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Restoring Ethical Integrity: A Case Study on Governance Failure, Fraud Determinants, and Risk Management Reform

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ABSTRACT: This study examines a real-world case of prolonged purchasing-card (P-Card) misuse at NovaCure Pharmaceuticals, Inc. (pseudonym), a multinational pharmaceutical organization, to illustrate how weak governance, fragmented oversight, and the normalization of risk allowed fraud to continue undetected for five years. Using a qualitative case study approach, the analysis integrates fraud theory, systems thinking, organizational culture, change management, and the COSO Enterprise Risk Management (ERM) framework to explain how the misconduct evolved and persisted. The findings show that unclear accountability, limited monitoring, and weak ethical reinforcement created an environment where opportunity, rationalization, and concealment thrived. The misconduct was eventually uncovered through a whistleblower report supported by advanced analytics. The study translates these insights into practical, evidence-based recommendations for strengthening procurement governance, improving early fraud detection, and rebuilding ethical culture. Overall, the findings offer clear and actionable guidance for leaders in highly regulated industries who are seeking to improve transparency, strengthen compliance, and build long-term organizational resilience and trust.

KEYWORDS: Procurement Fraud, Enterprise Risk Management, Governance Failure, Organizational Culture, Internal Controls

Introduction

Procurement fraud, particularly the misuse of purchasing cards (P-Cards), is quickly becoming one of the most serious threats to governance within organizations. As financial pressures increase and digital systems become easier to manipulate, fraud schemes are evolving more rapidly than many organizations can manage (Yaqoub et al., 2023). Current global data indicates that asset misappropriation is still the most common type of occupational fraud, accounting for 89% of documented cases worldwide and costing organizations billions every year (ACFE, 2024). Research by Graycar (2019) and Lyra et al. (2022) shows that procurement environments are particularly vulnerable because they rely on decentralized spending, discretionary decision-making, and oversight processes that often are not strong enough to catch misconduct as it happens. In the pharmaceutical industry, where public trust, regulatory compliance, and transparent financial management are essential, these risks can have serious consequences since even minor breaches can lead to major regulatory, financial, and reputational damage.

The case of NovaCure Pharma Inc. (a pseudonym for the multinational pharmaceutical organization involved) highlights why this issue needs urgent attention. For five years, mid-level managers made unauthorized personal purchases using corporate P-Cards, which went unnoticed due to weak controls, unclear governance roles, and a culture that underestimated fraud risks while focusing on operational convenience over compliance. The misconduct was only discovered after a whistleblower stepped forward and the internal audit team used advanced monitoring tools to detect the fraud. This reflects a global trend where 43% of fraud cases are detected through tips rather than internal controls (ACFE, 2024). Recent studies support this trend, showing that weak systems and processes (Muslim, 2025; Roffia & Poffo, 2025) and poor organizational structures (Alfia et al., 2025) often create opportunities for fraud. NovaCure Pharma Inc.'s experience illustrates a worrying trend where many organizations still lack the monitoring structures needed to detect fraud proactively, particularly when opportunity, rationalization, and capability come together in ways that normalize misconduct.

Academic research on fraud has developed a lot over the years to understand this complexity. Fraud theory started with Cressey's (1953) fraud triangle, which identified pressure, opportunity, and rationalization as the three key elements for fraud to occur. Wolfe and Hermanson (2004) added capability to create the fraud diamond. Crowe (2011) and Marks (2012) expanded this to the fraud pentagon by adding arrogance, and Vousinas (2019) further developed it into the fraud hexagon by reframing arrogance as ego and including collusion as a sixth factor. Most recently, Roffia and Poffo (2025) introduced the fraud polygon, which emphasizes the thrill and enjoyment of taking risks as additional motivators. Research by Yaqoub et al. (2023) shows that corporate fraud is becoming more creative, dynamic, and technologically advanced. This highlights the need for organizations to improve their capabilities to detect, predict, and prevent fraud.

