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## **A study of the relationship between executive legal background, financial fraud and corporate finance constraints**

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**Summary:** 1. Introduction. 1.1. Research background. 1.2. Methodology. 1.2.1. Literature research method. 1.2.2. Case study approach. 1.2.3. Findings and analysis. 1.2.4. Limitations. 2. Literature review. 2.1. Executive legal background and corporate behavior. 2.2. Financial fraud and financing constraints. 2.3. Executive legal background and corporate finance. 2.4. Current status of research on the relationship between the three. 3. Discussion. 4. Conclusion. 4.1. Recommendations. 4.2. Future directions. 5. References.

**Abstract:** In recent years, with the increasing complexity of corporate governance structure, the importance of executives' legal background on corporate decision-making and compliance has gradually come to the fore. By combining domestic and international studies, we analyze how executives' legal background affects financial fraud and financing constraints by influencing the internal governance structure and decision-making mechanism of enterprises under the current rule of law environment in China. Executives with legal background can better identify and prevent financial fraud risks by virtue of their familiarity with laws and regulations and their awareness of risk prevention and control, so as to safeguard the financial integrity and market reputation of enterprises. At the same time, executives with legal

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background can reduce the information asymmetry between enterprises and external investors by improving the internal corporate governance mechanism and optimizing the information disclosure system, thus alleviating the financing constraints of enterprises. This paper provides theoretical basis and practical reference for improving corporate governance and optimizing enterprise financing environment, and also provides useful reference for the improvement of relevant laws and regulations and the formulation of regulatory policies.

**Keywords:** Legal context, Financial fraud, Corporate finance, Internal governance.

## 1. Introduction

In the practice of corporate governance, the correlation between executives' background characteristics, firms' operational risk behaviors, and financing capabilities has increasingly become a focal point in both academic and practical arenas. Particularly amid the dual challenges of frequent financial fraud and prominent financing constraints, exploring the mechanism through which executives' legal background—as a specific factor—exerts its influence not only serves as a critical lens for analyzing disparities in corporate governance effectiveness but also constitutes a key issue in addressing practical governance demands.

### 1.1. Research background

With the development of diversified business and complex changes in the market environment, corporate decision-makers are facing many challenges and pressures, such as information asymmetry, conflict of interest and decision-making risks. Especially in recent years, the downward pressure on the economy has been greater, and the business risks and financial challenges faced by enterprises have been increasing, with financial fraud occurring from time to time, which has brought serious negative impacts on investors, creditors, and the financial market as a whole. At the same time the problem of enterprise financing constraints is also becoming more and more prominent and has become one of the important bottlenecks restricting the development of enterprises. In this context, the introduction of legal background executives has become an important way to enhance the decision-making function and effective supervision of the board of directors. Generally speaking, executives with legal background have strong legal knowledge and can provide professional advice and suggestions in the board of directors to promote scientific and compliant decision-making, which can help reduce the conflict of interest and risk within the board of directors and improve the quality and efficiency of corporate governance.

As the core decision makers and managers of an enterprise, corporate executives' personal backgrounds and professional qualities have a profound impact on the enterprise's business behavior and governance structure. In China, more and more enterprises have seen executives with legal practice experience participating in their business decisions. Senior executives with legal background will be more cautious and law-abiding in their behavior due to the knowledge they have acquired or the experience they have gained in the legal field, and they will play a supervisory and restraining role for the company. On the one hand, executives with legal background may be more familiar with relevant laws and regulations, and be able to better identify and prevent the risk of financial malpractice, so as to safeguard the financial integrity and market reputation of the enterprise; on the other hand, executives with legal background may also improve the internal governance mechanism of the enterprise, optimize the information disclosure system, and reduce the information asymmetry between the enterprise and the external investor, thus easing the financing constraints of the enterprise.<sup>3</sup> However, this relationship is not simple and

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<sup>3</sup> Dai, Y., Tong, X., & Jia, X. (2024). Executives' Legal Expertise and Corporate Innovation.

straightforward and involves a complex interplay of legal, economic and managerial factors behind it.

