Model Fit of Determinants of Corporate Financial Corruption in Iran and Proposed Solutions

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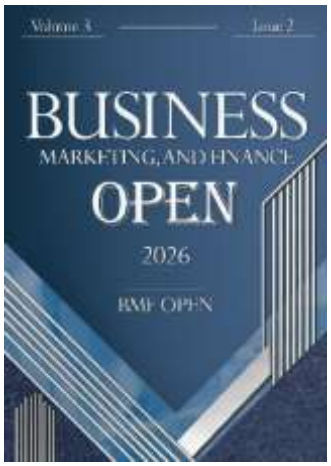

Citation: Mirzaei, F., Ahadi Serkani, S. Y., & Mahmoodi, M. (2026). Model Fit of Determinants of Corporate Financial Corruption in Iran and Proposed Solutions. *Business, Marketing, and Finance Open*, 3(2), 1-12.

Received: 01 July 2025
Revised: 28 September 2025
Accepted: 05 October 2025
Initial Publication: 06 October 2025
Final Publication: 01 March 2026

Abstract: Financial corruption has become one of the main challenges to economic and social development in developing countries, including Iran. This study aimed to identify the determinants of financial corruption in publicly listed companies in Iran and to propose appropriate preventive strategies. Using a mixed-methods design (qualitative and quantitative) and a grounded theory approach, key factors of financial corruption were identified, including causal conditions (such as individual motivations and weak internal controls), the core category (non-transparent organizational culture), contextual conditions (legal deficiencies and sanctions), intervening factors (perception of corruption and inefficient recruitment), and consequences (decline of public trust and investment). Data were collected through expert interviews and questionnaires administered to 329 certified public accountants in Iran and analyzed using SPSS and LISREL software. The results indicated that a non-transparent organizational culture plays a central role in perpetuating financial corruption, and that educational strategies (e.g., ethics training) and monitoring strategies (e.g., strengthening internal controls) with a high correlation coefficient (0.69) can help reduce corruption. These findings are consistent with global studies, such as those of the Organisation for Economic Co-operation and Development (OECD, 2020). Practical recommendations include developing continuous training programs, enhancing monitoring systems with modern technologies, and reforming financial regulations. This research provides a comprehensive framework for policymaking to reduce financial corruption and improve transparency and economic efficiency.

Keywords: Financial corruption, organizational culture, transparency, educational strategies, internal control, Iran.

1. Introduction

Financial corruption is one of the most persistent obstacles to sustainable development, organizational transparency, and economic stability worldwide. It undermines trust, distorts competition, and diverts resources from productive uses to rent-seeking and opportunistic behaviors [1, 2]. In emerging economies, where institutional quality is often weak and governance frameworks are still evolving, corruption manifests itself more deeply in corporate systems, impeding investment and slowing long-term growth [3, 4]. Iran, like many other developing nations, faces systemic challenges in combating financial corruption within corporations and public organizations [5, 6]. These challenges stem from a complex interplay of macroeconomic instability, weak regulatory oversight, and inadequate technological infrastructure for monitoring and auditing [7, 8].

Corruption in the corporate sector is typically shaped by multiple structural, institutional, and behavioral factors. Weak governance structures and non-transparent corporate cultures create opportunities for manipulation of financial statements, bribery, and other fraudulent activities [9, 10]. Cultural and social factors, including tolerance of informal relationships and personal networks, also exacerbate the problem by encouraging favoritism and conflicts of interest [9, 11]. On the institutional side, studies have shown that the quality of legal frameworks and enforcement mechanisms directly affects the prevalence of corruption: ambiguous regulations, inconsistent sanctions, and gaps in oversight empower opportunistic behavior [12, 13]. Furthermore, macroeconomic pressures such as inflation, exchange rate instability, and sanctions increase incentives for managers to manipulate financial reporting and circumvent regulatory control [5, 14].

In recent years, scholars have emphasized the need to examine corruption through multi-level frameworks that integrate causal and contextual conditions. Research rooted in grounded theory has proven particularly effective in uncovering the latent dynamics of financial misconduct by linking individual motivations, organizational weaknesses, and environmental pressures [8, 15]. Such approaches provide deep insight into the way personal incentives, such as private financial pressure, intersect with systemic deficiencies like inadequate internal controls or ineffective risk management [16]. The result is a more complete understanding of corruption's determinants, enabling the design of targeted strategies to prevent its occurrence.

