disclosure, and shareholder lawsuits.	
(Ramdani and van Witteloostuijn, 2012)	Evaluating the impact of two key devices of CG on the incidence of firm bribery, i.e., the separation of ownership and control, gender, and ownership concentration.	51 countries	2002-2005	The findings show that equity share of the largest shareholder is negatively and male principal–owner is positively associated with the likelihood of firm bribery. The main effect of separation of ownership and control on the likelihood of bribery is insignificant, but that the main effects of the principal–owner's gender and the equity share of the largest shareholder are significant. They find that a firm with a male principal–owner is more likely to engage in bribery compared to enterprises with a female principal–owner.	Future study could focus on the impact of corporate governance devices on other types of illegal firm behaviour, such as environmental violations, consumer mistreatments, tax fraud, hidden collusion, or trade restraints.
(Khalil *et al.*, 2015b)	Investigating the impact of disclosure standards and auditing infrastructure on the bribery of public officials to secure government contracts.	15,174 firms from 24 countries	2009	Firms are less likely to grant gift to secure a government contract in countries having more extensive financial reporting requirements and countries where audit firms face a higher litigation and sanction risk. Findings also show that firms are less likely to bribe bureaucrats in	Future research may investigate, subject to data availability, whether results hold for Big 4 versus non-Big 4 audit firms. Prior audit research and anecdotal evidence suggests that the risk of litigation, the concern for reputation, in addition to the personnel quality and expertise of Big 4 audit firms is not comparable to that of non- Big 4 audit firms. Academic research may also investigate whether the likelihood and magnitude of bribery vary following the adoption of

				case financial statements are reviewed by an external audit firm.	financial reporting standards, and/or following a change in the litigation environment against audit firms.
(Houqe and Monem, 2016)	Investigating whether IFRS adoption and the extent of disclosure in a country play any role in reducing perceived corruption, after controlling for the effects of political institutions and economic development.	104 countries	2009–2011	1- "**literature linking corruption and accounting is sparse**". 2-length of IFRS experience and the extent of disclosure are inversely related to perceived corruption in a country. 3-developing countries benefit more from IFRS experience in lowering perceived corruption.	Although the researchers show a link between IFRS adoption and perception of corruption, they do not **specify the channels through which perception of corruption changes. Future research may attempt to identify these channels.**
(Changwony and Paterson, 2019)	Investigation the role of accounting (accounting basis & IPSAS) in enhancing decentralisation monitoring mechanisms and in thereby reducing corruption	128 countries	For (CPI): 2010-2015 averages ;For (accounting practice and expenditure decentralisation): averages for longitudinal data or cross-sectional during 2000-2009.	Both accounting and decentralisation are positively associated with reducing corruption. Adoption of accrual basis accounting systems has a positive influence on reducing corruption but that the adoption of IPSAS has no influence on corruption.	Future research can test whether there could be a link between the **quality of accounting practice with democratisation**, a free press, bureaucrats' incentives, and the strength of professional and government institutions **on corruption**. Also, it can exploit within-country variations to investigate further the interrelationships between different determinants of corruption and hence link their findings with existing cross-country evidence.

(Jeppesen, 2019))	Exporting the role of auditing in the fight against corruption	Literature review		Commercial and political corruption creates misstatements in the financial statements of the corruption giver's and receiver's organisation. Thus, auditing standards must include corruption in the definition of fraud, auditors need to cooperate and exchange information, auditing techniques to detect corruption should be employed, and the auditing profession must embrace effective preventive measures.	
(El-Helaly *et al.*, 2020)	Examining the influence of national corruption on the (i) speed and (ii) extent of IFRS adoption around the world	89 non-European Union countries	2003-2014	Level (control) of corruption is negatively (positively) associated with a country's speed and extent of IFRS adoption.	Future research could explore the effect of corruption on the adoption of International Public-Sector Accounting Standards (IPSAS) and IFRS for small and medium enterprises (SMEs). Moreover, IFRS adoption for SMEs is not mandatory for EU member states. Therefore, this area of research can be expanded by examining whether corruption is related to IFRS for SME's adoption decisions in European countries.
(Duh, R., Ye, C. & Yu, 2020)	Investigating the relationship between Corruption and Audit Market Concentration and Audit Fees.	78 countries	2003-2012	Positive association between corruption and Big 4 audit market concentration, suggesting that in more corrupt countries, the audit market at the industry level is dominated by one or two Big 4 audit firms rather than shared equally.	