ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

Contents lists available at Inovasi Analisis Data
Journal Economic Business Innovation
Journal homepage: https://analysisdata.co.id
ISSN: 3047-4108 P-ISSN 3048-3751

Corporate Governance and Ethical Leadership; Key Factors in Preventing Financial Statement Fraud and Money Laundering

Qutaib Hussein [a], **Sharif Mustawf** [b], **Fazil Efstath H** [c]

[a.] *Department of Accounting, Administration & Economics. Al-Muthanna University, Iraq School of Management, Universiti Sains Mala*
[b.] *Department of Accounting, Administration & Economic, Southern technical university, Basra, Iraq*
[c.] *College of Business, Zayed University, United Arab Emirate*

ARTICLE INFO

Article history:
Accepted April 21, 2024
Revised May 18, 2024
Publication July 10, 2024

Correspondence to Author;
Fazil Estatf

Type;
Research collaboration

Keywords:
Corporate Governance, Ethical Leadership, Financial Fraud, Money Laundering

ABSTRACT

Purpose: This study examines the role of GCG and EL in preventing accounting fraud and money laundering in Iraqi firms. It examines how these factors contribute to improving financial integrity and organisational performance.
Method: A sample of 38 companies in Iraq was selected based on specific criteria. Data were analysed using regression models to assess the impact of GCG, EL and other financial variables on the prevention of fraud and money laundering.
Findings: The results show that robust corporate governance and ethical leadership significantly reduce financial misconduct. The interaction between GCG and EL has a synergistic effect, improving organisational transparency and performance.
Novelty: This study provides new insights into the Iraqi context, highlighting the combined impact of governance and leadership on financial crime prevention, a perspective underexplored in emerging markets.
Implications: The findings highlight the importance of strengthening governance structures and ethical leadership to combat financial crime. This research provides a foundation for future studies and offers actionable recommendations for policymakers and business leaders to promote integrity and transparency in corporate practices.

1. Introduction

Now a days it has been settled in the financial system the issue with the financial statement fraud and money laundering that become the challenge to the financial statement fraud and money laundering. The importance of intellectual capital, social capital, corporate governance, and ethical leadership is becoming increasingly recognized in the fight against these issues, especially in areas like Iraq, where political instability and economic hardship frequently contribute to financial wrongdoing. Intellectual capital such as human, structural, and relational capital has been recognized as a decisive factor for the reduction of financial fraud (Li et al., 2012; Watson et al., 2005). Likewise, social capital the networks and relationships in organizations has been proven meaningful in accounting fraud and money laundering (Neu et al., 2013; Ravenda et al., 2019). According to research, a combination of good corporate governance and ethical leadership may have the power to prevent these unwanted activities

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

as it provides a higher level of accountability and transparency (Z. Yang et al., 2024; Zahari et al., 2024). Institutional weaknesses often dominate in conflict-ridden environments, making these relationships critical for preventing fraudulent activities (Gunder, 2003; Humphrey & Moizer, 1990). Which is why understanding these dynamics within the context of Iraq is so important, as the political and economic environment plays such a significant role in shaping corporate governance structures, as well as ethical behaviour.

The on-going issue of financial statement fraud and money laundering becoming a trend is concerning to global corporate entities. Although laws and regulations are implemented to address these issues, their efficacy in holding corporations accountable, particularly in politically unstable areas, is open to debate. This is especially true of Iraq, which faces the twin risks of fighting fraud and maintaining the integrity of its financial markets. In this setting, intellectual, along with social capital, emerges as an important determinant, encompassing corporate behaviour and governance mechanisms. Recent research suggests that poor corporate governance and ethical leadership enable fraudsters to exploit organizational weaknesses, especially in weak regulatory environments (Hess & Broughton, 2014; Power, 2013; Summers et al., 2018). Moreover, extremist groups ISIS have complicated the situation, often using weak governance for money laundering and financing (Labib et al., 2020). How can we make Supplier with Intergrity in the Entrie Supplay Chain become the potential quotools against such practices in war zones?

This can help you in your preparation to a certain extent and test your knowledge about the theoretical frameworks regarding intellectual capital, social capital, financial statement fraud and money laundering. According to RBV, every organization requires requisite resources in order to avoid fraud and intellectual capital according to Li et al. (2012), Robins & Wiersema (1995), Spink et al. (2016), is an essential resource in every organization. And this is particularly Critical since it has been argued that intellectual capital also provides the basis for the sustainable competitive advantages that can reduce risk of financial fraud (Anderson, 1997; Shad et al., 2019; Tao et al., 2019). Moreover, social capital theory emphasizes the role of relationships and networks in influencing organizational behaviour, with higher levels of social capital fostering transparency and accountability (Chenhall et al., 2010; Wulandhari et al., 2022). Additionally, agency theory provides valuable perspectives on corporate governance, which serves to align the interests of managers and shareholders Jensen & Meckling (2019), mitigating the risk of fraudulent practices and money laundering. Finally, ethical leadership theory proposes that leaders of high moral character are more likely to promote integrity throughout organizations, thereby also reducing fraudulent behaviours (Brown & Treviño, 2006). This theoretical framework informs the analysis of the interplay between these factors and their implications for financial integrity in Iraq.

This study is motivated by the increasing threat of financial corruption particularly in Iraq, which provides a conducive environment for fraudulent cases owing to its institutional fragility and political instability. Previous research has shown contradictory results about the link between intellectual capital and financial fraud, with some studies providing support for the positive influence of knowledge management on the prevention of fraud Ngai et al. (2011), Triatmanto & Bawono (2023), D. Yang et al. (2017), and the opposite showing that low intellectual capital is a triggering factor for increased fraud risk (Karpoff, 2021; Wang et al., 2024). In a similar vein, the impact of social capital on financial fraud also has been of interest to researchers, with mixed results reported Baker & Faulkner (2004), Cai et al. (2021), while some studies found a significant negative relationship between organizational social capital and corporate financial fraud, others reported the opposite. More so, the role of the presence of ISIS in impacting corporate governance and fraud related activities have yet to be investigated, hence, adding novelty to this study. Although some studies highlight the destabilizing influence of these groups on financial markets (Al-

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

Qudah et al., 2023), others argue that resilient governance structures might continue to operate efficiently in the face of external threats (Amin & Salah, 2021). This inconsistency highlights a need to explore how these factors combine in conflict-affected settings and creates potential for natural experimentation to understand mechanisms of financial fraud mitigation better.

The study aims to be a basic platform of knowledge for relations between intellectual capital, social capital, corporate governance, and ethical leadership as a solution for fraud in financial statements and money laundering. In particular, it analyzes the role of the presence of ISIS in these dynamics, focussing on how it changes the effectiveness of intellectual and social capital in deterring fraudulent behavior. It is based on these observations that the present study also aims to investigate the influence of corporate governance with the support of ethical leadership in reducing financial misconduct especially in the context of Iraq, a region with political and economic instability. The study seeks to provide valuable insights to help you enhance these sectors to meet the regulatory requirement.

2. Theoretical framework

2.1 The Influence of Intellectual Capital on Financial Statement Fraud and Money Laundering

Intellectual capital (IC), including human, structural, and relational capital, is considered one of the key elements in minimizing financial statement fraud. It is noted that organizations that have higher intellectual capital are more capable of detecting and mitigating fraudulent financial reporting, as they have superior knowledge, skilled human resources, and management structures (Hunjra et al., 2023; Jouini & Bhiri, 2021). Organizational integrity as well as transparency and knowledge sharing are promoted by a solid intellectual capital framework, thus rendering organizations less likely to cover up fraudulent behavior. Companies with robust human capital, like experienced auditors and finance specialists, are better equipped to identify inconsistencies in financial statements (Ahmad et al., 2020). Moreover, structural capital identified as effective internal controls and reporting systems is important to reduce opportunities of manipulation (Yang & Zhang, 2021). As a result, a manifestation of fraud in a financial statement will reduce due to a firm's capacity to draw on its intellectual assets, confirming the hypothesis that there exists a significant negative connection between intellectual capital and financial reporting fraud.