Another major dimension is organizational culture and transparency. Evidence suggests that companies with non-transparent structures, poorly articulated ethical values, and weak accountability mechanisms are significantly more vulnerable to fraud and manipulation [11, 17]. Organizational leaders who fail to cultivate ethical norms or enforce robust compliance programs inadvertently foster a permissive environment for corrupt practices [10]. Conversely, organizations that invest in continuous ethics training and maintain strong auditing and control systems demonstrate lower risk of fraudulent reporting and misappropriation [7, 15].

Technological innovation also plays a dual role in either curbing or enabling corruption. On the one hand, financial technologies (FinTech) and digital reporting systems can enhance transparency and reduce the discretionary power of managers [18, 19]. Digital platforms enable real-time monitoring of transactions, advanced analytics for fraud detection, and the use of artificial intelligence to flag anomalies in financial statements [20, 21]. Machine learning algorithms, neural networks, and genetic optimization techniques have been applied to improve models such as the Beneish M-score and other predictive frameworks, increasing detection accuracy and supporting proactive governance [20, 22]. On the other hand, the rapid evolution of technology can also introduce new risks when oversight mechanisms fail to keep pace, particularly in emerging markets where regulatory frameworks are still adapting [6, 19].

International experience provides valuable lessons for strengthening anti-corruption frameworks in developing contexts. Countries with robust transparency systems and integrated monitoring infrastructures demonstrate better capacity to detect and prevent corruption before it escalates [1, 4]. In the Middle East, however, deep-rooted institutional weaknesses and limited independence of oversight bodies have historically hampered reform efforts [6, 14]. Iranian organizations, in particular, have faced difficulties aligning their anti-corruption initiatives with global best practices due to political, economic, and legal constraints [13, 16]. The inefficiency of internal audit systems and insufficient external inspection mechanisms in public and semi-public sectors, including municipalities and sports federations, exemplify the gap between policy and implementation [15, 17].

Furthermore, socio-economic consequences of corruption extend beyond the boundaries of firms. High levels of corruption erode investor confidence, reduce foreign direct investment, and compromise public trust in both the

corporate sector and regulatory institutions [2, 14]. This results in capital flight, inefficiency in market resource allocation, and increased economic inequality [1, 3]. Research in Iran has revealed that when financial reporting integrity is questioned, it not only weakens the credibility of the stock market but also undermines the government's broader economic development agenda [5, 12].

Given these risks, scholars have advocated for integrated strategies that combine preventive education, cultural transformation, legal reform, and advanced analytics [7, 8, 11]. Educational interventions, such as professional ethics training for managers and auditors, create awareness and encourage responsible conduct [10, 17]. Legal and institutional reforms, including clearer financial regulations and stricter enforcement, can strengthen accountability and reduce loopholes exploited for misconduct [13, 16]. At the same time, modern monitoring systems powered by AI and big data analytics can detect fraud proactively and provide regulators with real-time risk intelligence [19-21].

Emerging non-litigation frameworks are also gaining attention. Some scholars highlight that, particularly in cases of mild financial misconduct, non-litigation paradigms can improve resolution efficiency and reduce the cost of enforcement while maintaining deterrence [23]. This approach may be especially useful in highly complex corporate environments where litigation processes are slow and resource-intensive. By integrating such frameworks with advanced fraud detection tools and ethical training, organizations can build comprehensive anti-corruption ecosystems.

Despite global advances, Iran's corporate governance landscape still requires more cohesive models that address both internal drivers and external constraints of financial corruption. Prior studies have either concentrated on macroeconomic determinants [5], legal-institutional inefficiencies [12, 13], or technological innovations [18, 19] but rarely integrated these dimensions into a single, actionable paradigm. By employing a mixed-methods approach and grounded theory analysis, it is possible to synthesize insights from diverse domains—managerial motivations, organizational culture, institutional environment, and modern detection technologies—into a coherent framework suitable for the Iranian context [8, 15].