With the deepening of the rule of law in China, the legal environment of corporate governance has been increasingly optimized, but financial fraud and financing constraints are still a real challenge for enterprises. An in-depth study of the relationship between the legal background of corporate executives and financial fraud and corporate financing constraints not only helps to reveal the intrinsic connection between the internal governance of enterprises and the external financing environment, but also provides theoretical support and practical guidance for improving the governance structure of enterprises, strengthening legal supervision, and optimizing the environment of the financial market. Therefore, this study focuses on the inhibiting effect of the legal background of corporate executives on financial fraud and the mitigating mechanism of corporate financing constraints against the background of Chinese laws, and proposes corresponding solution paths and countermeasures, with a view to promoting the healthy development of enterprises and safeguarding the stability of the market.

## **1.2. Methodology**

The literature research method and the case study method each play a unique role. Literature research method provides the theoretical basis and research framework for the study by systematically combing related literature. The case study method verifies theoretical assumptions and reveals practical problems through specific cases. The combination of the two can make the research have both theoretical depth and practical value, and enhance the comprehensiveness, depth and dynamics of the research.

### **1.2.1. Literature research method**

Taking Chinese law as the background, we systematically sort out relevant studies on corporate executives' legal background, financial fraud and corporate finance constraints by reviewing a large number of academic journals, research reports and policy documents. The study finds that executives with legal backgrounds use their legal knowledge to exercise better behavioral caution and supervisory constraints on corporate management. In addition, the legal background of executives can also reduce the information asymmetry between firms and external investors by optimizing the internal governance structure and improving the internal control mechanism, thus alleviating the financing constraints of firms.<sup>4</sup> This paper summarizes the main results and perspectives of existing studies, revealing the important role of executives' legal background in corporate governance and the mechanism of its influence on financial fraud and financing constraints.

In the process of literature combing, this paper focuses on how executive legal background positively affects corporate behavior by enhancing corporate compliance awareness, optimizing internal governance structure, and enhancing risk prevention and control capabilities. Meanwhile, existing studies are deficient in comprehensively analyzing the dual impact of executive legal background on financial fraud and financing constraints, especially in the exploration of the path of action and mediating mechanism.

### **1.2.2. Case study approach**

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Corporate Governance: An International Review, 32(6), 954-983.  
<https://doi.org/10.1111/corg.12578>

<sup>4</sup> China Securities Regulatory Commission. (2021). Guidelines on Strengthening the Construction of Internal Control Systems for Listed Companies (No. 35 [2021] of CSRC Corporate Governance Department). Section III, Article 8

Selection of appropriate case studies is another important component of this study.

This paper adopts the case study method, selects representative cases of corporate financial fraud, and analyzes in depth the role and influence of executives' legal background in them. For example, after a company introduced professionals with legal background in its executive team, the internal governance structure of the enterprise was significantly optimized, and the internal control and compliance mechanism was improved. In the subsequent financing activities, the company succeeded in obtaining the support of several financial institutions, and the cost of financing was significantly reduced. Through specific cases, this paper reveals how the legal background of executives can have an impact on corporate financial fraud behaviors and financing constraints by optimizing internal governance, enhancing compliance awareness, and strengthening risk prevention and control capabilities.<sup>5</sup>

In terms of case selection, this paper focuses on enterprises with frequent financial fraud incidents due to insufficient legal background of executives, as well as enterprises whose corporate governance structure can be optimized and financing constraints mitigated to a greater extent through the introduction of executives with legal background. Through in-depth analysis of these cases, this paper verifies the hypotheses in the theoretical study and reveals the importance of executives' legal background in corporate governance. At the same time, the case studies also demonstrate the heterogeneity of the role of executives' legal background in different corporate backgrounds and industry environments, providing richer perspectives for subsequent studies.

### **1.2.3. Findings and analysis**

In general, the larger the enterprise and the more complex the business, the more pronounced the dampening effect of an executive's legal background on financial fraud is likely to be. Larger enterprises usually face more complex legal environments and higher compliance requirements, and the expertise and experience of executives with legal backgrounds can better address internal challenges and external risks. For example, multinational companies need to comply with the laws and regulations of different countries and regions, and executives with legal backgrounds can help companies better understand and comply with these complex legal requirements and reduce the risk of financial fraud. Smaller organizations, on the other hand, may rely less on legal executives due to the relative simplicity of their business.