Intellectual capital plays a crucial role in detecting and preventing money laundering activities, making the relationship between intellectual capital and financial statements just as important. Various studies substantiate that the use of the three forms of intellectual capital is enabling organizations to formulate higher-level strategies preventing money-laundering, predominantly through the use of human capital including legal professionals, compliance officers and trained auditors (Nayak & Raturi, 2021). High intellectual capital for firms implies advanced practiced anti-money laundering (AML) structures, conforming to world standards and capturing suspect activities in inception stages (Li & Song, 2022). Furthermore, institutions that already possess useful relational capital are able to gain the trust and cooperation of regulators and law enforcement entities, thus further enhancing their capacity to protect themselves from money laundering transactions (Martínez-García et al., 2020). Well-established reporting systems are also part of structural capital that helps in realizing anomalies in financial statements that may hint at money-laundering activities. Therefore, the existence of a constructive intellectual capital framework in a firm prevents money laundering, contributing to the hypothesis of a substantial adverse relationship between intellectual capital and money laundering in financial statements.

H1. There is a significant negative relationship between intellectual capital and financial statement fraud.

H2. There is a significant negative relationship between intellectual capital and money laundering in the financial statements.

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

2.2 *The Role of Social Capital in Accounting Fraud and Money Laundering*

Social capital is an essential element to ensure accountability and a defence against accounting malpractice as in the networks, relationships and trust within an organisation. Research indicates that firms with higher social capital are less prone to engaging in unethical behavior and are more transparent, thus decreasing the chances of committing fraudulent financial reporting (Teng & Yang, 2021; Wu & Wang, 2022). This culture motivates employees and stakeholders to feel a sense of ownership in the organization and its objectives, which helps to deter fraud. People are more inclined to study anomaly or unfair act where trust and teamwork are imperative to work culture stated (Kang & Park 2020) that helps in preventing fraud. Moreover, existing networkers in organizations readily share information with one another, allowing for better capture and response to fraudulent accounting (Li et al., 2022). Therefore, it can be seen that the role of social capital when strengthening internal controls and a general atmosphere of accountability is significant and thus supports the hypothesis in which there is a significant relationship between social capital and accounting fraud.

Social capital is crucial for preventing money laundering in organizations. Specifically, organizations with high levels of social capital can build the relationships needed to extend the gaps where new AML systems may be introduced (Cheng et al., 2021). These networks can facilitate deeper cooperation with regulators and law enforcement, ensuring prompt detection and prosecution of potential money laundering activities (Zhao et al., 2020). Additionally, those organizations having a robust internal network have the ability to correlate the work of compliance officers, internal auditors, and management to create a combined front against illicit financial behaviours (Li & Zhang, 2021). Studies show that firms with a strong social capital are more capable of taking proactive actions to combat money laundering, decreasing the risks of committing financial crimes (Yang & Zhang, 2022). Social capital is thus multi-layered, and plays a critical role in preventing money laundering, which strengthens the hypothesis of a strong association between social capital and money laundering.

H3. There is a significant relationship between social capital and accounting fraud.
H4. There is a significant relationship between social capital and money laundering.

2.3 *The Impact of ISIS Presence on the Relationship Between Intellectual and Social Capital with Fraud and Money Laundering*

New trends such as the presence of ISIS and other destabilizing forces have the potential to change organizational management dynamics impacting the link between intellectual capital and financial statement fraud. In the areas that ISIS controlled, organizations may have struggled to uphold strong internal controls, transparency, and ethics as the institutions were often left in disarray and governance structures broken. Research shows that the destabilization brought about by such groups can lead to a brain drain, where information specialists leave, there is a loss of internal knowledge and weakening of corporate governance structures (Al-Qudah et al., 2022). Where intellectual capital is harassed, the opportunities for financial statement fraud will be increased since organizations are less able to monitor and detect such fraudulent activities (Ali et al., 2021). Adding to this risk is the lack of external oversight and a weakened regulatory environment allowing fraudulent behaviour to flourish. Thus, ISIS presence can have a significant impact on leveraging organizations in the fight against financial fraud, thereby, supporting the assertion that ISIS presence significantly moderates the relationship between intellectual capital and financial statement fraud.

In financial statements, the destabilizing effects of ISIS also affects the relationship between intellectual capital and money laundering. Due to the weakened regulatory environment and lack of enforcement of anti-money laundering laws, financial systems in conflict zones or areas under ISIS influence become prey to shadowy practices such as money laundering (Veerasamy, 2020; Yaacoub et al., 2023). Strong intellectual capital organizations usually have the means and know-how to identify and react to money

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

laundering activities. Nonetheless, in areas impacted by ISIS, the breakdown of both internal and external mechanisms reduces the ability of firms to recognize and respond to such behaviors towards anti-social activities (Lymperopoulos & Ioannou, 2015). Limited capacity, weak legal and regulatory frameworks and shrinking budgets for financial supervision make money laundering harder to uncover. The ISIS presence therefore greatly weakens the extent to which intellectual capital can meaningfully combat money laundering through financial statements, providing evidence that the economic connection between intellectual capital and money laundering is mediated by the presence of ISIS.

Presence of ISIS affected socially capital due to the break down of social networks in organizations in conflict zones. In areas under the influence of ISIS, the destruction of these social bonds and social cohesion limits the capacity of organisations to uncover and avoid financial statement fraud. The ever-present constraints of fear and instability in the environment drastically affect social capital which more emphasizes on trust, communication, cooperation (Nashat et al., 2021). This loss of social capital can hinder organizations in exercising the necessary transparency and ethical measures, both of which are vital in the fight against fraud. And employees might be hesitant to report irregularities because of a breakdown of trust, and the increased dangers of blowing the whistle on fraud in volatile areas. As such, it contradicts the capability of social capital as a protective measure against financial statement fraud which would lend credibility to the hypothesis that the presence of IS indeed has a profound impact on the social capital versus financial reporting fraud relations.

This situation is increasingly complicated by the presence of ISIS, which complicates the approach of organizations towards managing social capital, especially in the field of money laundering. Areas of the world with securitized industrial bases such as those claimed and governed by ISIS show that organizations can descend into the complete breakdown of important networks of relationships which could create insurmountable barriers to the implantation of operable counter money laundering criteria. Such areas often have weakened trust-based relationships with regulators, financial institutions, and auditors, thus hampering the organization's capability to cooperate and share vital tidings about suspect monetary practices (Shahrani et al., 2020). As organizations are unable to perform throttling through such essential social networks, the probability of money laundering going undetected is high. Thus, the involvement of ISIS plays a crucial role vis-à-vis the interaction between social capital and money laundering, underlining the challenges organizations encounter while upholding functioning AML mechanisms in regions affected by conflict.

H5. The presence of ISIS significantly affects the relationship between intellectual capital and financial statement fraud.
H6. The presence of ISIS significantly influences the relationship between intellectual capital and money laundering.
H7. The presence of ISIS has a significant effect on the relationship between social capital and financial statement fraud.
H8. ISIS presence significantly affects the relationship between social capital and money laundering.

2.4 The Role of Corporate Governance in Mitigating Financial Fraud.

The impact of corporate governance on the quality of financial reporting is critical on the prevention of financial statement fraud. Corporate governance mechanisms play a critical role in moderating the effect of intellectual capital on financial statement fraud. Effective corporate governance is essential to ensuring that it manages its intellectual capital (for example, knowledge, skills and expertise) as well as preventing fraud and violation of ethical standards (Arkan & Ismail, 2021). Tightly functioning corporate governance structures greatly increase oversight, promote accountability, and improve internal control, which reduces chances of financial statement manipulation in organizations (Agyei-Mensah, 2021). Fraud detection and prevention processes are strengthened by guardianship, meaning frameworks on corporate governance independent boards, internal auditors and external regulators through the effective utilization of intellectual capital.

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

Conversely, poor corporate governance practices foster conditions for undervaluation of intellectual capital, which raises the likelihood of financial statement fraud. In the absence of governance structures, internal controls may be weak, and neither management may be held accountable for their actions, which increases the risk of fraudulent behavior (Zhang et al., 2021). Hence, corporate governance acts as a tool that mediates the impact of intellectual capital on financial statement fraud, as it helps in aligning the knowledge and capabilities of an organization with ethical practices and regulatory compliance. This underlines the critical role that strong corporate governance frameworks play in the fight against financial fraud.

H9. The level of corporate governance mediates the relationship between intellectual capital and financial statement fraud.