Accordingly, this study aims to fill this gap by designing and validating a comprehensive paradigmatic model of financial corruption determinants in Iranian companies.

2. Methodology

In this study, a mixed-methods approach was applied through the integration of qualitative and quantitative methods. In the qualitative phase, during the second step, validity and reliability were assessed by 12 professors and experts in the field of auditing and subject-matter specialists. The statistical population of the quantitative phase included all certified public accountants in Iran (N = 2,300). For sampling, a probability–random sampling method was used to distribute the questionnaire among certified public accountants in Iran. To determine the sample size, Cochran's formula was applied, and based on this formula, the sample size was calculated to be 329 participants.

To assess the validity of the research questionnaire, content validity was employed. For quantitative evaluation of content validity, two indices were used: the Content Validity Ratio (CVR) and the Content Validity Index (CVI). To measure reliability, Cronbach's alpha coefficient was applied. For the evaluation of questionnaire items, structural equation modeling was used. It should be noted that the aforementioned statistical tests were conducted using SPSS software version 21 and LISREL software version 8.5.

Table 1. Evaluation of CVI, CVR, and Cronbach's Alpha Coefficients

Categories	Indicators	CVI	CVR	Cronbach's Alpha
Causal Conditions	Individual motivations	0.836	0.561	0.91
	Organizational factors	0.905	0.517	0.78
Core Category	Organizational culture	0.843	0.603	0.80
Contextual Conditions	Institutional factors	0.981	0.478	0.85
	Environmental factors	0.942	0.551	0.88
	Structural weaknesses	0.890	0.471	0.90
Intervening Conditions	Social factors	0.924	0.527	0.89
	Organizational factors	0.907	0.611	0.84
	Institutional factors	0.936	0.533	0.87
Strategies	Educational strategies	0.901	0.604	0.89
	Monitoring strategies	0.898	0.598	0.91
Outcomes	Social outcomes	0.924	0.574	0.89
	Economic outcomes	0.914	0.556	0.82

3. Findings and Results

Designing the paradigmatic model is one of the most important strategies of qualitative research methods, particularly in grounded theory development. In grounded theory, the integration of data is highly significant. During open coding, the researcher generates categories and their properties and then seeks to determine how categories vary along defined dimensions. In axial coding, the categories are systematically refined and linked with their subcategories. The third stage of coding involves selective coding and presenting the paradigmatic model of the research.

Table 2. Coding and Data-Driven Dimensions

Key Point	Concept	Category	Component
Personal financial pressures on managers are the main motivation for manipulating financial reports.	Personal financial pressures	Individual motivations	Causal Conditions
Weak ethical values among managers encourage prioritization of personal interests.	Weak ethical values		
Managers' unawareness of financial regulations facilitates corrupt decisions.	Lack of awareness of laws		
Weak professional commitments of managers lead to corrupt behaviors.	Weak professional commitment		
Personal financial pressures drive managers toward corruption.	Personal financial pressures		
Weak internal monitoring systems increase opportunities for corruption.	Weak internal control	Organizational factors	
Lack of financial transparency facilitates manipulation of financial reports.	Financial non-transparency		
Inefficient auditing systems make financial misconduct easier.	Inefficient auditing		
Weak financial risk management exacerbates corruption.	Weak risk management		
Legal deficiencies increase opportunities for financial abuse.	Legal deficiencies	Institutional factors	Contextual Conditions
Weak regulatory institutions increase financial corruption.	Weak regulatory institutions		
Complex and insufficient laws increase opportunities for corruption.	Complex laws		
Weak enforcement of financial laws makes abuse easier.	Weak enforcement of laws		
Opportunities for misuse of financial resources rise in weak institutional environments.	Misuse opportunities	Environmental factors	

