



# Compliance Risks Arising from the Decentralization of Internal Oversight in Multinational Enterprises: The Case of AstraZeneca China's Insurance Fraud

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**Abstract.** In recent years, compliance issues have frequently been exposed among multinational enterprises (MNEs) in emerging markets, drawing wide attention to the effectiveness of their internal control and regulatory mechanisms. Especially in the context of accelerating decentralization and “local authorization” strategies, how to balance global compliance standards with local governance realities has become one of the core challenges in cross-border operations.

This study takes the AstraZeneca China insurance fraud case as the starting point to examine the mechanisms of compliance risk and institutional vulnerabilities faced by MNEs under dispersed authority and cultural differences. Through a systematic review of the incident, in combination with relevant literature on corporate governance, compliance management, and cultural accounting theory, the paper reveals that regulatory failure often stems from information asymmetry, incentive bias and oversight blind spots between headquarters and local subsidiaries—problems that are particularly pronounced in contexts characterized by high power distance and weak disclosure cultures. The research further found that without embedding effectively culture-sensitive mechanisms, MNEs’ “local authorization” strategies may fail to improve governance efficiency and, instead, amplify systemic risks of local misconduct. This analysis enriches the theoretical perspective on culture and compliance in multinational governance and offers policy implications for building more resilient and adaptive global compliance frameworks—emphasizing the need for a dynamic balance between global consistency and local adaptability.

**Keywords:** Compliance Risk, Internal Oversight, Decentralization; Corporate governance, Multinational Enterprises.

## 1 Introduction

As globalization continues to advance, the operations of MNEs are becoming increasingly complex, and the legal, ethical and compliance requirements they face have become more diverse. Against this backdrop, with stricter regulations around the world and rising public expectations for corporate responsibility, "compliance governance"

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has gradually become a key component of corporate strategy. Especially in highly regulated industries such as pharmaceuticals and finance, compliance failures not only may lead to hefty fines and legal liabilities but also may cause reputation crises and loss of market trust. Therefore, building an effective, manageable and resilient compliance system in cross-border operations has become an urgent problem that MNEs need to solve.

To enhance business responsiveness and local execution efficiency, many MNEs choose to delegate some decision-making power to their local subsidiaries. This "local authorization" model helps enhance governance flexibility and market adaptability, especially in emerging markets with complex systems, high enforcement flexibility and important relationship networks. However, in practice, such delegation of power often leads to problems such as weakened internal control, blind spots in supervision and information asymmetry. On the one hand, the headquarters, due to its limited understanding of the local culture and regulatory environment, finds it difficult to promptly grasp the actual operational risks. On the other hand, local executives, driven by incentive mechanisms or performance pressure, may choose short-term revenue-oriented violations, thereby triggering systemic compliance risks.

Existing research has pointed out that corporate governance in MNEs is often plagued by a classic "headquarters–subsidiary" agency problem, and this agency misalignment is closely tied to differences in institutional adaptation, cultural cognition, and value orientation at the local management level [1]. In emerging markets with weak legal infrastructure, uneven enforcement, and prevalent informal institutions, local executives are more prone to exploit institutional gray areas to evade oversight [2]. Cultural accounting theory also suggests that managers from different cultural backgrounds exhibit systematic differences in risk appetite, information disclosure, and accountability, which may undermine the local implementation of compliance norms established by headquarters, and lead to governance gaps [3].

Using the AstraZeneca case as an entry point, and combining perspectives from corporate governance and compliance management, this paper explores the causes, characteristics, and response mechanisms of compliance risk under the "decentralization of oversight authority" in MNEs. By reviewing the case and analyzing its context alongside relevant theory, the paper seeks to address questions such as how headquarters can effectively control local compliance risks; the role of cultural and institutional differences in generating such risks; and how headquarters can optimize compliance control systems. Theoretically, this study extends the understanding of agency problems to "headquarters–subsidiary" cross-cultural agency misalignment; integrates related theories to reveal the impact of cultural friction in institutional transplantation; and, from a dynamic governance perspective, proposes that compliance governance should attend to both cultural adaptability and structural resilience [1,3]. Practically, it provides a reference for MNEs' compliance strategies, emphasizing the need to build robust oversight mechanisms and information systems, and to strengthen cultural understanding of local contexts—offering lessons for creating more resilient compliance systems [3,4].

