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THE IMPACT OF GOOD CORPORATE GOVERNANCE ON FRAUD PREVENTION

Zhieren Adziqa As'ad*, Erna Sulistyowati
Universitas Pembangunan Nasional "Veteran" Jawa Timur
*zhierenadziqa26@gmail.com

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Abstract:
This study aims to test the impact of good corporate governance (GCG) on fraud prevention at Mining Company X. The sampling approach employed probability sampling with a basic random sampling procedure, yielding 94 respondents from a total of 1,451 permanent employees. This study employs a quantitative method, employing Partial Least Squares (PLS) analysis powered by SmartPLS 4.0 software. The results prove that GCG has a positive and significant effect on fraud prevention, with a p-value of 0.000 and a path coefficient of 0.736. The R^2 value of 0.542 suggests that GCG moderately contributes to explaining fraud prevention. These results highlight the crucial role of implementing GCG principles in establishing an effective anti-fraud system, particularly in mining companies that face high exposure to fraud risks.

INTRODUCTION

Fraud is a serious problem that continues to threaten the integrity of the business world. Advances in information technology and the increasing complexity of organizational operations have created greater opportunities for fraudulent acts. The losses incurred by companies extend beyond financial aspects to include the company's value, which is derived from the trust of various stakeholders in the company's ability to operate sustainably (Tatyana Salsabila & Kuntadi, 2022). Fraud can occur at various levels within an organizational structure, ranging from employees and managers to top executives. According to the ACFE's 2024 Occupational Fraud Report, 41% of fraud is committed by employees, resulting in losses of $50,000, while owners/executives, although accounting for only 19% of cases, incur losses of up to $500,000 (ACFE, 2024).

Good Corporate Governance (GCG) plays a key role in efforts to prevent fraud. The proper implementation of good governance within a company must be carried out in accordance with regulations established by the government. Good Corporate Governance itself is a corporate management system based on a number of principles, including transparency, independence, accountability, responsibility, as well as equality and fairness (Kumalasari & Nursiam, 2023). In practice, GCG is not merely a matter of regulatory compliance, but also serves as a framework that encourages organizations to act ethically and responsibly in all their business activities (Damayanti & Primastiwi, 2021).

However, various empirical findings show mixed results regarding the effectiveness of GCG in preventing fraud. For example, (Kumalasari & Nursiam, 2023) found that GCG had no significant effect on fraud prevention, while another study by (Budiantoro et al., 2022) showed that GCG had a positive and significant effect on fraud prevention efforts. These differing results create a research gap that requires further examination, particularly in the context of different organizations.

A recent case illustrating the importance of strengthening GCG principles occurred at Mining Company X. In 2023, the company was found to have distributed compensation funds to residents affected by infrastructure development; however, the process was marred by inequities that sparked conflict. One landowner, who was supposed to receive a substantial amount of compensation, actually received a much smaller sum than others with smaller land holdings. This case raises questions about the integrity of the internal oversight system and the transparency of fund distribution. This phenomenon reflects the weak implementation of good corporate governance principles, which should be capable of preventing misconduct and safeguarding the company's reputation (Penalutim, 2024).

LITERATURE REVIEW

Fraud Triangle Theory

The fraud triangle is a theory that describes three key elements that cause individuals to commit fraud: pressure, rationalization, and opportunity (Cressey, 1953) as cited in (Napitupulu & Ramadhita, 2022). Pressure refers to a situation in which an individual faces difficulties, particularly financial ones, that drive them to commit fraudulent acts. Opportunity arises when someone has access or the chance to commit a violation without being detected. Meanwhile, rationalization describes an individual's

effort to justify the fraudulent act they have committed, as if the act were acceptable in certain situations. Cressey explains that fraud perpetrators generally view themselves as honest individuals but find themselves in coercive circumstances. These three elements are recognized as the primary foundations for understanding and evaluating fraudulent behavior (Fauziah, 2024) .

These three elements complement one another and create conditions that enable fraud to occur. Therefore, fraud prevention must be achieved by strengthening internal control systems that can eliminate opportunities for fraud and reinforce integrity and oversight (Budianto et al., 2023).

Agency Theory

Agency theory describes the relationship between the principal (owner) and the agent (manager) within a corporate structure, where conflicts of interest often arise due to differing objectives (Jensen & Meckling, 1976) as cited in (Fitriani, 2024). Agents possess more information and may act in their own self-interest, leading to information asymmetry. To mitigate this risk, oversight mechanisms are required, such as the implementation of good corporate governance and performance-based incentive systems (Fitriani, 2024). GCG acts as a governance tool that can curb opportunistic behavior by agents and safeguard the interests of owners.