Economic fluctuations create an environment for financial corruption.	Economic fluctuations		
Economic sanctions increase opportunities for corruption.	Economic sanctions		
Weak capacity of supervisory institutions exacerbates financial corruption.	Weak supervisory capacity	Structural weaknesses	
Weak regulatory institutions exacerbate financial corruption.	Weak institutional oversight		
Unstable economic environments intensify financial corruption.	Economic instability		
Lack of transparent organizational culture encourages corruption.	Non-transparent organizational culture	Organizational culture	Core Component
Complex financial structures facilitate corruption.	Complex financial structure		
Failure to prevent financial corruption increases abuse opportunities.	Lack of prevention		
Risk and uncertainty exacerbate corruption.	Risk and uncertainty		
Weak organizational leadership encourages corruption.	Weak leadership		
High perception of corruption intensifies financial misconduct.	Perception of corruption	Social factors	Intervening Conditions
Inefficient recruitment processes exacerbate corruption.	Inefficient recruitment	Organizational factors	
Large company size exacerbates corruption.	Company size		
Insufficient oversight exacerbates corruption.	Inadequate monitoring		
Weak rule of law intensifies corruption.	Weak rule of law	Institutional factors	
Non-transparent investment opportunities intensify corruption.	Non-transparent investments		
Weak regulatory oversight intensifies corruption.	Weak institutional oversight		
Professional ethics training reduces financial corruption.	Ethics training	Educational strategies	Strategies
Strengthening transparent organizational culture reduces corruption.	Transparent culture		
Training in financial regulations reduces corruption.	Financial law training		
Reducing complexity of financial structures lowers corruption.	Simplifying structures		
Strengthening internal control systems reduces corruption.	Strengthening internal control	Monitoring strategies	
Reforming financial laws reduces corruption.	Financial law reform		
Financial corruption reduces public trust in companies.	Decreased public trust	Social outcomes	Outcomes
Financial corruption reduces investment in companies.	Decreased investment		
Reducing corruption increases capital market transparency.	Market transparency	Economic outcomes	
Reducing corruption strengthens economic growth.	Economic growth		
Reducing corruption increases public trust.	Increased public trust		
Reducing corruption improves economic efficiency.	Economic efficiency		
Financial corruption reduces public trust in companies.	Decreased public trust		
Financial corruption reduces investment in companies.	Decreased investment		

In this section, the main hypothesis of the study is examined. The model of the main hypothesis is presented, where, based on the significance values, the acceptance or rejection of the hypothesis is determined.