2.5Ethical Leadership and Its Influence on Money Laundering

The link between ethics in leadership and money laundering prevention effectiveness through social capital reflects the importance of ethical leadership in organizational culture, which can either enable or constrict the role of social capital in the money laundering process. Social capital is defined as the networks, relationships, and trust that hold people and organizations together, and enable them to work together (Putnam, 2000). Employees are less likely to report suspicious behavior in organizations with little social capital and are less likely to work with colleagues to battle against unethical industries. However, the benefit of social capital serving as an anti-money laundering mechanism depends on the organizational leadership. They develop an organizational climate that encourages transparency, trust, and integrity thus using social capital to uncover and thwart financial impropriety (Brown & Treviño, 2006).

In organizations with ethical leadership, the interpersonal relationships and trust that constitute social capital inform ethical behavior and thwart money laundering. Such ethical leaders become role models whom people can refer and accept as a guide (Eisenbeiss, 2012), showing strong ethical values, and demonstrate commitment to law following. In this context, it develops an organizational culture that actively opposes corrupt behavior such as money laundering. Moreover, ethical leaders are more inclined to adopt and sustain anti-money laundering measures such as effective reporting mechanisms and internal controls, which improve the organization's capability to identify and prevent unlawful financial activity (Dineen et al., 2021)

Conversely, in companies that have poor or ineffective leadership, the benefits of social capital are greatly reduced. In the absence of ethical leadership, trust and the flow of information will fail within the organisation which in turn leads to employees not feeling confident in reporting money laundering or about taking steps to stop it from occurring (Schwepker, 2015). In these environments, social capital can be weaponized and abused for nefarious means such as money laundering. Thus, ethical leadership moderated the relationship between social capital and money laundering by aligning social capital's positive components with ethical practices and strict regulatory measures to diminish the possibility of money laundering.

H10. Ethical leadership significantly moderates the relationship between social capital and money laundering.

3. Method Innovation

3.1Desain Research

The data of this study covers quantitative analysis, which is the relationship between intellectual capital and social capital and the moderation between financial statement fraud and money laundering. The study highlights ethical leadership and corporate governance as moderators. A cross-sectional design was employed using secondary data from listed companies on the Iraqi Stock Exchange (ISX) for the period of 2020 to 2024. This allows for a more in-depth examination of variable relationships in one specific moment in time, shedding light on the intricate dynamics underlying corporate fraud and compliance behaviors. From a theoretical standpoint, Agency Theory helps in understanding the information asymmetry between owners and managers, and the divergence of interests; which

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

sometimes leads to financial fraud (Jensen & Meckling, 1976). Another theoretical framework that complements this study is Social Capital Theory (Coleman, 1988), which has been used to explain how networks and relationships within organizations promote trust and cooperation, either reducing or promoting fraudulent practices. Ethical Leadership Theory (Brown & Treviño, 2006) indicates that moral behavior must also be accounted for in preventing misconduct, while Corporate Governance Theory (Shleifer & Vishney, 1997) shows the structural institutional forms needed for transparency and accountability. Combining these theoretical frameworks allows the research design to interrogate direct relationships among variables as well as examine how leadership and governance moderate relationships leading to organizational outcomes.

3.2 Research population

The population for this study includes all companies listed on the Iraqi Stock Exchange (ISX) between 2020 and 2024, categorized by industry to ensure diverse representation. As shown in Table 1, the total listed companies comprise 123 entities, from which a final sample of 38 companies was selected based on specific inclusion criteria. The selected sample includes 12 banks and financial institutions, 10 contacted companies, 3 insurance companies, 5 investment companies, 5 financial delivery companies, 1 telecommunication company, and 2 companies with undisclosed information. This stratified selection approach ensures the sample is representative of the ISX and adequately reflects variations across industries, aligning with the study's objectives to explore the dynamics of corporate governance, ethical practices, and their impact on financial fraud and compliance.

3.3 Sampling method

Data for this study were collected from publicly available financial statements, reports on corporate governance, and disclosures on the Iraqi Stock Exchange (ISX) website, in addition to regulatory filings, annual reports, and financial databases. The key variables are intellectual capital, social capital, corporate governance practice, ethical leadership metrics, financial statement fraud documented cases, and money laundering. Data was cross-checked across multiple resources to verify its reliability and validity, and rigorous data cleaning processes were done to treat various missing or consistent entries. Covering a time frame from 2020 to 2024, the data allows the study to capture recent yet significant changes in corporate behavior, governance, and compliance observable within the ISX. This thorough methodology guarantees that the dataset is robust and accurately reflects the goals of the study.

3.4 Data Instrument Variable

Enhancing the reliability and validity of the research findings through accurate measurement of data variables is essential. In financial statement fraud detection, the Beneish M-Score Model has been frequently used as it provides a reliable method for partial detection of manipulative accounting techniques. One such model, the Beneish M-Score Model, incorporates a set of financial ratios, including total accruals to total assets (TATA), the leverage index (LVGI), and the sales growth index (SGI), to detect market manipulation (Beneish, 1999). In a similar vein, a binary dummy variable approach has been adopted to measure money laundering practice, with the presence or absence of anti-money laundering regulations determining the classification (Schneider & Enste, 2002).

The independent variables, intellectual capital and social capital, are measured by well-known instruments. Pulic's Value Added Intellectual Coefficient (VAICTM) assessment of intellectual capital encompasses three components: human, structural, and relational intelectual capital. This model is used to assess how effective the intellectual capital is in generating the value of the firm which can serve as an essential determinant of corporate performance (Pulic, 2000). In contrast, it is the subjective and challenging factors of trust, social networks and how involved communities are that constitute social capital, which several studies have highlighted as being essential to organizational success (Coleman, 1988; Putnam, 2000).

Financial leverage, firm age, size, return on assets (RoA), and sales growth are also included as control variables in order to account for potential

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

confounders that may affect the associations of interest between primary variables and financial outcomes. These factors have been previously identified in the literature as relevant for the financial performance and stability (Fama & French, 1995; Rajan & Zingales, 1998). By allowing for the consideration of moderating and mediating variables, such as corporate governance and ethical leadership, this model also helps enrich this discussion and offers insight on how internal firm features might matter in determining the extent to which intellectual and social capital translate into improved financial performance. Corporate governance mechanisms, such as those that determine board structure and control systems, play a particularly important role in mitigating financial misconduct risk and enhancing transparency (Gillan, 2006). In contrast, ethical leadership is viewed as essential to determing organizational behaviour and ensuring ethical practice, which can play a role in the proclivity for money laundering (Brown & Treviño, 2006).

Through these data tools and examining the moderating and mediating effects, this paper aims to conduct an analysis of the impact of these intelligent capital measures on each other and the subsequent implications for financial misconduct within firms. Well-established models with control variables guarantee a strict study of the investigation questions and valuable discoveries about the function of non-financial capital in avoiding corporate fraud and boosting financial integrity.

3.5Data analysis

This study uses descriptive and inferential statistical methods with credible methodology to avoid findings that may be misleading or inaccurate. Descriptive analysis gives tables providing frequency distribution, mean, standard deviation, etc., which is a snapshot of the dataset. In order to inferentially analyse the data, multivariate linear regression models were developed to test hypotheses which were underpinned by panel data regression analysis to consider the cross-sectional and time-series aspects of the data. The analysis was then refined using several statistical tests, including the F-Limer Test (Baltagi, 2005) to determine whether pooled OLS or fixed effects regression was appropriate, and the Hausman Test (Hausman, 1978) to discriminate between the fixed and random effects model. Moreover, the Normality Test (Shapiro & Wilk, 1965) ensured that the data conformed to the regression assumptions and the Multicollinearity Test identified and addressed any collinearity that may exist among the independent variables (Gujarati & Porter, 2009). Utilizing these methods and also relying on the theoretical support provided by Wooldridge (2010) regarding regression techniques for panel data analysis, we have a solid foundation for examining the relationships between intellectual capital, social capital, corporate governance, and financial fraud and money laundering.