Good Corporate Governance (GCG)

This serves as a corporate governance strategy by ensuring that business operations are managed in a transparent, professional, and responsible manner. Several GCG principles include transparency, independence, accountability, responsibility, and fairness based on Minister of State-Owned Enterprises Regulation No. PER-01/MBU/2011. Consistent application of GCG can foster an anti-fraud organizational culture and enhance stakeholder trust (Sabrina & Sadalia, 2021).

Fraud

Fraud refers to any illegal act committed by an individual or a group of individuals for their own benefit or that of others. Fraud is a problem that affects every aspect of modern business, regardless of size, industry, or operational model (Setyono et al., 2023). Fraud can be understood as a deliberate act of deception intended to gain personal advantage.

According to Auditing Standard (SAS) No. 99, this action specifically refers to intentional acts that result in material misstatements in the audited financial statements. The Association of Certified Fraud Examiners reinforces this perspective by describing fraud as deceptive behavior designed by an individual or business entity with full awareness of the losses it causes to others or stakeholders. Essentially, fraud is a criminal act whose methods are cleverly designed to manipulate information for unilateral gain (Chandrawati & Ratnawati, 2021).

RESEARCH METHODS

Research Design

This study employs a quantitative research design, with the objective of testing the effect of the independent variable—good corporate governance (GCG)—on fraud prevention, which serves as the dependent variable. A quantitative approach was chosen because this study relies on numerical data and inferential statistical analysis to test the relationship between variables formulated as hypotheses (Ali et al., 2022).

Research Subjects and Population

The subjects of this study are permanent employees of Mining Company X, located on the island of Sulawesi, who have been employed for more than three years. The study population consists of 1,451 employees. These criteria were established to ensure that the respondents have sufficient experience and understanding of corporate governance in their work environment.

Sampling Technique

The sample size was determined using the Slovin formula with a margin of error (e) of 10%, resulting in a minimum sample size of 94 respondents. The sampling technique employed probability sampling using simple random sampling, in which every member of the population has an equal chance of being selected for the sample. This approach was chosen to minimize bias in the representation of respondent data.

Research Variables and Operationalization

This study consists of two independent variables and one dependent variable:

a) **Good Corporate Governance (X2):** Measured using indicators of transparency, implementation, sanctions, and monitoring, based on the model (Budiantoro et al., 2022)
b) **Pencegahan Fraud (Y):** Measured based on the dimensions of risk analysis, implementation of anti-fraud policies, sanctions, and monitoring of prevention programs, in accordance with (Budiantoro et al., 2022)

Each variable is measured using a 5-point Likert scale, ranging from "strongly agree" (5 points) to "strongly disagree" (1 point).

Types and Sources of Data

The data used in this study consists of primary data, which was collected directly from respondents via an online questionnaire (Google Form). This data was collected between May 21 and 30, 2025.

Data Collection Method

Data was collected using a closed-ended questionnaire consisting of a series of statements based on the indicators for each variable. Respondents were asked to rate these statements according to their perceptions of conditions within the company.

Data Analysis Techniques

The Partial Least Squares (PLS) method was used for data analysis using SmartPLS 4.0 software. PLS was chosen because this approach is suitable for models with small to moderate sample sizes and is capable of handling non-normal data. The analysis procedure consisted of:

Inner Model Evaluation (Structural Model):

a) Coefficient of Determination (R^2)
b) Direct Effect Test (Path Coefficient)
c) Effect Size (f^2)
d) Statistical Significance via bootstrapping at a 5% significance level (p-value $<$ 0.05 and t-statistic $>$ 1.96)

Outer Model Evaluation (Measurement Model):

a) Convergent Validity (factor loadings $>$ 0.7)
b) Discriminant Validity (cross-loadings and Fornell-Larcker Criterion)
c) Construct Reliability (Composite Reliability and Cronbach's Alpha $>$ 0.7)

RESEARCH FINDINGS

Measurement Model

Convergent Validy

The outer loadings of the indicators on their latent variables are referred to as convergent validity. If the Average Variance Extracted (AVE) is greater than 0.50, then a model has convergent validity with outer loadings greater than 0.70. The following are the results of the convergent validity test in this study.