## 2 Case Analysis: Exposure of Compliance Risks in AstraZeneca's Insurance Fraud Incident

AstraZeneca, a leading global multinational pharmaceutical company, has rapidly expanded its commercial footprint and has long maintained a top position among foreign pharmaceutical firms since entering the Chinese market in 1993. However, as regulatory regimes have tightened and medical insurance policies have become more stringent, the compliance pressures faced by enterprises in the process of localizing operations have also increased significantly.

Since 2023, AstraZeneca China has been placed under investigation by multiple municipal medical insurance authorities for suspected medical insurance fraud. The incident quickly escalated, attracting strong public and regulatory attention, and has become a representative case of compliance risk exposure in the operations of multinational pharmaceutical firms in China in recent years.

The core of the incident involved AstraZeneca's flagship anti-cancer drug, Tagrisso. Due to medical insurance policies not covering all clinically indicated patient groups, some patients—seeking reimbursement—colluded with sales personnel or physicians to falsify genetic test results, using fabricated records to defraud medical insurance funds. In this process, certain local AstraZeneca sales teams were found to have directly participated in or tacitly condoned the illegal activity, assisting in fraud through falsified medical records, manipulated prescriptions, and other methods. Such violations were discovered across multiple provinces and cities, creating a certain extent of systemic risk. Although headquarters issued statements claiming that the investigations were unrelated to the company's direct actions and sought to limit the risk as the misconduct of a few individuals, the incident undoubtedly exposed structural failures in its compliance system in the Chinese market.

AstraZeneca has long adhered to a “local authorization, local responsibility” management strategy. In China—a vast, complex, and institutionally flexible market—local sales teams were granted relatively independent operational latitude. However, in practice, this very strategy, in the absence of effective vertical oversight mechanisms, magnified information asymmetry and agency risks, allowing local personnel to deviate from the compliance framework set by headquarters and even escalate to organized violations. Against a backdrop of weak internal auditing functions and ineffective risk control procedures, local employees, driven by performance pressure and promotion incentive, tended to view compliance rules as “technical obstacles” to be circumvented, engaging in strategic adaptation to the system, or even knowingly violating it [5]. This tendency is particularly visible in emerging markets where medical insurance systems are rapidly evolving and regulatory rules are still unstable, illustrating a typical “failure of institutional embedding” in the local application of global governance systems [6].

It is worth noting that this incident is not an isolated case. In recent years, other multinational pharmaceutical companies, such as GlaxoSmithKline and Novartis have also faced compliance crises, collectively revealing common governance challenges when sales-driven strategies, distorted incentive mechanisms, and unaddressed cultural differences intersect. boostinga case further demonstrates that, without cultural adaptation and dynamic oversight mechanisms, “localization” strategies—though capable of

boosting short-term market growth—can easily create operational space for violations and significantly increase systemic exposure to legal and reputational risks [3,5].

In summary, the AstraZeneca China insurance fraud case not only exposes the weak compliance enforcement capacity of its local sales operations but also reflects the overall inadequacy of its internal control system in managing high-complexity markets. In the face of increasingly sophisticated regulatory policies and intensifying public oversight, MNEs must re-examine their governance logic regarding power allocation, incentive systems, and cultural embedding, and build compliance frameworks with greater structural resilience and cultural sensitivity, striking a balance between local adaptation and global consistency and preventing localized compliance failures from escalating into full-scale governance crises.

### **3 Institutional Risk Analysis of Decentralized Internal Oversight**

#### **3.1 Agency Problems and Incentive Imbalance**

According to classical agency theory, there is an inherent asymmetry between headquarters and local subsidiaries in terms of objectives, access to information, and behavioral constraints [7]. In multinational enterprises, as global operational scales expand, headquarters often grant substantial autonomy to local branches in order to enhance decision-making flexibility and market response speed. However, when such delegation is not accompanied by corresponding internal regulatory support, local management may exploit their information advantage to engage in opportunistic behavior. As pointed out, insufficiently monitored decentralization often leads to an intensification of profit-seeking behavior at subsidiaries, and under performance evaluation pressures, they are more likely to cross compliance boundaries [7].

In the AstraZeneca case, local teams, driven strongly by sales KPIs, resorted to non-compliant methods to gain market share, while the headquarters' compliance and audit systems failed to detect abnormal behavior in time, reflecting both delays in the information transmission chain and the existence of oversight blind spots. This model bears strong resemblance to a certain Malaysian case, where fraud often originates in governance imbalances—particularly when supervisory mechanisms lag behind the strength of delegated authority [3].