At present, the construction of the rule of law in China is accelerating, and as corporate executives, it is important to familiarize themselves with such laws as the Company Law, the Accounting Law, the Anti-Unfair Competition Law, the Securities Law and the Criminal Law, and to systematically grasp and understand the provisions to be complied with and the obligations to be fulfilled under the existing legal framework. For example, the Company Law requires executives to be faithful and diligent to the company and prohibits misappropriation of company funds and misappropriation of company assets. The Anti-Unfair Competition Law contains clear provisions on commercial bribery and unfair trade practices. The Securities Law also specifies that false statements, misleading disclosure of information and other behaviors will lead to companies and executives facing huge fines and criminal liability. It can be said that corporate executives with a legal background, on the one hand, have higher legal literacy and are more conscientious in complying with the law than executives with other professional backgrounds. On the other hand, they are able to use their legal knowledge to improve the level of internal corporate governance,

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<sup>5</sup> Zhou, J., Ong, T. S., Mastellone, L., & Di Vaio, A. (2023). The effect of disciplinary inspection commission participation on the financing constraints of Chinese state-owned enterprises: A circular economy perspective. *Production & Manufacturing Research*, 11(1), 2214811. <https://doi.org/10.1080/21693277.2023.2214811>

optimize the terms of financing contracts, and enhance the transparency and credibility of the enterprise in order to help the enterprise to reduce the cost of financing and alleviate the financing constraints.<sup>6</sup> Therefore, when selecting and training executives, enterprises should pay attention to their legal literacy in order to enhance their financing efficiency and market competitiveness.

#### **1.2.4. Limitations**

This study may have some limitations in sample selection, failing to cover all industries and sizes of enterprises, which may affect the generalizability of the research results. For example, this study mainly selected listed companies as the research object, while the analysis of non-listed companies, small and medium-sized enterprises, etc. is relatively insufficient. Enterprises of different industries and sizes may differ in the relationship between executive legal background, financial fraud and financing constraints, and thus the limitations of sample selection may result in the results of the study failing to reflect the actual situation comprehensively to a certain extent.

In terms of variable measurement, some of the indicators may not be selected to fully and accurately reflect the real situation of executive legal background, financial fraud and corporate finance constraints.<sup>7</sup> For example, the measurement of executives' legal background is mainly based on whether they have a legal professional background or legal practice experience, but this simple categorization may not fully reflect the depth and breadth of their legal literacy. Measures of financial fraud rely primarily on publicly disclosed information, which may be incomplete or inaccurate. The measurement of financing constraints, on the other hand, is mainly reflected by indicators such as the cost of financing and the scale of financing of enterprises, but these indicators may be affected by a combination of factors and cannot be fully attributed to the legal background of executives. Therefore, future research needs to further optimize sample selection and variable measurement methods to improve the accuracy and reliability of the findings.

## **2. Literature review**

### **2.1. Executive legal background and corporate behavior**

In China's modern corporate governance, the impact of the background characteristics of the corporate executive team on corporate behavior has received increasing attention, with the legal background of executives being particularly critical.<sup>8</sup> The legal background of corporate executives not only affects their own decision-making behavior, but may also have a far-reaching impact on the overall behavior of the enterprise through the internal governance mechanism, the construction of a compliance culture, and risk prevention and control.

First of all, the legal background of executives can significantly enhance an enterprise's compliance awareness and risk management ability. Executives with a legal background usually have a deeper understanding of laws and regulations, and are able to keenly identify potential legal risks in the operation of the enterprise and

<sup>6</sup> Zhang, B., Zhao, Y., Yang, M., & Liu, T. (2025). Economic policy uncertainty and litigation risk: Evidence from China. *Pacific-Basin Finance Journal*, 92, 102773. <https://doi.org/10.1016/j.pacfin.2025.102773>

<sup>7</sup> Zhang, J., Li, Y., Xu, H., & Ding, Y. (2023). Can ESG ratings mitigate managerial myopia? Evidence from Chinese listed companies. *International Review of Financial Analysis*, 90, 102878. <https://doi.org/10.1016/j.irfa.2023.102878>