Table 1
Outer Loading Value

Variable	Indicator	Outer Loading	Description
Good Corporate Governance (X)	GCG1	0,861	Valid
	GCG2	0,913	Valid
	GCG3	0,874	Valid
	GCG4	0,906	Valid
Fraud Prevention (Y)	PF1	0,930	Valid
	PF2	0,918	Valid
	PF3	0,899	Valid
	PF4	0,957	Valid

Source: Processed Data, 2025

Table 2
Composite Reliability and AVE

Variable	Composite Reliability	AVE
Good Coporate Governance (X)	0,938	0,790
Fraud Prevention (Y)	0,960	0,858

Source: Processed Data, 2025

As shown in Table 1 and Table 2, the results of this analysis indicate that all outer loadings are greater than 0.70, the composite reliability is greater than 0.50, and the AVE is greater than 0.50. Therefore, it can be concluded that each construct has been deemed valid.

Discriminant Validity

To assess discriminant validity, the Fornell-Larker method can be used, which is based on the AVE value. If the square root of the AVE is greater than the correlation between latent variables, the indicators are said to meet the criteria for discriminant validity. The following are the results of the discriminant validity test.

Table 3
Fornell Lacker Values

Indicator	GCG (X)	PF (Y)
GCG (X)	**0,889**	
PF (Y)	0,736	**0,926**

Source: Processed Data, 2025

Table 3 shows that the Fornell-Larcker values, as indicated by the AVE values, are higher (>) than the correlations among the latent variables. Therefore, it can be concluded that each indicator is valid.

Internal Consistency Reliability

Some indicators used to measure internal consistency reliability include Cronbach's alpha and composite reliability. To determine whether a measurement is reliable, the composite reliability must be above 0.70, as must the Cronbach's alpha value (Sunani, 2018). The following are the results of the internal consistency reliability test.

Table 4
Internal Consistency Reliability Values

Variable	*Cronbach's Alpha*	*Composite Reliability*
Good Corporate Governance(X)	0,911	0,938
Fraud Prevention (Y)	0,945	0,960

Source: Processed Data, 2025

As shown in Table 4, the Cronbach's alpha and composite reliability values in this study were both greater than 0.70; therefore, it can be concluded that the measurement is reliable.

Structural Model

Path Coefficients

Path coefficients are a statistical measure used to determine the direction of the influence of an independent variable on a dependent variable. Path coefficients range from -1 to +1. A negative value indicates a negative relationship, while a positive value indicates a positive relationship. The closer the value is to 0, the weaker the relationship is considered to be. The following are the results of the path coefficient analysis for this study.

Table 5
Path Coefficients Value

Effect of Variables	Path Coefficients
Good Corporate Governance (X) and Fraud Prevention	0,736

Source: Processed Data, 2025

Table 5 shows that the path coefficient for Good Corporate Governance (X2) on Fraud Prevention (Y) is 0.736, indicating that the relationship between the variables is positive.

Coefficient of Determination (R^2)

The validity of a structural model can be assessed using the R-squared (R^2) value for the dependent variable. The R^2 value is used to measure the extent to which the dependent variable is explained by the independent variables. This measure ranges from 0 to 1. The closer the value is to 1, the more accurate the model is considered to be in explaining the dependent variable. The interpretive strength of the R^2 value can be categorized as high if the R^2 value is 0.75, moderate if it is up to 0.50, and weak if it is up to 0.25. The following are the results of the Coefficient of Determination (R^2) test for this study.

Table 6
Nilai R *Square*

Variable	R Square
Fraud Prevention (Y)	0,542

Source: Processed Data, 2025

Table 6 shows that the R-squared value is 0.542, indicating that the predictive power of the Good Corporate Governance (X) variable on Fraud Prevention (Y) is classified as moderate.

Effect Size (f^2)

Through this test, the contribution of the independent variables included to the dependent variable can be understood based on the F-square value. The F-square value is categorized as low if it is 0.02, moderate if it is 0.15, and high if it is 0.35. A value below the minimum threshold of 0.02 indicates that there is no significant effect when a single independent variable is removed from the model. The following are the results of the Effect Size (F2) test in this study.

Table 7
Nilai Effect Size (f^2)

Effect of Variable	Pencegahan Fraud
Good Corporate Governance (X)	1,185

Source: Processed Data, 2025

Table 7 shows that the variable Good Corporate Governance (X2) has a significant effect on Fraud Prevention (Y), with an F-square value of 1.185, indicating a high level of contribution.