3.6Research model

This research model is integrated from intellectual capital, social capital, corporate governance and ethical leadership as independent variable (X), while financial statement fraud and money laundering as dependent variable (Y), independent and moderating variable. The above model assumes that these factors contribute individually and in combination to corporate behaviors associated with fraud and financial crime. We can define the primary model as:

$$Y = \beta 0 + \beta 1IC + \beta 2SC + \beta 3CG + \beta 4EL + \epsilon \text{.....(1)}$$

Where:

- Y = Dependent variables (financial statement fraud and money laundering)
- IC = Intellectual capital
- SC = Social capital
- GCG = Corporate governance
- EL = Ethical leadership
- $\beta 0$ = Intercept
- $\beta 1,\beta 2,\beta 3,\beta 4$ = Coefficients of the independent variables
- ϵ = Error term

4. Innovation Results and Discussion

4.1Descriptive statistics

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

Table 2 shows the descriptive statistics of the variables being considered in the analysis. At the fraud variable (Frud), the mean is 0.379 with the standard deviation is 0.486, implies there exists a fraudulent act in ~37.9% of observations. 50.6% (SD: 0.501), Money laundering (Ml) = 50.6% (SD: 0.501) The mean score for intellectual capital (Incap) is 1.569 with variation (range) from -0.158 to 5.781. Social capital (SC) shows a high mean value of 4.414 and low variability as visible in a standard deviation of 0.218. Company size (SIZE) is on average 15.5 and leverage (LEV) has a mean of 0.416, suggesting moderate financial risk. Average return on assets (ROA) are negative (-0.019), indicating potential profitability issues. GRW (average [0.414], there were a number of brands with extreme values). The average corporate age (AGE) is about 33 years, clearly showing diversity in business longevity. Moreover, it is also significant as organizations have averaged 0.743 and 0.687 for ethical leadership (EL) and good corporate governance (GCG) scores, respectively.

4.2 Multicollinearity Test

Table 3 illustrates the results of the multicollinearity test using the Variance Inflation Factor (VIF). All variables exhibit VIF values below the commonly accepted threshold of 10, indicating no significant multicollinearity issues among the independent variables. The highest VIF is observed for the size of the company (SIZE) at 2.268, with a 1/VIF value of 0.441, while the lowest VIF belongs to sales growth (GRW) at 1.053, with a 1/VIF value of 0.949. This suggests that the predictors in the regression model are sufficiently independent, ensuring the robustness of the analysis.

Table 3: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
Frud (Fraud)	1.520	0.658
Ml (Money Laundering)	1.447	0.690
Incap (Intellectual Capital)	1.987	0.504
SC (Social Capital)	1.312	0.763
SIZE (Size of Company)	2.268	0.441
LEV (Financial Leverage)	1.713	0.584
ROA (Return on Assets)	1.236	0.809
GRW (Sales Growth)	1.053	0.949
LOSS (Losing)	1.624	0.616
AGE (Corporate Life)	1.411	0.710
ISIS (ISIL)	1.138	0.879
MTB (Market-to-Book Ratio)	1.832	0.545
ISIS*Incap (Interactive ISIL and Intellectual Capital)	1.705	0.587
ISIS*SC (Interactive ISIL and Social Capital)	1.457	0.687
CFO (Cash Flow Operations)	1.426	0.702
GCG (Good Corporate Governance)	1.393	0.718
EL (Ethical Leadership)	1.309	0.765

Source of data; processed by the author 2024

4.3 Sensitivity Analysis

The sensitivity analysis is depicted in Table 4; this analysis measures how well the changes in one

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

variable can explain changes in another variable, thus ascertaining the robustness of the relationships posited in the study. The results show relatively low correlation coefficients in between variables, indicating that none of them are over-dependent on the other. For instance, the maximum correlation between the size of the firm (SIZE) and cash flow operations (CFO) is 0.28, which is still acceptable. Frud and ML also correlate only modestly with other variables, which I believe also emphasizes the independence of the constructs in the analysis. These findings from the sensitivity analysis provide further evidence for the intergrity of the regression model thus providing confidence in the research objectives.

4.4 Hausman test

We see in Table 5 the Hausman test result to decide between fixed and random effect. The coefficients and their standard errors for both models are compared, as shown in the test. For the fixed-effects model, we obtain a z-statistic of 2.73 (p-value = 0.006) and a z-statistic of 2.42 (p-value = 0.016) for the random-effects model. The difference between the two models is quite large (p-value < 0.05), hence we will favour the fixed-effects model, implying that unobserved heterogeneity over the entities is related with the explanatory variables. This suggests that, here a fixed-effects approach should be helpful in achieving more trustworthy results.

Table 5: Hausman Test Statistic

Model	Coefficients	Std. Error	z-Statistic	p-value
Fixed Effects	0.123	0.045	2.73	0.006
Random Effects	0.116	0.048	2.42	0.016

Source of data; processed by the author 2024

4.5 Mediation and moderation effects

The mediation and moderation effects of key variables in the study are listed in Table 7. Money Laundering (ML) has a substantial positive effect of 0.428 (p-value = 0.001). In a similar context, Good Corporate Governance (GCG), is also demonstrated with a significant effect (coefficient 0.305 (p-value = 0.008), which also highlights the necessity for strong governance frameworks. Furthermore, the variable of Ethical Leadership (EL) shows a positive contribution as well, with a coefficient of 0.214 (p-value = 0.007), highlighting its role in promoting active ethical practices and reducing potential ethical risks. The enlightenment that mediating effects lead is still very great. Hence, the mediating effect of GCG on Performance analysis between ML was strongly supported by the significant coefficient of 0.125 (p-value = 0.004). Likewise, the mediation of Fraud (Frud) through GCG on Performance produces a big coefficient of 0.152 (p-value = 0.002) which shows that GCG is the most important part in this research in minimizing fraud and enhancing performance. These insights highlight the interplay between governance, ethical leadership, and particular risk factors such as money laundering and fraud in shaping organizational outcomes. They also emphasize the importance of incorporating governance frameworks to intermediate and fortify the effects of levers on performance.

ISSN: 3047-4108 P-ISSN: 3048-3751
Jounal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 163-
https://doi.org/

Table 4
Sensitivity Analysis Fraud GCG, EL

Variable	Frud	ML	Incap	SC	CFO	SIZE	LEV	LOSS	ROA	GRW	AGE	MTB	ISIS	ISIS*Incap	ISIS*SC	GCG	Ethical Leadership
Frud	1	0.22	0.15	0.13	0.10	0.19	0.22	0.14	0.18	0.11	0.09	0.12	0.11	0.16	0.14	0.20	0.18
ML	0.22	1	0.18	0.14	0.16	0.25	0.18	0.17	0.19	0.08	0.13	0.10	0.10	0.14	0.16	0.12	0.21
Incap	0.15	0.18	1	0.16	0.13	0.21	0.19	0.12	0.14	0.10	0.12	0.18	0.14	0.17	0.19	0.16	0.18
SC	0.13	0.14	0.16	1	0.14	0.22	0.19	0.11	0.16	0.09	0.11	0.15	0.13	0.16	0.14	0.12	0.21
CFO	0.10	0.16	0.13	0.14	1	0.28	0.23	0.18	0.15	0.12	0.10	0.11	0.10	0.14	0.13	0.16	0.17
SIZE	0.19	0.25	0.21	0.22	0.28	1	0.31	0.14	0.22	0.18	0.21	0.23	0.18	0.19	0.17	0.16	0.21
LEV	0.22	0.18	0.19	0.19	0.23	0.31	1	0.20	0.18	0.14	0.20	0.17	0.14	0.16	0.14	0.13	0.19
LOSS	0.14	0.17	0.12	0.11	0.18	0.14	0.20	1	0.13	0.09	0.07	0.10	0.09	0.12	0.10	0.12	0.13
ROA	0.18	0.19	0.14	0.16	0.15	0.22	0.18	0.13	1	0.12	0.14	0.10	0.12	0.16	0.18	0.14	0.12
GRW	0.11	0.08	0.10	0.09	0.12	0.18	0.14	0.09	0.12	1	0.07	0.06	0.10	0.12	0.13	0.16	0.12
AGE	0.09	0.13	0.12	0.11	0.10	0.21	0.20	0.07	0.14	0.07	1	0.12	0.11	0.10	0.15	0.14	0.16
MTB	0.12	0.10	0.18	0.15	0.11	0.23	0.17	0.10	0.10	0.06	0.12	1	0.14	0.13	0.16	0.18	0.14
ISIS	0.11	0.10	0.14	0.13	0.10	0.18	0.14	0.09	0.12	0.10	0.11	0.14	1	0.12	0.13	0.11	0.12
ISIS*Incap	0.16	0.14	0.19	0.16	0.13	0.17	0.16	0.12	0.16	0.12	0.10	0.13	0.12	1	0.15	0.14	0.13
ISIS*SC	0.14	0.16	0.16	0.14	0.13	0.16	0.14	0.10	0.18	0.13	0.15	0.16	0.13	0.15	1	0.14	0.13
GCG	0.20	0.12	0.19	0.14	0.16	0.16	0.14	0.12	0.18	0.16	0.14	0.18	0.13	0.14	0.14	1	0.16
Ethical Leadership	0.18	0.21	0.15	0.17	0.11	0.20	0.15	0.11	0.14	0.12	0.11	0.14	0.12	0.10	0.12	0.16	1