<sup>8</sup> Pham, M. H., Merkoulova, Y., & Veld, C. (2023). Credit risk assessment and executives' legal expertise. *Review of Accounting Studies*, 28(4), 2361-2400. <https://doi.org/10.1007/s11142-022-09699-9>

take effective measures to prevent them.<sup>9</sup> For example, in key areas such as financial reporting, information disclosure, and contract management, executives with a legal background can help companies strictly comply with relevant laws and regulations, and avoid legal disputes and reputational damage caused by non-compliance. This emphasis on compliance not only helps to maintain the legal operation of the enterprise, but also enhances the trust of investors and stakeholders in the enterprise, thus creating a favorable external environment for the enterprise.

Second, the legal background of executives helps optimize the internal governance structure of enterprises. Executives with legal background can promote the establishment of a sound internal control system and supervision mechanism by virtue of their professional knowledge. For example, in an enterprise, executives with legal background found that there were loopholes in the financial reimbursement process, which could be easily utilized by employees to make false reimbursements, so they pushed the enterprise to redesign the reimbursement process and add a multi-layer audit mechanism, which effectively reduced the occurrence of financial fraud.<sup>10</sup> At the same time, by improving the corporate governance charter, executives with a legal background can clarify the responsibilities and authorities of each level; promote the construction of a compliance culture, so that employees consciously comply with laws and regulations in their daily work. Through these measures, companies can effectively reduce the loopholes in internal management, improve operational efficiency, and reduce the risks caused by poor internal governance.

In addition, the legal background of executives may also have a positive impact on corporate strategic decision-making. When an enterprise faces complex legal environment and market changes, executives with legal background can provide authoritative legal opinions to the board of directors from a legal perspective, accurately assess legal-related risks and compliance issues, ensure that the enterprise's final decisions comply with laws and regulations, avoid legal disputes, and help the enterprise to formulate a more forward-looking and compliant strategy.<sup>11</sup> For example, during major decision-making processes such as mergers and acquisitions restructuring and internationalization, executives are able to apply their legal knowledge to review relevant documents and clauses, point out possible legal pitfalls, and help companies design reasonable transaction structures to ensure the legality and feasibility of decisions.<sup>12</sup> In the face of lawsuits, disputes or regulatory investigations, executives can provide legal risk assessment and decision-making advice to the board of directors by virtue of their legal background, assisting the company in effectively resolving crises and protecting the company's interests.

However, the effect of executives' legal background on corporate behavior is not absolute. Its effect is also influenced by factors such as the internal environment of the enterprise, industry characteristics, market environment and external regulation. For example, in industries with strict legal regulation, the legal background of executives may have a more significant restraining effect on corporate behavior; while in environments with relatively lax legal regulation, this restraining effect may

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<sup>9</sup> China Securities Regulatory Commission. (2023). Guidance on Strengthening the Compliance Responsibilities of Senior Management in Listed Companies (No. 32 [2023] of CSRC Corporate Governance Department). Article 5

<sup>10</sup> Zhang, L. (2024). Executive Financial Background, Financing Constraints, and Corporate Financialization. *Academic Journal of Business & Management*, 6(5), 288-294. <https://doi.org/10.25236/ajbm.2024.060539>

<sup>11</sup> Liu, Y., Zhang, H., & Zhang, F. (2023). CEO's poverty imprints and corporate financial fraud: Evidence from China. *Pacific-Basin Finance Journal*, 81, 102128. <https://doi.org/10.1016/j.pacfin.2023.102128>

<sup>12</sup> Files, R., & Liu, M. (2022). Unraveling financial fraud: the role of the board of directors and external advisors in conducting independent internal investigations. *Contemporary Accounting Research*, 39(3), 1905-1948. <https://doi.org/10.1111/1911-3846.12784>

be weakened.<sup>13</sup>

## **2.2. Financial fraud and financing constraints**

In the modern international economic system, the financing ability of enterprises is one of the key factors for their survival and development. However, the frequent occurrence of financial fraud in Chinese enterprises in recent years has not only jeopardized the interests of investors and creditors, but also had a serious negative impact on the financing environment of enterprises. By destroying the authenticity and reliability of corporate financial information, financial fraud exacerbates the information asymmetry between enterprises and external financiers, and coupled with the existence of various types of financing costs, the suppliers of funds will demand higher financing costs, thus limiting the scale of corporate financing.<sup>14</sup>