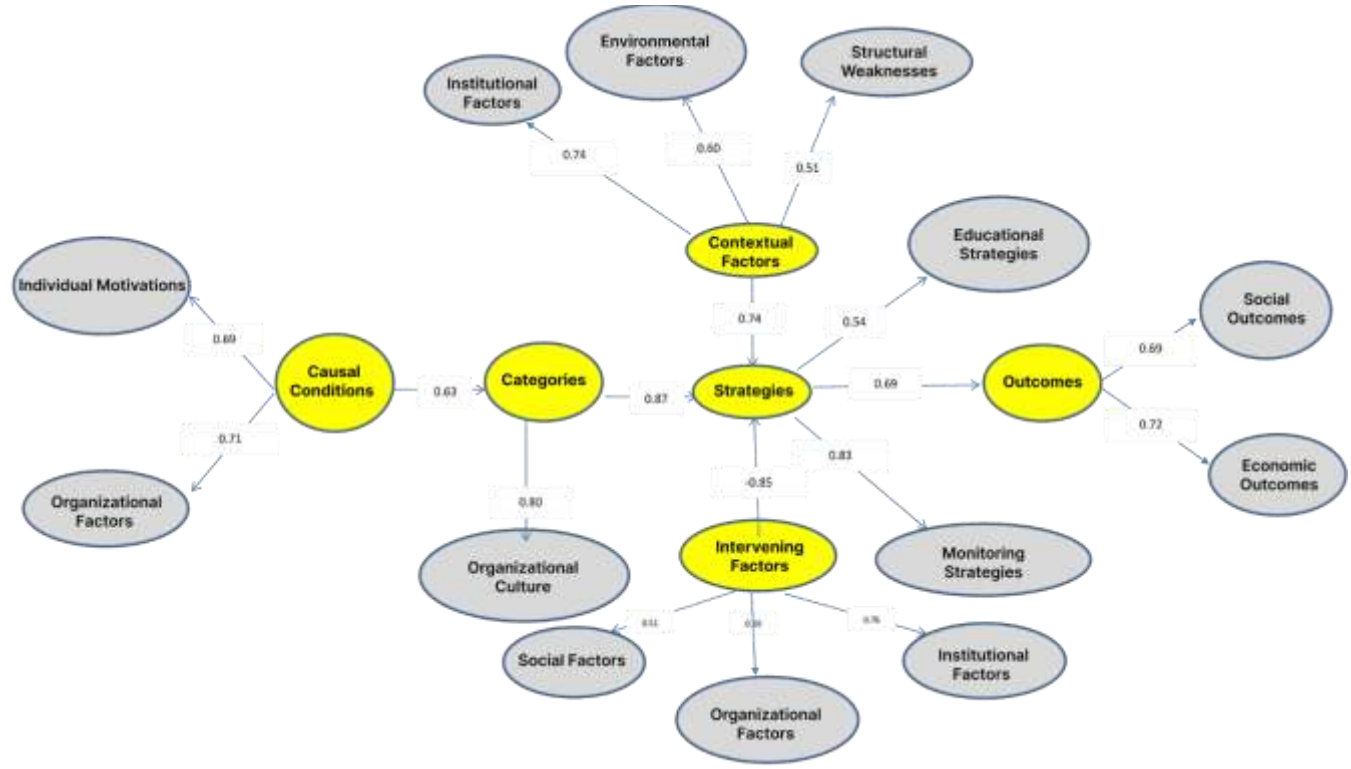

Figure 1. Model of Main Hypothesis Significance in Standard Estimate Mode

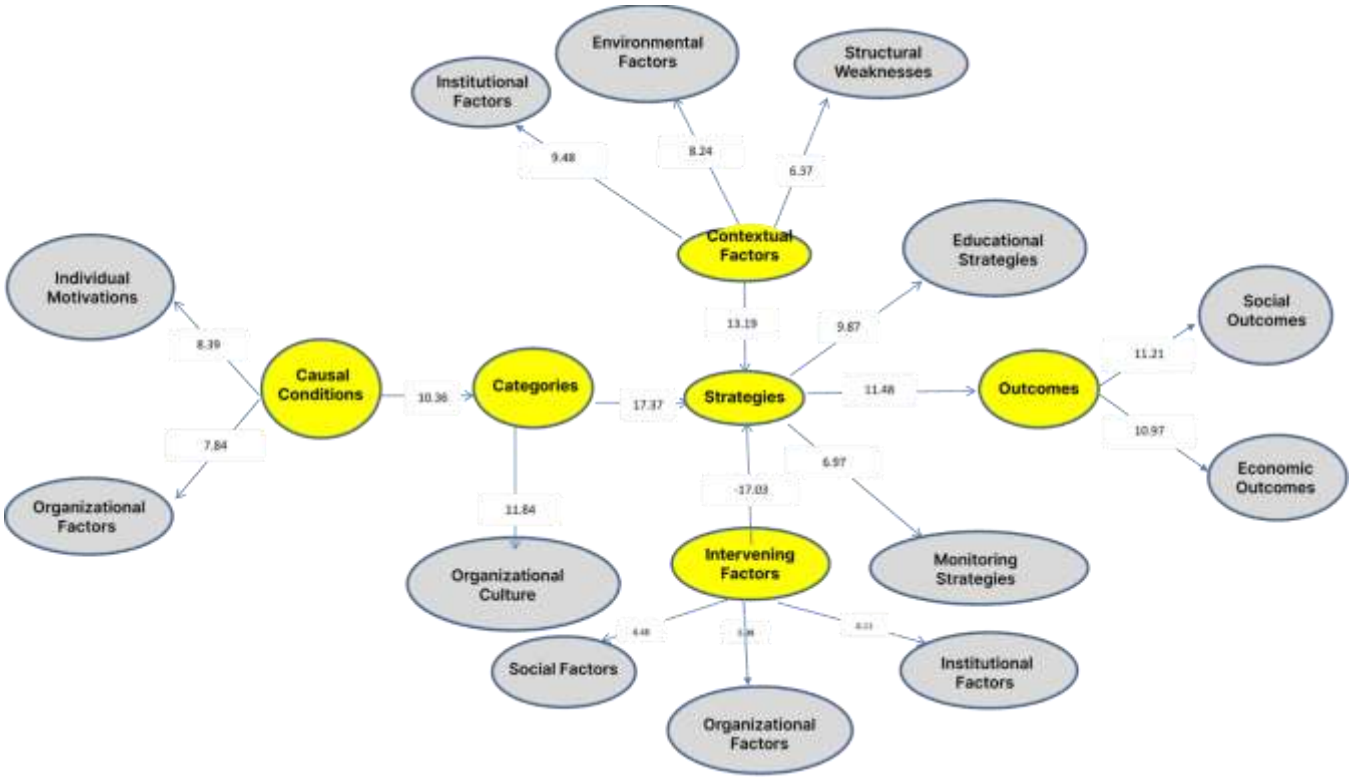

Figure 2. Model of Main Hypothesis Significance in Significance Coefficients Mode

Table 3. Results of Structural Equation Modeling Analysis: Research Hypotheses

Hypothesis No.	Independent Variable	Dependent Variable	Standardized Coefficient	T-value	Test Result
1	Causal Factors	Categories	0.63	10.36	Reject H0
2	Categories	Strategies	0.87	17.37	Reject H0
3	Strategies	Outcomes	0.69	11.48	Reject H0
4	Contextual Factors	Strategies	0.74	13.19	Reject H0
5	Intervening Factors	Strategies	-0.85	-17.03	Reject H0

Hypothesis 1. Causal factors (individual motivations and organizational factors) have a significant effect on categories (organizational culture).

Given that the T-value between the two variables, causal factors and categories, equals 10.36 and is greater than 1.96, causal factors have a significant impact on categories. Furthermore, since the correlation coefficient (standardized coefficient) between the two variables equals 0.63, it can be concluded that causal factors have a direct, positive, and significant effect on categories, and the strength of this effect is relatively strong (0.63). Therefore, the first research hypothesis is supported.

Hypothesis 2. Categories have a significant effect on strategies (educational strategies and monitoring strategies).

Given that the T-value between the two variables, categories and strategies, equals 17.37 and is greater than 1.96, categories have a significant impact on strategies. Furthermore, since the correlation coefficient (standardized coefficient) between the two variables equals 0.87, it can be concluded that categories have a direct, positive, and significant effect on strategies, and the strength of this effect is relatively strong (0.87). Therefore, the second research hypothesis is supported.

Hypothesis 3. Strategies have a significant effect on outcomes (social outcomes and economic outcomes).