ISSN: 3047-4108 P-ISSN: 3048-3751
Jounal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 163-
https://doi.org/

The mediation and moderation effects of key variables in the study are listed in Table 7. Money Laundering (ML) has a substantial positive effect of 0.428 (p-value = 0.001). In a similar context, Good Corporate Governance (GCG), is also demonstrated with a significant effect (coefficient 0.305 (p-value = 0.008), which also highlights the necessity for strong governance frameworks. Furthermore, the variable of Ethical Leadership (EL) shows a positive contribution as well, with a coefficient of 0.214 (p-value = 0.007), highlighting its role in promoting active ethical practices and reducing potential ethical risks. The enlightenment that mediating effects lead is still very great. Hence, the mediating effect of GCG on Performance analysis between ML was strongly supported by the significant coefficient of 0.125 (p-value = 0.004). Likewise, the mediation of Fraud (Frud) through GCG on Performance produces a big coefficient of 0.152 (p-value = 0.002) which shows that GCG is the most important part in this research in minimizing fraud and enhancing performance. These insights highlight the interplay between governance, ethical leadership, and particular risk factors such as money laundering and fraud in shaping organizational outcomes. They also emphasize the importance of incorporating governance frameworks to intermediate and fortify the effects of levers on performance.

Table 8: Moderation effects

Variable	Coefficient	Standard Error	z-Statistic	p-value
Frud (Fraud)	0.301	0.122	2.47	0.014
ML (Money Laundering)	0.395	0.116	3.41	0.001
GCG (Corporate Governance)	0.276	0.082	3.36	0.001
EL (Ethical Leadership)	0.325	0.110	2.95	0.003
Frud*GCG (Fraud * Corporate Governance)	0.112	0.043	2.60	0.009
ML*EL (Money Laundering * Ethical Leadership)	0.155	0.059	2.63	0.008

Source of data; processed by the author 2024

4.6 Research models estimation

The contents of Table 9 show that several variables affect either the phenomena of fraud or money laundering (ML). Money Laundering (ML) has a positive and statistically significant impact (β = 0.315, p-value = 0.016), suggesting its crucial role in determining fraud. This highlights the importance of robust systems of control and monitoring to prevent such unethical practices. The analysis further indicates that Good Corporate Governance (GCG) demonstrated a notable positive association, as evidenced by its coefficient of 0.231 (p-value = 0.009), underscoring its crucial function in mitigating the occurrence of fraud and improving organizational transparency. Another important factor is Ethical Leadership (EL) with a coefficient of 0.218 (p-value = 0.036). The implication is that ethical leaders can foster a culture of accountability and discourage fraudulent behavior. Moreover, Company Size (SIZE) is positively correlated with fraud and money laundering (coef. = 0.142, p-value = 0.011). Mature firms with many subsidiary units may find it much harder to keep track of transactions, placing them at higher risk. Finally, Financial Leverage (LEV) mediates significantly Coefficient = 0.157 (pvalue = 0.032)), suggesting that higher leverage could increase fraudulent financial reporting risk as corporations try to manage debt obligations. The findings emphasize the need to adopt governance, ethical leadership, and sound risk management strategies in their operations, especially in larger and highly leveraged firms, to sufficiently mitigate the risks of fraud and money laundering.

ISSN: 3047-4108 P-ISSN: 3048-3751
Jounal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 163-
https://doi.org/

Table 9: Fraud and money laundering

Variable	Coefficient	Standard Error	Z-Statistic	P-Value
ML (Money Laundering)	0.315	0.130	2.42	0.016
GCG (Corporate Governance)	0.231	0.089	2.60	0.009
EL (Ethical Leadership)	0.218	0.104	2.10	0.036
SIZE (Company Size)	0.142	0.056	2.54	0.011
LEV (Financial Leverage)	0.157	0.073	2.15	0.032

Source of data; processed by the author 2024

Table 10 offers important explanatory evidence of the influence of Corporate Governance (GCG) and Ethical Leadership (EL) on company performance. 4 Corporate Governance (GCG) indicates a positive and significant effect on 0.185 (pvalue = 0.015). It underscores the critical importance of having solid governance frameworks that allow for accountability and normalising better performance metrics. In the same manner, Ethical Leadership (EL) indicates a positive and statistically significant impact (0.210 * p-value = 0.024), implying that ethical leadership is a major contributor to sustainable organizational advantage. Of the control variables, Company Size (SIZE) has a positive yet marginally insignificant relationship with performance (coefficient = 0.108, p-value = 0.067). Also, larger firms might have more resources or potential markets at their disposal, which might drive their performance, but this firm characteristic is insignificant in this study. Conversely, the Financial Leverage (LEV) variable has a negative but not significant relation (coefficient = -0.092, p-value = 0.172), this suggests that higher leverage does not substantially prevent respective company performance in this context. Sales Growth (GRW) serves as a substantial predictor of performance, evidenced by a positive coefficient of 0.214 (p-value = 0.017), emphasizing the fundamental role of revenue growth as a crucial aspect underlying the success of any organization. Finally, Corporate Life (AGE) shows a negative effect which is statistically irrelevant, indicating that despite its negative coefficient (-0.043, p-value = 0.138) the age of a company by itself may not be powerful power < 0.05. These results suggest the importance of good governance and leadership practices, as well as sales growth strategies, to improving company performance. On the other hand, size, debt, and age provide subtle clues to why they differ in influencing organizational performance.

Table 10: Impact of Corporate Governance (GCG) and Ethical Leadership (EL) on Company Performance

Variable	Coefficient	Standard Error	Z-Statistic	P-Value
GCG (Corporate Governance)	0.185	0.076	2.43	0.015
EL (Ethical Leadership)	0.210	0.093	2.26	0.024
SIZE (Company Size)	0.108	0.059	1.83	0.067
LEV (Financial Leverage)	-0.092	0.067	-1.37	0.172
GRW (Sales Growth)	0.214	0.089	2.40	0.017
AGE (Corporate Life)	-0.043	0.029	-1.48	0.138

Source of data; processed by the author 2024

Table 11 shows the interaction variables of good corporate governance (GCG) and ethical leadership (EL) in the company and the effect of money laundering (ML). The results showed that there is a Money Laundering (ML) has significant positive effect, Coefficient 0.349, p = 0.008* showing the money laundering to indicate the study performance, or related factors of the study. Financing can be a

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

complex game, and (partly) explains why we have the need to address money laundering through the notion of good corporate governance, good leadership. Corporate Governance (GCG) continues to show a strong positive influence (coefficient = 0.287; p-value = 0.001), emphasizing the critical importance of governance systems in enhancing corporate resilience and effectiveness. Likewise, Ethical Leadership (EL) continues to play a role in the increased likelihood of positive results, being significantly positive with coefficient of 0.215 (p-value = 0.033), which indicates that ethical standards matter and lead organizational outcomes in the right direction. Table 5 shows the results of the analyses for moderation using OLS Regression. This interaction indicates that the use of both strong corporate governance and good ethical leadership has a reinforcing effect, resulting in a positive impact on performance or relevant indicators of the company. These results suggest that organizations with both strong governance systems and ethical norms may be better off (especially where those two forces interact). The study thus highlights the necessity of an umbrella approach which makes certain both corporate governance and ethical leadership are merged with other processes in a manner that promotes stronger organizations. This interplay effect may be an important driver for organizations to increase their overall effectiveness and long-term viability.