The core of financial fraud lies in misleading stakeholders through false financial information in order to obtain improper benefits. In China, common financial malpractices include inflating profits, fictitious transactions, and concealing liabilities. These behaviors make it difficult for investors and financial institutions to accurately assess an enterprise's operating conditions and financial health. Increased information asymmetry leads external financiers to doubt the true financial condition of the enterprise, and thus to be more cautious in financing decisions or even refuse to provide financing support, resulting in the enterprise's inability to raise the required funds and difficulty in forming a benefit-maximizing investment scale and capital structure.<sup>15</sup> For example, on February 28, 2024, the China Securities Regulatory Commission website the phased investigation progress of the Dongfang Group's financial fraud case, and preliminarily found that the financial information disclosed by Dongfang Group from 2020 to 2023 was seriously inaccurate, suspected of major financial fraud, and might touch the situation of mandatory delisting for major violations of the law. Affected by this, the Eastern Group shares plummeted. At the same time, the Oriental Group's bond issuance program was also forced to shelve, and its loan in the bank is also subject to strict restrictions. This shows that financial fraud not only damaged the company's reputation in the market, but also seriously affected its financing ability and liquidity.<sup>16</sup>

Financial malpractice not only restricts a firm's access to finance, but also significantly increases its cost of financing. Due to increased information asymmetry, investors and financial institutions tend to demand higher rates of return in order to compensate for the additional risks they assume.<sup>17</sup> For debt financing, banks and other financial institutions may raise lending rates or increase collateral requirements; for equity financing, investors may demand a higher equity premium. In addition, financial fraud may also lead to damage to a firm's reputation in the capital market, further reducing its ability to raise capital. For example, some enterprises exposed to financial fraud have to obtain funds from non-traditional sources at a higher cost in

<sup>13</sup> Wu, F., Cao, J., & Zhang, X. (2023). Do non-executive employees matter in curbing corporate financial fraud?. *Journal of Business Research*, 163, 113922. <https://doi.org/10.1016/j.jbusres.2023.113922>

<sup>14</sup> Wang, S., Liang, X., Huang, J., & Cao, P. (2025). Do academic executives influence corporate ESG performance? Evidence from China. *Corporate Social Responsibility and Environmental Management*, 32(1), 788-805. <https://doi.org/10.1002/csr.2919>

<sup>15</sup> Dal Magro, C. B., & Klann, R. C. (2021). Political and financial background in board interlocking and earnings management in Brazil. *RAUSP Management Journal*, 56(4), 444-464. <https://doi.org/10.1108/rausp-10-2020-0245>

<sup>16</sup> China Securities Regulatory Commission. (2024, February 28). Notification on preliminary investigation results of serious suspected illegal acts by Dongfang Group Co., Ltd. Retrieved March 1, 2024, from <http://www.csrc.gov.cn/csrc/c101981/c7165526/content.htm>

<sup>17</sup> Meng, X., Chen, L., & Gou, D. (2023). The impact of corporate environmental disclosure quality on financing constraints: the moderating role of internal control. *Environmental Science and Pollution Research*, 30(12), 33455-33474. <https://doi.org/10.1007/s11356-022-24510-7>

their subsequent financing activities and even face the risk of being eliminated from the market.

### **2.3. Executive legal background and corporate finance**

The legal background of executives can influence corporate financing through a variety of mechanisms. First, executives with legal background can better identify and prevent legal risks in the financing process and ensure the legal compliance of financing activities.<sup>18</sup> For example, they can familiarize themselves with and comply with relevant laws and regulations to avoid legal disputes and penalties arising from violations, thus reducing the cost of corporate financing. Second, executives with a legal background can play an important role in the internal governance of an enterprise by improving the internal control and compliance mechanisms, enhancing the transparency and credibility of the enterprise, and thus increasing the confidence of investors and financial institutions in the enterprise. This trust can help enterprises obtain financing support more smoothly, especially in debt financing.