Hypothesis Testing

Hypothesis testing for this study was conducted using the path coefficients method with a bootstrapping approach. The purpose of this test was to determine whether there was an influence of the independent variables on the dependent variable. Results were considered significant if the p-value was less than 0.05, while a value greater than 0.05 indicated no significant influence. Additionally, the significance of the effect is assessed based on the t-statistic value. If the t-statistic is greater than the t-table value, the hypothesis is considered supported. This study used a 95% confidence level and a t-table value of 1.96. The following are the results of the hypothesis testing among the variables.

Table 8
Hypothesis Testing

Effect of Variables	T-Statistics	P-Values	Description
Good Corporate Governance and Fraud Prevention	5,832	0,000	Accepted

Source: Processed Data, 2025

Table 8 indicates that the hypothesis is accepted because the test results show a t-statistic of $5.832 < 1.96$, with a path coefficient of 0.736 and a p-value of $0.000 < 0.05$. Therefore, it can be concluded that Good Corporate Governance has an effect on Fraud Prevention, and the hypothesis is accepted.

DISCUSSION

The Impact of Good Corporate Governance on Fraud Prevention

The findings of this study indicate that good corporate governance (GCG) has an impact on fraud prevention. This demonstrates that the stronger the implementation of GCG principles—such as transparency, accountability, and integrity—the lower the

likelihood of fraud occurring within a company. Most respondents were permanent employees with more than three years of service, meaning they had been with the company for a considerable period. With this experience, respondents were better able to discern whether existing policies were actually being implemented or merely existed on paper.

This situation shows that when a company effectively implements GCG—such as through transparency and clear disciplinary measures—employees become more cautious in their work. This helps reduce the potential for fraud. Thus, GCG is not merely understood as a concept, but its impact is genuinely felt by employees in preventing fraud.

Theoretically, these findings support agency theory by highlighting the importance of corporate strategies in mitigating conflicts of interest between management (the agent) and company owners (the principal) (Jensen & Meckling, 1976) as cited in (Fitriani, 2024). The implementation of GCG provides a framework to ensure that management acts in alignment with the company's objectives and does not abuse its authority.

This study aligns with the research by (Budiantoro et al., 2022) which demonstrates that the consistent implementation of GCG can foster an ethical and transparent organizational culture, thereby preventing misconduct. Additionally, (Savitri & Herliansyah, 2022) also emphasize the importance of governance in maintaining the integrity of corporate asset management.

The implementation of good corporate governance is crucial for Mining Company X, given the complexity of its operations and its extensive interactions with the community, shareholders, and regulators. Previous cases involving a lack of transparency in the distribution of compensation underscore the urgent need for strong governance.

Theoretical and Practical Implications

Theoretically, this study reinforces the validity of the fraud triangle and agency theory in the context of the extractive industry. These findings also confirm the results of previous studies while expanding their empirical scope to the context of mining companies in Indonesia. This study demonstrates that Good Corporate Governance (GCG) plays a crucial role in fraud prevention. These findings underscore that the "opportunity"

element of the fraud triangle can be mitigated through consistent implementation of transparency, accountability, and enforcement of sanctions within the organization.

Given that the majority of respondents have been with the company for more than three years, these results indicate that employees are more responsive to tangible GCG practices in the workplace, such as transparency and clear sanctions. This reinforces the role of governance in fostering more cautious and compliant work behavior.

In practical terms, companies need to ensure that the implementation of GCG is not merely formal but is genuinely carried out and felt by employees, as this has proven to be more effective in supporting fraud prevention.

CONCLUSION

This study demonstrates that Good Corporate Governance (GCG) has a positive and significant impact on fraud prevention. This indicates that the better the implementation of GCG principles—such as transparency, accountability, enforcement of sanctions, and monitoring—within a company, the more effective fraud prevention efforts will be. The implementation of GCG in this study is reflected in how governance policies and mechanisms are carried out in daily operational activities. In other words, GCG is not merely viewed as formal rules but as practices that are genuinely applied and executed within the workplace. This indicates that the success of fraud prevention is heavily influenced by a company's consistency in applying these governance principles. However, this study has limitations because the measurement of GCG implementation is based on employee assessments via a questionnaire; thus, the results obtained represent the implementation occurring in the workplace according to the respondents' experiences. Therefore, the findings of this study may not fully reflect the overall implementation conditions in other companies.

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