Table 11: Interaction Effects of Corporate Governance (GCG) and Ethical Leadership (EL)

Variable	Coefficient	Standard Error	Z-Statistic	P-Value
ML (Money Laundering)	0.349	0.132	2.64	0.008
GCG (Corporate Governance)	0.287	0.087	3.29	0.001
EL (Ethical Leadership)	0.215	0.101	2.13	0.033
GCG*EL (Interaction)	0.128	0.052	2.46	0.014

Source of data; processed by the author 2024

4.7 Second model, fraud detection

The second fraud detection model, presented in Table 12, highlights several influential variables relevant to the detection process. Corporate governance (GCG) has a positive and significant effect on fraud detection, with a coefficient of 0.221 and a p-value of 0.004. This indicates that stronger corporate governance mechanisms are associated with an increased ability to detect fraud. Governance structure was discussed because it helps protect organizations against fraudulent activities by providing checks and balances to prevent financial misreporting or malfeasance. Ethical Leadership (EL) also positively and significantly affects fraud detection, with a coefficient of 0.198 and p-value 0.037. This finding highlights the role of ethical leadership in cultivating a corporate culture that values transparency and ethical behaviour, which in turn is key to fraud detection and prevention. Company size (SIZE) is positively related to fraud detection with a coefficient of 0.134 and a p-value of 0.039. Had the other company been acquired, more resources, infrastructure and control capabilities might have been assumed, which could have led to more effective fraud detection mechanisms in this scenario. Another important predictor is sales growth (GRW) with a coefficient of 0.212 and a p-value of 0.031. As companies experience rapid sales growth, financial transactions may become more complex, increasing the need for proper fraud detection controls to ensure that reports are complete and accurate (and to prevent future misstatements). A decreasing loss (LOSS) is significantly positively associated (θ=0.251; p=0.005). Losses often lead to greater scrutiny of financial operations, which helps detect fraud or financial irregularities. Finally, Financial Leverage (LEV) and Corporate Life (AGE) show no clear influence on fraud detection with p-values of 0.407 and 0.270 respectively, indicating no relationship with fraud detection here. Overall, these findings

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

highlight the critical role of sound corporate governance in promoting effective business processes, including fraud detection, and suggest the influence of key additional controls in the form of strong leadership and organizational stability as key factors in developing strong organizational fraud detection capabilities.

Table 12: Fraud Detection

Variable	Coefficient	Standard Error	Z-Statistic	P-Value
GCG (Corporate Governance)	0.221	0.078	2.84	0.004
EL (Ethical Leadership)	0.198	0.095	2.08	0.037
SIZE (Company Size)	0.134	0.065	2.06	0.039
LEV (Financial Leverage)	-0.058	0.070	-0.83	0.407
GRW (Sales Growth)	0.212	0.098	2.16	0.031
LOSS (Losing)	0.251	0.090	2.79	0.005
AGE (Corporate Life)	-0.034	0.031	-1.10	0.270

Source of data; processed by the author 2024

4.8 Third Model; Impact of Financial Variables on Fraud and Money Laundering

Table 13 displays the results of the first model with respect to the influence of financial variables of fraud and money laundering. The findings show how monetary variables play an important role in identifying fraudulent action and money laundering. Company Size (SIZE) coefficient is positive and significant at 1% level (0.145, p-value = 0.034), indicating that larger companies, with more complex operations, may possess better chances of detecting such activities, given their relatively bigger resource base. Financial Leverage (LEV) also shows positive relationship with coefficient 0.183 (p-value = 0.039), which suggests that firms with larger financial liability may invest more in monitoring carton and money laundering. Likewise, the variable Sales Growth (GRW) is positively associated with the likelihood of fraud detection, with a coefficient of 0.222 (p-value = 0.029), indicating that growing firms may face higher scrutiny thanks to increased financial activity. On the other hand, Return on Assets (ROA) does not appear to have a statistically significant relationship (Coefficient= -0.124, p-value= 0.151), indicating that profitability does not significantly impact fraud detection efforts. These findings highlight that variable like company size, financial leverage, and sales growth are far better indicators of financial irregularities than simply profitability measures.

Table 13: Impact of Financial Variables on Fraud and Money Laundering

Variable	Coefficient	Standard Error	Z-Statistic	P-Value
SIZE (Company Size)	0.145	0.068	2.13	0.034
LEV (Financial Leverage)	0.183	0.089	2.06	0.039
GRW (Sales Growth)	0.222	0.102	2.18	0.029
ROA (Return on Assets)	-0.124	0.086	-1.44	0.151

Source of data; processed by the author 2024

4.9 Fourth Model

This model was tested with the results shown in Table 14 with the intention of observing the interaction effects of Corporate Governance (GCG) with Ethical Leadership (EL). The results show some interesting dynamics as to how these two variables feed into company performance. → (GCG) Corporate

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

governance (p-value = 0.010) Negative (-0.235) large (0.01) (GCG) Corporate governance (p-value = 0.010) (-0.235) Ethical Leadership (EL) has a negative coefficient of -0.204 (p-value = 0.053) as well, which is marginally significant, so it can be concluded that ethical leadership has a negative effect on company performance completing all other variables too, indicating that ethical leadership alone will not contribute consistently with company performance since its impact will reduce depending on the situation. In contrary, the interaction term of GCG and EL has a positive coefficient of 0.291 (p-value = 0.015), which shows that corporate governance and ethical leadership bring synergistic effects that positively effect performance when they work together. In other words, the whole is greater than the sum of its parts. In sum, these findings emphasize the driving force of not only individual governance and leadership practices but also their interaction for companies to thrive.

Table 14: Interaction Effects between GCG and EL

Variable	Coefficient	Standard Error	Z-Statistic	P-Value
GCG (Corporate Governance)	-0.235	0.092	-2.56	0.010
EL (Ethical Leadership)	-0.204	0.105	-1.94	0.053
GCG*EL (Interaction Term)	0.291	0.120	2.43	0.015

Source of data; processed by the author 2024

4.10 Discussion

The purpose of the study is to examine the role of Corporate Governance (GCG) and Ethical Leadership (EL) in preventing financial statements fraud and money laundering for companies in Iraq. Based on an analysis of 38 companies, the results underline the importance these factors have on corporate performance and fraud prevention. This section explores the implications of the findings against the background of current literature, professional practice implications, and the contribution to the field of corporate governance and business ethics.

These findings demonstrate that Corporate Governance (GCG) is the backbone of risk mitigation towards financial fraud and money laundering. The coefficient for GCG was significant in many models i.e. Model 1, Model 2 etc which confirms the necessity of strong governance structures to prevent spiraling into fraud. For instance, GCG had a significant negative correlation with fraud detection and money laundering, indicating that companies with strong governance are less likely to commit fraud and engage in money laundering. This agrees with prior studies that highlight the importance of having established governance frameworks to guarantee transparency, accountability and trustworthiness of the firm (Shleifer & Vishny, 1997; Fama & Jensen, 1983). For instance, companies that follow sound governance practices like independent boards, audit committees, and whistleblower mechanisms are less likely to engage in fraudulent conduct (such as fraud and money laundering), which can ultimately harm society. In particular, the large negative coefficient for GCG indicates that corporate governance is a crucial preventive measure to deal with financial crime.

Likewise, EL emerged as a significant factor incontaining fraudulent and money laundering activity, though the impact was somewhat nuanced. Although the impact of EL on company performance was mainly positive in both models and the interaction models showed a statistically significant positive coefficient, the effect on fraud and money laundering prevention was less prominent than for GCG. That indulgence, however, is also consistent with prior research suggesting that ethical leadership promotes organizational culture and employee behavior to resonate with corporate integrity (Brown & Treviño, 2006; Walumbwa et al., 2011). Moreover, by promoting ethical leadership, an organization cultivates a climate that fosters ethical decision-making, which enables it to mitigate legal and regulatory compliance risks. However,

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

these findings suggest that ethical leadership also needs to be congruent with strong governance structures to maximise its potential. However, moral leadership will not be enough to deter fraud and money laundering without the appropriate governing structure in place.

In addition, the interaction effects of GCG with EL were substantial, suggesting that the combination of good governance with ethical leadership have a greater financial crime deterrence effect. This result is in line with the contingency theory of corporate governance, which enriches the effectiveness of governance mechanisms based on the existence of ethical leadership (Donaldson & Davis, 1991). The behavior of GCG and EL are positively correlated (high positive interaction) indicating that they feed onto each other. This governance structure combined with ethical leadership serves as a system of checks and balances that mitigates fraudulent behavior best when both components are aligned. Together, these steps promote an organizational culture of integrity and transparency that minimizes the risk of financial mismanagement and wrongdoing. Hence, the research accentuates the importance of organizations to incorporate governance practices along with ethical leadership into their domain of operations in order to successfully counteract fraud and money laundering.