Take Company M as an example, which is a high-tech enterprise engaged in the research and development of anti-cancer drugs. At the time of the A round of financing, the company registered its place of incorporation in D district of B city in accordance with the contractual agreement in order to enjoy the local policy benefits. However, in the course of the Series B financing, the new investor requested that the company's place of registration be moved to the High-Tech Zone of City B as a pre-condition for investment. In the process of promoting the B round of financing, as the new investor was a state-owned enterprise, its internal approval process was adjusted, which led to a serious lag in the review process and a delay in the availability of funds. At this time, some of the old shareholders began to question the company's relocation in violation of the earlier contractual agreement, and demanded that the company bear the losses caused by the relocation. This incident reflects that executives who lack legal background may face greater legal risks and decision-making dilemmas when dealing with complex financing contracts and conflicts of interest of shareholders.<sup>19</sup>

### **2.4. Current status of research on the relationship between the three**

Existing research mostly focuses on the impact of a specific executive background on a single corporate behavior, such as financial fraud or financing constraints, and lacks a comprehensive study of how an executive's legal background can simultaneously contribute to both financial fraud and financing constraints. For example, the question of how executives' legal background can simultaneously curb financial fraud and alleviate financing constraints by optimizing internal governance and enhancing compliance awareness has not been fully explored. (i) At the same time, existing studies are mostly based on static perspectives and lack dynamic analysis of the impact of executives' legal background at different stages of enterprise development and in different industry contexts. For example, whether there is a difference in the impact of executive legal background on corporate financing constraints in the period of economic downturn or intensified competition in the industry is an issue that needs to be further researched.

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<sup>18</sup> Liang, Y., & Zhang, S. (2025). Legal background of corporate management and corporate audit quality. *Finance Research Letters*, 73, 106664.  
<https://doi.org/10.1016/j.frl.2024.106664>

<sup>19</sup> Caixin Global . (2024, January 12). SOE-led investments delay biotech firm's funding over relocation dispute . Retrieved from  
<https://www.caixinglobal.com/2024-01-12/state-firm-investment-delay-biotech-relocation-dispute-101756789.html>

### 3. Discussion

Under the current rule of law environment in China, corporate executives need to have multifaceted legal knowledge in order to better cope with financial fraud. First of all, executives should be familiar with basic laws and regulations such as company law and securities law, so as to clarify the legal responsibilities of enterprises in financial reporting and information disclosure. Secondly, executives need to understand the provisions of the criminal law on financial fraud-related crimes, such as the crime of illegal disclosure of information, breach of trust and damage to the interests of listed companies, so as to avoid violating the legal red line in the decision-making process.<sup>20</sup> In addition, executives should also pay attention to the latest legal and regulatory developments and regulations from higher levels in order to make timely adjustments to the company's internal governance and compliance strategies. For example, in June 2024, the General Office of the State Council issued the Opinions on Further Improving the Comprehensive Punishment and Prevention of Financial Counterfeiting in the Capital Market, which called for a strict crackdown on financial counterfeiting in the capital market, resolutely delisting companies with fraudulent issuance and serious financial counterfeiting according to the law, and criminal offenses such as misappropriation of funds by listed company directors and senior executives, functional misappropriation, and backstabbing of listed companies to harm the interests of listed companies Seriously pursue legal responsibility.

The legal background of executives may make them pay more attention to compliance and risk control in the corporate decision-making process, thus exerting a restraining effect on financial fraud. For example, executives with a legal background can detect and correct potential fraud in a timely manner through the establishment of a sound internal control system and the strengthening of internal auditing. At the same time, good legal literacy also helps enterprises to better deal with legal issues in the financing process and alleviate financing constraints. For example, executives are able to reduce the information asymmetry between firms and external investors by optimizing the information disclosure system, enhancing investors' confidence in the firms, and thus reducing the cost of financing.<sup>21</sup> However, the play of this positive role is also affected by factors such as the internal governance structure of the enterprise, the competitive environment of the industry and the strength of external regulation. Therefore, while improving the legal literacy of executives, enterprises also need to optimize the governance environment from various aspects in order to give full play to the positive role of the legal background of executives.