Given that the T-value between the two variables, strategies and outcomes, equals 11.48 and is greater than 1.96, strategies have a significant impact on outcomes. Furthermore, since the correlation coefficient (standardized coefficient) between the two variables equals 0.69, it can be concluded that strategies have a direct, positive, and significant effect on outcomes, and the strength of this effect is relatively strong (0.69). Therefore, the third research hypothesis is supported.

Hypothesis 4. Contextual factors (institutional factors, environmental factors, and structural weaknesses) have a significant effect on strategies.

Given that the T-value between the two variables, contextual factors and strategies, equals 13.19 and is greater than 1.96, contextual factors have a significant impact on strategies. Furthermore, since the correlation coefficient (standardized coefficient) between the two variables equals 0.74, it can be concluded that contextual factors have a direct, positive, and significant effect on strategies, and the strength of this effect is relatively strong (0.74). Therefore, the fourth research hypothesis is supported.

Hypothesis 5. Intervening factors (social factors, organizational factors, and institutional factors) have a significant effect on strategies.

Given that the T-value between the two variables, intervening factors and strategies, equals -17.03 and is smaller than -1.96, intervening factors have a significant impact on strategies. Furthermore, since the correlation coefficient (standardized coefficient) between the two variables equals -0.85, it can be concluded that intervening factors have an inverse, negative, and significant effect on strategies, and the strength of this effect is relatively strong (-0.85). Therefore, the fifth research hypothesis is supported.

4. Discussion and Conclusion

The present study developed and validated a paradigmatic model of the determinants of financial corruption in Iranian companies through a mixed-methods approach and grounded theory analysis. The results of the structural equation modeling strongly support the proposed theoretical framework. Five key hypotheses were examined, each illuminating a critical pathway through which corruption emerges and can be mitigated.