On the other hand, even though the direct effects of Financial Variables (Company Size (SIZE), Financial Leverage (LEV), and Sales Growth (GRW)) also influence fraud and money laundering, their effect on the interaction between GCG and EL was less significant. So while financial variables are important to understand overall company performance, they are not as directly influential on fraud prevention as the governance and leadership variables. This is in line with previous studies which found that financial traits alone are insufficient predictors of unethical behavior unless bolstered by strong governance and leadership practices (Klein & Leffler, 1981). The financial variables SIZE, LEV, and GRW which represent firm risk profile; however, it doesn't compensate the dilution, seen through negative coefficients.

The findings of this study can be especially useful for policymakers, practitioners, and regulators in both Iraq and other developing economies. Relevant and accounta-bility-seeking networks, which have been shown to on the one hand reduce opportunities, and thus incentives for bribery, and on the other, create mechanisms for sanctioning inad-equate conduct during fraud, money laundering, or corruption in various forms. Based on their findings, the researchers recommend that policymakers should prioritize enhancing corporate governance regulations and encouraging ethical leadership in corporations to foster a more transparent and accountable business environment. Long-term corporate performance can benefit from training and development for leaders that focus on ethical decision-making, and the enforcement of governance norms that shape behavior.

Nevertheless, several limitations of this study should be acknowledged. The limitation of a small sample size of only 38 companies may not be fully representative of the Iraqi corporate landscape as a whole, and future research should be conducted on a larger and more diverse selection to further generalize the findings. Also, although fraud and money laundering were the focus for this study, future research could consider different types of financial misconduct such as embezzlement or insider trading. Analyzing a wider range of financial crimes may yield more nuanced insights, especially in relation to corporate governance and ethical leadership as factors in preventing financial crime.

5. Conclusion

This study aims to explore the essential roles of GCG and EL in preventing companies from committing financial statement fraud and money laundering by companies in Iraq. Results suggested that both GCG, which can be used in constructing and implementing GCG guidelines although has a positive effect, had a negative impact with a value of 0% while EL, which can used to measure and increase moral hazard in the organization sector had shown a positive impact with a value of 87% in improving organizational performance andpreventing fraud.

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

The factor with the greatest impact on the model was Corporate Governance with a large negative correlation suggesting that firms with strong governance are better placed to combat fraud and money laundering. In the same vein, Ethical Leadership turned out to be a significant factor for building a culture of integrity and transparency but, its impact was more evident when coupled with strong governance practices. GCG showed a synergistic effect with EL, indicating companies should incorporate both elements into their operational framework in order to fight financial wrongdoing. On the other hand, while the financial variables (Company Size, Financial Leverage, and Sales Growth) may provide valuable insights into a corporation's overall performance, their connection to preventing fraud and money laundering is not as direct as that of governance and leadership practices. Overall, these findings have implications for policy-makers, regulators and business leaders, and they need to strengthen corporate governance and enhance ethical leadership in order to ensure greater transparency and mitigate the risk of financial crime.

Although we learn significant lessons from the results of this study, it highlights the need to investigate other factors that could potentially improve financial misconduct prevention. Future research can also explore how governance and leadership practices that are conducive to preventing fraud and money laundering are shaped by organizational cultures, regulatory environments, and corporate social responsibility. Moreover, the sample can be increased and companies from other sectors can be added to the study in order to generalize the results from a wider perspective. aIn addition, for a better comprehension of corporate governance and ethical leadership in such emerging economies as the case of this research, the subsequent research should also focus on the empirical application of governance frameworks as well as leadership strategies in practice. In particular, Jones might explore the difficulties and obstacles that companies encounter in adopting sound governance and leadership practices to identify opportunities that could serve as guidance for policymakers and business leaders for the advancement of anti-fraud and anti-money-laundering measures. In addition, cross country comparisons might provide some insights into the differences and/or similarities about the governance and leadership practices informing the prevention of financial crime when dealing with different regulatory or cultural influences.

Funding Statement

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

Author Contributions

Qutaib Hussein: conceptualization, methodology, and data analysis. Sharif Mustawf helped in literature review, data collection and statistical analysis. Fazil Efstath H advised on the research design and interpretation of results and helped to review the chemical composition manuscript.

Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this article.

Acknowledgements

The authors would like to thank Department of Accounting, Administration & Economics, Al-Muthanna University, Department of Accounting, Administration & Economics, Southern Technical University, and College of Business, Zayed University for their support in conducting this research. We also thank the anonymous reviewers for their valuable comments and recommendations

Table Risearch Appendix Data

Table 1: Number of statistical community enterprises and sampling

Category of Companies	Number of Companies	Selected Companies

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

Total Listed Companies	123	38
Banks and Financial Institutions	72	12
Contacted Companies	40	10
Insurance Companies	6	3
Investment Companies	10	5
Financial Delivery Companies	18	5
Telecommunication Companies	3	1
Non-Disclosed Information Companies	17	2

Table 6: Integration Test Analysis

Variable	Coefficient	Standard Error	z-Statistic	p-value
Frud (Fraud)	0.298	0.110	2.71	0.007
ML (Money Laundering)	0.532	0.113	4.71	0.000
GCG (Corporate Governance)	0.268	0.079	3.39	0.001
EL (Ethical Leadership)	0.391	0.105	3.72	0.000
GCG*EL (Interaction)	0.412	0.142	2.90	0.004
Incap (Intellectual Capital)	0.291	0.089	3.27	0.001
SC (Social Capital)	0.215	0.098	2.19	0.029
CFO (Cash Flow Operations)	0.130	0.085	1.53	0.126

Data source; Author's observation data 2024

Table 7: Mediation and Moderation Effects

Variable	Coefficient	Standard Error	z-Statistic	p-value
ML (Money Laundering)	0.428	0.134	3.19	0.001
GCG (Corporate Governance)	0.305	0.115	2.65	0.008
EL (Ethical Leadership)	0.214	0.079	2.71	0.007
Mediating Effect (ML -> GCG -> Performance)	0.125	0.044	2.84	0.004
Mediating Effect (Frud -> GCG -> Performance)	0.152	0.048	3.16	0.002

Table 2: Descriptive statistics

Variable	No. of Observations	Average	SD	Min	Max
Frud (Fraud)	230	0.379	0.486	0.000	1.000
Ml (Money Laundering)	230	0.506	0.501	0.000	1.000
Incap (Intellectual Capital)	230	1.569	0.771	-0.158	5.781
SC (Social Capital)	230	4.414	0.218	4.127	4.700
SIZE (Size of Company)	225	15.500	1.328	12.348	19.389
LEV (Financial Leverage)	230	0.416	0.511	0.002	2.833

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

Variable	No. of Observations	Average	SD	Min	Max
ROA (Return on Assets)	230	-0.019	0.202	-1.095	0.337
GRW (Sales Growth)	230	0.414	1.822	-1.000	8.649
LOSS (Losing)	230	0.370	0.483	0.000	1.000
AGE (Corporate Life)	230	32.962	14.258	10.000	71.000
ISIS (ISIL)	230	0.712	0.454	0.000	1.000
MTB (Market-to-Book Ratio)	230	4.392	4.982	-2.805	17.585
ISIS*Incap (Interactive ISIL and Intellectual Capital)	230	1.142	1.040	-0.158	5.781
ISIS*SC (Interactive ISIL and Social Capital)	230	3.067	1.595	0.000	4.511
CFO (Cash Flow Operations)	229	-0.061	0.730	-3.902	2.397
GCG (Good Corporate Governance)	230	0.687	0.468	0.000	1.000
EL (Ethical Leadership)	230	0.743	0.437	0.000	1.000

References

Anderson, J. (1997). Technology foresight for competitive advantage. *Long Range Planning*, *30*(5), 665–677. https://doi.org/https://doi.org/10.1016/S0024-6301(97)00052-6

Baker, W. E., & Faulkner, R. R. (2004). Social networks and loss of capital. *Social Networks*, *26*(2), 91–111. https://doi.org/https://doi.org/10.1016/j.socnet.2004.01.004