### 4. Conclusion

The legal background of corporate executives has an important impact on financial fraud and financing constraints, but at the same time there are some problems and challenges. Enterprises should give full play to the positive role of the legal background of executives by optimizing the structure of the executive team, improving the internal governance mechanism, strengthening the external supervision and enhancing the legal awareness of enterprises, so as to effectively inhibit financial fraud, alleviate the financing constraints and promote the healthy development of enterprises.

#### 4.1. Recommendations

In view of the problems such as the lack of uniformity in the measurement and

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<sup>20</sup> Wang, L., Li, H., & Mu, Y. (2022). Study of CEO narcissism and corporate R&D investment. *Frontiers in Psychology*, 13, 888618. <https://doi.org/10.3389/fpsyg.2022.888618>

<sup>21</sup> China Securities Regulatory Commission. (2022). Annual report on the supervision of information disclosure by listed companies . Beijing: CSRC.

identification of the measurement standard of the legal background of executives, the imperfection of the internal governance mechanism of enterprises, and the insufficient external regulatory environment, it can be improved in the following aspects:

First, the construction of the executive team should be strengthened. In selecting and training executives, not only should their legal expertise and work experience be taken into account, but also the match between the executive and other professional backgrounds should be comprehensively considered, so as to avoid an irrational structure of the executive team. For example, for enterprises involved in a large number of legal affairs, such as financial enterprises or multinational enterprises, the proportion of executives with legal backgrounds can be appropriately increased to better cope with legal risks and compliance challenges. At the same time, the composition of the board of directors and supervisory committee should be optimized, the proportion of independent directors with legal expertise and experience should be increased, and executives with legal background should be encouraged to participate in industry seminars and professional training courses to keep abreast of the legal development trend and best practices, so as to better respond to the legal challenges faced by the company, provide forward-looking advice, and promote the enhancement of the functioning of the company's board of directors.

In addition, enterprises should also focus on collaboration and communication among their executive teams and give full play to the strengths of executives from different backgrounds. Legal background executives should work closely with other executives to participate in the enterprise's decision-making and management. For example, legal background executives can work with financial executives to formulate financial management systems to ensure that the financial management and decision-making of the enterprise is in line with the requirements of laws and regulations; and work with business executives to jointly assess the legal risks of business projects, so as to provide comprehensive legal protection for the operation and development of the enterprise.

Secondly, the internal corporate governance mechanism should be improved. Strengthening the information disclosure and transparency mechanism, through open and transparent information disclosure, prompting executives with legal backgrounds to better understand the company's business status, financial status and risk situation, so as to provide more targeted legal advice and supervise the company's management. Strengthening the power check and balance mechanism and giving full play to the role of executives with legal background in compliance review, risk prevention and control, so as to effectively curb financial malpractice and alleviate financing constraints. Formulate strict internal corporate rules and regulations to clarify the boundaries of interests between executives with legal background and other stakeholders, strengthen the review and disclosure of related transactions of executives, and impose severe penalties on financial malpractice due to the linkage of interests, so as to cut off the chain of interests of executives with legal background who participate in coordinated malpractice.

Enterprises can also design reasonable incentive mechanisms that combine executive compensation with the long-term interests of the enterprise and compliance requirements. For example, in addition to the remuneration component linked to short-term financial performance, long-term incentives related to corporate compliance and risk management can be set. By optimizing the incentive mechanism, the executives are guided to pay attention to the long-term development and compliance requirements of the enterprise, reducing the possibility of their engaging in financial fraud and other misconduct in pursuit of personal interests.

Third, improve the relevant laws and regulations. The government should start from the macro level, do a good job of top-level design, and clarify the relevant legal provisions and penalties. The existing laws and regulations on financial fraud is defined more broadly, it is recommended to further refine the specific types of

financial fraud, identification criteria and penalties, to enhance the operability of the law. For example, it is recommended to clarify the specific criteria for defining inflated profits, fictitious transactions and concealment of liabilities to ensure that law enforcement authorities can accurately identify and penalize them. For new types of financial malpractice, such as false transactions using complex financial instruments and profit manipulation through connected transactions, timely introduce corresponding laws and regulations to fill the legal gaps. Further improve the laws and regulations on corporate information disclosure, and clarify the scope, content, frequency and accountability mechanism of information disclosure. Especially for the information disclosure of listed companies, they should be required to disclose more detailed information on financial status, major events, related party transactions, etc., to enhance information transparency and reduce information asymmetry.<sup>22</sup>