Therefore, at the institutional design level, MNEs must guard against the structural risks of “incentive–oversight” imbalance by establishing a closed-loop governance system that integrates authority delegation, information feedback, and compliance accountability, thereby mitigating the potential institutional risks arising from internal oversight failures.

#### **3.2 Cultural Differences and Compliance Cognition Bias**

In practice, cultural differences are often a major institutional source of internal oversight failures in multinational governance. According to the theoretical framework of

cultural accounting, different cultural dimensions can significantly influence the information disclosure tendency, risk tolerance and compliance implementation level under the corporate governance structures [3]. For instance, in a cultural environment that emphasizes collectivism and high-power distance, organizational members are more inclined to maintain the collective image and avoid negative disclosure. This tendency may weaken the effectiveness of board oversight, thereby increasing the possibility of financial fraud or compliance violations [3].

In the case of Malaysia, empirical research has found that the proportion of Malay directors is significantly positively correlated with corporate financial fraud, which is attributed to the fact that the confidentiality tendency in Malay culture has weakened governance transparency [3]. Likewise, cultural factors can also have an indirect impact on compliance enforcement. Local executives have a biased understanding of the headquarters' "global compliance framework", which leads to some subsidiaries, although they formally comply with the compliance system, actually avoid key processes (such as internal auditing and risk assessment) [5].

In AstraZeneca's case, some of its branches in Asia and Latin America have encountered problems such as fictitious sales and medical insurance manipulation due to insufficient understanding of compliance obligations in local cultures. Under the cultural background of high-power distance, local teams may have delays or filters in reporting to the headquarters, further weakening the headquarters' risk perception ability [3]. This compliance cognition bias, rooted in misalignment between culture and institutional design, reflects the need for MNEs to remain alert to the systemic impact of cultural embeddedness on internal control mechanisms when advancing localized governance.

### 3.3 Compliance Risk and Corporate Governance Structure

Studies have shown that when decentralization is not supported by sound process control and auditing mechanisms, governance structures lose their capacity to constrain risks [8]. Although AstraZeneca has a compliance department, limited allocation of internal audit resources left certain regional sales channels in an almost "oversight vacuum" state. Research indicates that outsourcing or devolving compliance functions may substantially weaken their effectiveness, a finding that aligns with the issues revealed in the AstraZeneca incident [3].

The essence of compliance risk lies in the design of the corporate governance structure. In examining compliance risk control in the U.S. banking sector, scholars have noted that a strong internal control system not only enhances risk response capabilities but also has a positive impact on corporate performance [8]. However, MNEs often have to adopt localized authorization mechanisms when dealing with diverse regulatory systems, delegating certain oversight and decision-making powers to local branches. While this may improve efficiency, it also dilutes headquarters' direct supervisory capacity over compliance behavior, expanding governance blind spots.

Moreover, a decentralized governance structure can weaken organizational capacity to detect and respond to fraudulent activities, particularly in countries with marked differences in corporate cultures and legal systems [9]. This was especially evident in the AstraZeneca case: despite a globally standardized compliance manual, in practice

across multiple countries, local managers prioritized profit targets over compliance principles, leading to their dilution or circumvention.

## **4 Economic Perspectives Analysis of Compliance Risk**

### **4.1 Cost-Benefit Structure of Violations**

From an economic perspective, whether an employee engages in a violation often depends on the cost-benefit trade-off in their subjective perception. In the context of poor corporate governance, especially when sales positions are highly dependent on short-term performance assessment mechanisms, local sales representatives face strong behavioral incentives: to rapidly boost performance through false reporting of sales, related-party transactions, etc., in order to secure performance bonuses, promotion opportunities and organizational recognition. The short-term benefits of such violations are considerable, but the potential costs such as being discovered, punished or affecting professional reputation are systematically underestimated due to weakened internal audit functions, low regulatory probabilities, and delayed penalties, thus forming a "moral hazard" trap [5,7].

In addition, through specific cases, it shows the possible tacit tolerance between management and grassroots employees, where management often tacitly allows or even tolerates lower-level salespeople to "improve" financial performance by means such as exaggerating income in order to enhance overall business indicators [10]. This collusion not only further reduces the cost of violations but also undermines the credibility of the enterprise's internal control system and intensifies the accumulation and spillover of compliance risks within the enterprise. Therefore, from a cost-benefit perspective, enhancing the perceptibility of the expected cost of violations and establishing a deterrent audit and accountability mechanism are key paths to mitigating corporate moral hazard and improving the effectiveness of compliance governance.