The first finding revealed that causal factors, including individual motivations and organizational weaknesses, exert a strong and positive effect on the core category of non-transparent organizational culture ($\beta = 0.63$). This result underscores the notion that corruption frequently originates from the interplay between personal incentives—such as financial pressure, opportunism, and ethical lapses—and organizational structures that fail to enforce accountability [9, 10]. This is aligned with prior research demonstrating that managerial self-interest and inadequate professional commitment create a fertile ground for misconduct [11, 12]. Additionally, the finding is consistent with studies showing that weak ethical climates within organizations normalize deviant behavior, allowing employees to rationalize fraudulent actions [1, 2]. The confirmation of this hypothesis highlights the importance of understanding corruption not as isolated acts of wrongdoing but as the result of entrenched cultural and structural deficiencies.

The second key outcome confirmed that organizational culture has a significant and robust effect on the development of anti-corruption strategies ($\beta = 0.87$). The magnitude of this relationship indicates that once a non-transparent or permissive culture is present, interventions must target deep cultural reform to be effective. This is coherent with evidence from Iranian municipalities and sports federations, where weak cultures of accountability hinder the success of inspection and audit programs [15, 17]. Similarly, global studies emphasize that ethical leadership, transparency, and a shared understanding of integrity are prerequisites for sustainable anti-corruption initiatives [1, 3]. Organizational culture acts as a mediating platform: even advanced control systems or legal frameworks are rendered ineffective if the internal norms reward or tolerate opportunistic behavior [6, 11].

The third finding demonstrated that strategies—particularly educational and monitoring interventions—positively and significantly influence outcomes such as social trust and economic stability ($\beta = 0.69$). This result validates the practical importance of implementing comprehensive ethics training and strengthening internal audit systems [7, 8]. Studies in Iran have long emphasized that training auditors and managers on professional standards enhances early detection of irregularities and fosters organizational transparency [10, 11]. Moreover, technological augmentation of monitoring systems, including the use of AI and data analytics, has been shown to improve the detection of fraudulent reporting and mitigate corruption's economic cost [19-21]. Globally, the implementation of digital financial oversight tools combined with cultural transformation has been linked to improved investment confidence and market integrity [1, 3]. The Iranian context demonstrates similar potential, where well-designed strategies could rebuild trust in capital markets and encourage domestic and foreign investment.

The fourth result indicated that contextual factors, such as institutional weaknesses, environmental instability, and structural inefficiencies, have a strong positive effect on strategies ($\beta = 0.74$). This underscores the reality that strategies are not formed in a vacuum; rather, they are shaped by the external environment and the broader governance ecosystem. Weak enforcement of financial laws, ambiguous regulations, and persistent macroeconomic volatility, including sanctions and inflation, create an atmosphere where corruption flourishes and simultaneously challenge the implementation of preventive measures [5, 12, 14]. Prior studies have shown that legal and regulatory clarity is essential for empowering internal control systems and audit functions [6, 13]. Moreover, research on

Iranian insurance and municipal sectors confirms that fragmented oversight frameworks reduce the effectiveness of anti-corruption initiatives [8, 17]. The strength of the contextual relationship found here reinforces calls for systemic reform, where institutional capacity and stability are prerequisites for sustainable anti-corruption action.

The final finding revealed that intervening factors—including social dynamics, organizational inefficiencies, and institutional pressures—have a significant negative effect on strategies (β = -0.85). This implies that even when cultural and contextual conditions support anti-corruption efforts, intervening obstacles such as societal acceptance of informal networks, flawed recruitment processes, and weak rule of law can undermine the success of strategies. Prior literature supports this result, showing that informal norms and patronage systems dilute formal control efforts [2, 9]. Additionally, hiring practices that fail to screen for ethical competence and promote meritocracy have been linked to persistent corruption in Iranian public and semi-public organizations [10, 15]. International perspectives also confirm that when societies tolerate corruption as a survival strategy in volatile economies, anti-corruption initiatives face severe resistance [3, 14]. The strong inverse relationship found here highlights the urgency of addressing these hidden barriers to ensure the effectiveness of both educational and monitoring strategies.