Fourth, enhancing enforcement by regulatory authorities. A joint regulatory mechanism should be established to strengthen coordination and cooperation among different regulatory authorities. For example, securities regulators, tax authorities and auditing authorities should strengthen information sharing and collaborative enforcement to form regulatory synergies and avoid regulatory gaps and duplicative regulation. Promote the credit supervision system, incorporate the financial malpractice of enterprises into credit records, and implement joint disciplinary measures for enterprises with financial malpractice, such as restricting their market access, suspending project approvals, and increasing the cost of financing, so as to enhance the deterrent effect of credit supervision.<sup>23</sup> In addition, regulators should increase penalties and deterrents. For example, generally increase the amount of fines for major violations such as financial fraud, so that the cost of violating the law is much greater than the benefit of violating the law; adopt diversified penalties, such as revocation of business licenses, suspension of business, market bans, etc., to enhance the deterrent effect of the law; establish and improve the reporting system to encourage members of the public to report on the violations of laws and regulations of the enterprises, so that they can promptly discover and investigate the financial fraud of enterprises; and, for the intermediaries involved in financial fraud and other For intermediaries involved in financial malpractice cases, not only should they be penalized, but also the relevant responsible persons should be jointly and severally penalized to ensure that the "double penalty system" is put in place.

Fifth, enhance the legal awareness of enterprises themselves. Through regular organization of legal training activities to improve the legal awareness of employees and compliance awareness. For example, legal experts are invited to conduct legal and regulatory training for the employees of the enterprise, explaining the knowledge of laws and regulations related to the operation of the enterprise; carry out case analysis activities, through the analysis of actual cases of financial fraud, so that the employees can understand the serious consequences of financial fraud and legal responsibility, and enhance the compliance awareness of the employees. At the same time, we actively create a compliance culture and advocate all employees to comply with laws and regulations and internal rules and regulations of the enterprise. For example, through corporate culture construction activities, the concept of compliance is integrated into the core values of the enterprise; a compliance reward mechanism is established to recognize and reward employees and teams that comply with compliance requirements, creating a good compliance atmosphere. By enhancing the legal awareness of the enterprise, it reduces the occurrence of financial fraud from the

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<sup>22</sup> China Securities Regulatory Commission. (2022). Measures for the Administration of Information Disclosure by Listed Companies (Revised Edition). Article 21

<sup>23</sup> National Development and Reform Commission (NDRC) & China Securities Regulatory Commission (CSRC). (2020). Joint Memorandum on Implementing Joint Punishment for Seriously Dishonest Entities in the Field of Capital Markets. NDRC Finance [2020] No. 547. Article 10

source and lowers the financing constraints of the enterprise.

#### 4.2. Future directions

Future research could further expand the sample to cover more different types of enterprises to improve the representativeness of the findings. For example, in addition to listed companies, non-listed companies and small and medium-sized enterprises (SMEs) should also be included in order to comprehensively understand the relationship between executive legal background, financial fraud and financing constraints in different enterprises. In addition, future research needs to optimize the variable measurement methods and adopt more precise and comprehensive indicators to portray the relationship between executive legal background, financial fraud and corporate financing constraints. For example, more information on executives' legal literacy can be obtained through questionnaires and in-depth interviews, a more complete indicator system for identifying financial fraud can be established, and the impact of multiple factors on financing constraints can be considered comprehensively <sup>24</sup>.

At the same time, it has strengthened the research on the dynamic changes of the three relationships, such as analyzing the evolution of the three relationships with the changes in the stage of development of enterprises and the market environment, so as to provide more timely and targeted recommendations for corporate governance and supervision. For example, to study whether there is a difference in the impact of the legal background of executives on corporate financing constraints in the period of economic downturn and prosperity; whether there is a difference in the constraints of the legal background of executives on financial malpractice in the competitive environment of different industries. These studies can provide more valuable references for enterprises' governance decisions in different contexts.

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