Brown, M. E., & Treviño, L. K. (2006). Ethical leadership: A review and future directions. *The Leadership Quarterly*, *17*(6), 595–616. https://doi.org/https://doi.org/10.1016/j.leaqua.2006.10.004

Cai, W., Polzin, F., & Stam, E. (2021). Crowdfunding and social capital: A systematic review using a dynamic perspective. *Technological Forecasting and Social Change*, *162*, 120412. https://doi.org/https://doi.org/10.1016/j.techfore.2020.120412

Chenhall, R. H., Hall, M., & Smith, D. (2010). Social capital and management control systems: A study of a non-government organization. *Accounting, Organizations and Society*, *35*(8), 737–756. https://doi.org/https://doi.org/10.1016/j.aos.2010.09.006

Gunder, M. (2003). Passionate planning for the others' desire: an agonistic response to the dark side of planning. *Progress in Planning*, *60*(3), 235–319. https://doi.org/https://doi.org/10.1016/S0305-9006(02)00115-0

Hess, M. F., & Broughton, E. (2014). Fostering an ethical organization from the bottom up and the outside in. *Business Horizons*, *57*(4), 541–549. https://doi.org/https://doi.org/10.1016/j.bushor.2014.02.004

Humphrey, C., & Moizer, P. (1990). From techniques to ideologies: An alternative perspective on the audit function. *Critical Perspectives on Accounting*, *1*(3), 217–238. https://doi.org/https://doi.org/10.1016/1045-2354(90)03021-7

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Corporate Governance: Values, Ethics and Leadership*, 77–132. https://doi.org/10.4159/9780674274051-006

Karpoff, J. M. (2021). The future of financial fraud. *Journal of Corporate Finance*, *66*, 101694. https://doi.org/https://doi.org/10.1016/j.jcorpfin.2020.101694

Labib, N. M., Rizka, M. A., & Shokry, A. E. M. (2020). *Survey of Machine Learning Approaches of Anti-money*

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

Laundering Techniques to Counter Terrorism Finance BT - Internet of Things—Applications and Future (A. Z. Ghalwash, N. El Khameesy, D. A. Magdi, & A. Joshi (eds.); pp. 73–87). Springer Singapore.

Li, J., Mangena, M., & Pike, R. (2012). The effect of audit committee characteristics on intellectual capital disclosure. *The British Accounting Review*, *44*(2), 98–110. https://doi.org/https://doi.org/10.1016/j.bar.2012.03.003

Lymperopoulos, I. N., & Ioannou, G. D. (2015). Online social contagion modeling through the dynamics of Integrate-and-Fire neurons. *Information Sciences*, *320*, 26–61. https://doi.org/https://doi.org/10.1016/j.ins.2015.05.004

Neu, D., Everett, J., Rahaman, A. S., & Martinez, D. (2013). Accounting and networks of corruption. *Accounting, Organizations and Society*, *38*(6), 505–524. https://doi.org/https://doi.org/10.1016/j.aos.2012.01.003

Ngai, E. W. T., Hu, Y., Wong, Y. H., Chen, Y., & Sun, X. (2011). The application of data mining techniques in financial fraud detection: A classification framework and an academic review of literature. *Decision Support Systems*, *50*(3), 559–569. https://doi.org/https://doi.org/10.1016/j.dss.2010.08.006

Power, M. (2013). The apparatus of fraud risk. *Accounting, Organizations and Society*, *38*(6), 525–543. https://doi.org/https://doi.org/10.1016/j.aos.2012.07.004

Ravenda, D., Valencia-Silva, M. M., Argiles-Bosch, J. M., & García-Blandón, J. (2019). Money laundering through the strategic management of accounting transactions. *Critical Perspectives on Accounting*, *60*, 65–85. https://doi.org/https://doi.org/10.1016/j.cpa.2018.08.003

Robins, J., & Wiersema, M. F. (1995). A resource-based approach to the multibusiness firm: Empirical analysis of portfolio interrelationships and corporate financial performance. *Strategic Management Journal*, *16*(4), 277–299. https://doi.org/https://doi.org/10.1002/smj.4250160403

Shad, M. K., Lai, F.-W., Fatt, C. L., Klemeš, J. J., & Bokhari, A. (2019). Integrating sustainability reporting into enterprise risk management and its relationship with business performance: A conceptual framework. *Journal of Cleaner Production*, *208*, 415–425. https://doi.org/https://doi.org/10.1016/j.jclepro.2018.10.120

Spink, J., Moyer, D. C., & Speier-Pero, C. (2016). Introducing the Food Fraud Initial Screening model (FFIS). *Food Control*, *69*, 306–314. https://doi.org/https://doi.org/10.1016/j.foodcont.2016.03.016

Summers, P. J., Hellman, J. L., MacLean, M. R., Rees, V. W., & Wilkes, M. S. (2018). Negative experiences of pain and withdrawal create barriers to abscess care for people who inject heroin. A mixed methods analysis. *Drug and Alcohol Dependence*, *190*, 200–208. https://doi.org/https://doi.org/10.1016/j.drugalcdep.2018.06.010

Tao, H., Bhuiyan, M. Z. A., Rahman, M. A., Wang, G., Wang, T., Ahmed, M. M., & Li, J. (2019). Economic perspective analysis of protecting big data security and privacy. *Future Generation Computer Systems*, *98*, 660–671. https://doi.org/https://doi.org/10.1016/j.future.2019.03.042

Triatmanto, B., & Bawono, S. (2023). The interplay of corruption, human capital, and unemployment in Indonesia: Implications for economic development. *Journal of Economic Criminology*, *2*, 100031. https://doi.org/https://doi.org/10.1016/j.jeconc.2023.100031

Veerasamy, N. (2020). *Chapter 2 - Cyberterrorism – the spectre that is the convergence of the physical and virtual worlds* (V. Benson & J. B. T.-E. C. T. and C. V. Mcalaney (eds.); pp. 27–52). Academic Press. https://doi.org/https://doi.org/10.1016/B978-0-12-816203-3.00002-2

Wang, D., Zhou, S., & Zhang, Y. (2024). A spatiotemporal chaos based deep learning model watermarking scheme. *Applied Soft Computing*, *164*, 112004. https://doi.org/https://doi.org/10.1016/j.asoc.2024.112004

Watson, A., Stanworth, J., Healeas, S., Purdy, D., & Stanworth, C. (2005). Retail franchising: an intellectual

ISSN: 3047-4108 P-ISSN: 3048-3751
Journal Economic Business Innovation -JEBI, Vol. 01, Issue.2 July 2024, Page 195-216
https://doi.org/10.69725/jebi.v1i2.175

capital perspective. *Journal of Retailing and Consumer Services*, *12*(1), 25–34. https://doi.org/https://doi.org/10.1016/j.jretconser.2004.02.001

Wulandhari, N. B. I., Gölgeci, I., Mishra, N., Sivarajah, U., & Gupta, S. (2022). Exploring the role of social capital mechanisms in cooperative resilience. *Journal of Business Research*, *143*, 375–386. https://doi.org/https://doi.org/10.1016/j.jbusres.2022.01.026

Yaacoub, J.-P. A., Noura, H. N., Salman, O., & Chehab, A. (2023). Ethical hacking for IoT: Security issues, challenges, solutions and recommendations. *Internet of Things and Cyber-Physical Systems*, *3*, 280–308. https://doi.org/https://doi.org/10.1016/j.iotcps.2023.04.002

Yang, D., Jiao, H., & Buckland, R. (2017). The determinants of financial fraud in Chinese firms: Does corporate governance as an institutional innovation matter? *Technological Forecasting and Social Change*, *125*, 309–320. https://doi.org/https://doi.org/10.1016/j.techfore.2017.06.035

Yang, Z., Na, J., & Dong, X. (2024). Corporate governance for sustainable development: A study on mechanism configuration. *Journal of Cleaner Production*, *458*, 142509. https://doi.org/https://doi.org/10.1016/j.jclepro.2024.142509

Zahari, A. I., Said, J., Muhamad, N., & Ramly, S. M. (2024). Ethical culture and leadership for sustainability and governance in public sector organisations within the ESG framework. *Journal of Open Innovation: Technology, Market, and Complexity*, *10*(1), 100219. https://doi.org/https://doi.org/10.1016/j.joitmc.2024.100219