Beyond the confirmation of these hypotheses, the integrated model produced in this study contributes to both theory and practice. Theoretically, it advances a multi-layered understanding of corruption by synthesizing individual, organizational, institutional, and technological perspectives into a single framework tailored to Iran's context. While earlier Iranian studies often focused on one dimension—macroeconomic influences [5], legal weaknesses [13], or cultural dysfunction [11]—this research demonstrates how these factors converge to shape both the risk of corruption and the success of preventive interventions. It also bridges global perspectives with local realities, aligning with emerging scholarship advocating hybrid models that combine normative cultural change with technological and legal innovation [18-20].

Practically, the model offers actionable insights for regulators, policymakers, and corporate leaders in Iran. The evidence suggests that cultural reform—including the internalization of transparency and ethical standards—must precede or accompany structural and technological interventions. Without a cultural foundation, investments in advanced fraud detection systems or regulatory tightening will likely face resistance and limited success [11, 15]. Additionally, technology adoption should be strategically integrated into auditing and reporting systems to strengthen real-time detection and minimize opportunities for manipulation [19, 21, 22]. Finally, institutional reform, including the simplification of financial laws and strengthening of oversight bodies, is vital to creating an environment where anti-corruption strategies can thrive [6, 13].

Another significant contribution of this study is its attention to the socio-economic ripple effects of corruption. The findings reinforce global evidence that corruption erodes public trust and reduces investment [1, 2], and they contextualize these effects within Iran's already fragile economic landscape. Reduced capital market transparency and economic inefficiency were identified as key outcomes of corruption; conversely, the study shows that implementing effective strategies can foster market confidence and long-term growth [3, 18]. These insights provide economic justification for policymakers to prioritize anti-corruption agendas as a driver of sustainable development.

Importantly, the strong relationship between strategies and outcomes found in this study also aligns with global movements toward proactive prevention rather than reactive enforcement. By combining ethical training, digital monitoring, and legal reform, organizations can build resilience and anticipate misconduct rather than merely

respond to it [7, 19]. This finding is consistent with research on AI-based fraud detection and predictive modeling, which shows that early warning systems dramatically improve compliance and reduce economic losses [20-22].

This research, while methodologically rigorous, faces certain limitations. First, the quantitative validation relied on a sample of certified public accountants in Iran, which may not fully capture the perspectives of other key stakeholders, such as regulators, corporate executives, or law enforcement officials. This could limit the generalizability of the findings across diverse organizational contexts. Second, although the grounded theory approach allowed for rich exploration, qualitative data were drawn from interviews with a relatively small number of experts; expanding this pool might have revealed additional themes or nuanced relationships. Third, the study focused on Iran's unique institutional and economic environment; therefore, caution should be exercised in applying the model directly to other countries without contextual adaptation. Finally, while the research acknowledges technological innovation, it did not empirically test specific AI or data analytics tools, limiting the ability to compare their relative effectiveness in corruption detection.

Future research should expand the scope of inquiry by incorporating the perspectives of a wider range of stakeholders, including policymakers, compliance officers, and external investors, to create a more holistic understanding of corruption dynamics. Comparative cross-country studies could also test the applicability of this model in other developing economies, providing insights into how institutional quality moderates corruption determinants. Additionally, longitudinal research could examine how cultural transformation and technological interventions evolve over time and influence long-term outcomes such as market confidence and economic stability. Another promising avenue is the experimental evaluation of specific fraud detection technologies—such as machine learning models and blockchain-enabled auditing systems—to identify the most effective digital tools in different organizational and regulatory settings.

Organizations and policymakers should prioritize cultural change as the foundation for anti-corruption efforts, embedding transparency and ethical values into recruitment, training, and leadership development. Strengthening internal control systems and integrating advanced technologies for real-time monitoring can significantly reduce opportunities for financial misconduct. Policymakers should also simplify and clarify financial regulations, strengthen oversight institutions, and ensure consistent enforcement to build investor confidence and economic resilience. Combining these organizational and systemic reforms with continuous ethics education and digital innovation can create an integrated defense against corruption in the Iranian corporate sector.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

Acknowledgments

Authors thank all participants who participate in this study.

Conflict of Interest

The authors report no conflict of interest.

Funding/Financial Support

According to the authors, this article has no financial support.

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