### **4.2 Externalities of Internal Control Failure**

In the economic analysis framework of compliance risk, the failure of internal control not only brings direct economic losses at the enterprise level but also has obvious externality characteristics. Take the medical insurance fund as an example. As a key component of the social security system, its abuse or embezzlement not only involves financial waste, but also disrupts the fair competition order and undermines the legitimacy and trust foundation of the public system. The negative externalities of such violations are particularly sensitive in multinational corporations. Through typical cases, it is pointed out that once corporate violations reach public resources or social well-being, their impact goes beyond conventional financial indicators and evolves into institutional trust crises [9]. For instance, AstraZeneca was suspected of violating medical insurance regulations due to improper sales operations. Although it promptly initiated rectification and public opinion response mechanisms after the incident, due to its global background and public brand nature, the market trust decline and reputation

damage caused by the incident far exceeded the direct economic cost represented by the fine itself.

This "cost of trust" is highly uncertain and irreversible and is a risk dimension that is often underestimated in traditional cost-benefit analysis for enterprises [2,9]. Therefore, building a sound compliance and internal control mechanism is not only a "private choice" to reduce one's own risk, but also a matter of the enterprise's fulfillment of social responsibility and maintenance of the stability of the institutional environment, reflecting the typical external constraints of enterprise behavior.

### **4.3 Transmission of Compliance Risks to Investors and Market**

From an economic perspective, compliance risks not only pose management challenges within enterprises but also directly affect the performance of the capital market through information transmission mechanisms. When fraud or major violations are made public by the media or regulators, the market responds quickly as a "signal receiver", and the setback in investor confidence can cause sharp fluctuations in stock prices and may even trigger a systemic crisis of trust. Based on the theory of rational expectations, investors will view the failure of corporate governance as a signal of rising uncertainty in future cash flows, and thereby "market punish" the violation by means such as selling stocks. The Malaysian financial fraud case shows that the companies that cheated generally faced a strong reaction from the capital market after the fraud was exposed and were thus forced to make adjustments to their governance structure, such as adding independent directors and strengthening the functions of the audit committee, in order to restore market trust [3]. This "reputation-driven self-correction mechanism" reflects the indirect binding role of the capital market in compliance governance. At the same time, fraud exposure is often accompanied by increased regulatory pressure and rising shareholder demands, forcing companies to advance compliance governance reforms at a higher level [3]. Take AstraZeneca as an example. Although the problem initially focused on the behavior of local sales representatives, its consequences quickly spread to the company's overall valuation and drew international capital attention. Under market pressure, the company launched an internal investigation mechanism and restructured its organizational structure, highlighting the interaction and feedback between the external reputation mechanism and compliance governance. Therefore, the construction of the corporate compliance system is not only a need for internal risk management, but also a response to the stable expectations of the external capital market.

## **5 Conclusion**

The AstraZeneca medical insurance fraud case in China vividly illustrates the real hidden dangers of compliance risk in multinational pharmaceutical enterprises. In emerging markets where systems are not sound and cultures are complicated; the mismatch of power and responsibility can easily lead to systemic governance failure. This study uses the case as a warning to call on multinational companies to re-examine the boundaries and governance mechanisms of decentralization during their global expansion and

to build more resilient compliance management systems to achieve a sustainable balance between risk prevention and business expansion. Multinational enterprises should deeply reflect on the effectiveness of compliance management and avoid merely distributing compliance policies formulated by their headquarters in a “documented” manner to various places, while neglecting their enforceability in the local context. More “embedded” oversight mechanisms need to be established to enhance consistency between compliance culture infiltration and behavioral orientation. While implementing the delegation of power, it is necessary to be accompanied by strong oversight measures, such as setting up dual approval and cross-auditing mechanisms at key business nodes and establishing smooth internal reporting channels. The allocation of audit resources needs to be more targeted, avoiding a one-size-fits-all approach. It should be inclined towards high-risk areas and business links.

Enhancing the cultural sensitivity of compliance personnel is a crucial link among them. Compliance position personnel need to possess cross-cultural cognitive abilities, being capable of understanding and identifying potential institutional gaps and behavioral risks in the local market. This not only concerns language and communication skills but also includes understanding and adapting to local moral boundaries and social norms. Ultimately, promoting the synergy of global-local governance among multinational enterprises is the key to preventing systemic risks. The compliance system should strike a dynamic balance between the “unified norms” at the headquarters and the “flexible implementation” at the local level. Establishing a data-driven risk assessment platform to make local business activities transparent and standardized is a key path to enhancing the overall governance level.

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