Despite this growing research on fraud prevention using governance mechanisms (Hazaea et al., 2023; Kalia and Gill, 2023; Muslim, 2025), there is still a limited understanding of how fraud factors interact with governance culture, organizational learning, and enterprise risk management (ERM) maturity in real settings. This case study addresses that gap by combining various fraud and risk frameworks and applying them to a specific governance failure in a highly regulated industry. By analyzing these failures from multiple perspectives, this study offers a roadmap for building strong, ethical, and transparent procurement governance through integrated strategies in risk, culture, and organizational change.

Problem Statement

Procurement environments in many industries are very vulnerable to fraud because they involve discretionary authority, decentralized oversight, and complicated approval processes, which create repeated chances for misconduct. Global fraud analysis shows that weak internal controls lead to nearly one-third of all fraud cases, significantly increasing financial, operational, and reputational risks (ACFE, 2024). In these situations, governance failures do not just allow individual wrongdoing; they reveal deeper systemic weaknesses that harm organizational integrity (Muslim, 2025) and diminish trust among stakeholders.

The case of NovaCure Pharma Inc. illustrates this risk. For five years, mid-level managers misused P-Cards for unauthorized purchases, and this went unnoticed due to unclear responsibilities for the P-Card program, broken monitoring between Procurement and Finance, inconsistent audit practices, and outdated spending policies. These weaknesses align with recent findings showing that weak systems and procedures (Muslim, 2025; Roffia & Poffo, 2025) and poor organizational structures (Alfia et al., 2025) create favorable conditions for fraud by increasing opportunities and decreasing the chances of detection.

NovaCure Pharma Inc.'s ongoing misconduct reveals a significant gap in the organization's governance maturity, ethical culture, and risk-management practices. Despite many advancements in understanding the causes of fraud (Cressey, 1953; Wolfe and Hermanson, 2004; Marks, 2012; Vousinas, 2019; Roffia and Poffo, 2025), organizations continue to struggle with implementing proactive controls that prevent misconduct from escalating (Muslim, 2025).

Therefore, this study aims to address this gap by combining fraud and risk management frameworks to analyze a real governance failure in a highly regulated industry. It will highlight how systematic weaknesses allowed prolonged P-Card misuse. The findings will offer practical guidance for practitioners and policymakers looking to enhance fraud prevention through better training, a stronger ethical culture, organizational learning, and integrated enterprise risk management.

Significance Statement

This case study examines the governance failures that occur when organizations do not properly align their financial controls, risk management processes, organizational culture, and leadership accountability in procurement and P-Card systems. While previous research on fraud has mainly focused on public-sector procurement or large companies, there has been little attention paid to the cultural and structural weaknesses that allow corporate fraud to continue, especially in highly regulated industries like pharmaceuticals.

From a theoretical viewpoint, agency theory helps explain the relationship between owners and managers, where managers may act in their own self-interest rather than in the best interest of the owners (Bosse & Phillips, 2016). However, the ongoing instances of fraud in companies with seemingly strong governance indicate that other factors need to be considered (Muslim, 2025). This study builds on existing research by analyzing the P-Card misuse incident at NovaCure Pharma Inc. through an integrated fraud-risk and enterprise-governance approach. It aims to combine contemporary fraud theories, especially those that go beyond the Fraud Triangle, with enterprise risk management principles. This will help clarify how organizational culture, structural oversight, and control weaknesses interact to allow ongoing misconduct.

This paper seeks to provide an evidence-based perspective that not only explains the root causes of the governance failure but also suggests strategic, research-backed practices to improve compliance, strengthen organizational resilience, and align risk governance with changing fraud threats.

Nature of the Study

This study is conceptual and reflective, grounded in systems theory and influenced by professional practice in enterprise risk management. Using the learning-organization framework, the paper conceptualizes organizational adaptability as an emergent capability built through iterative learning, decentralized decision-making, and a proactive risk culture that anticipates and mitigates misconduct before it occurs. By synthesizing these frameworks, the study offers practical insights for leaders seeking to improve procurement oversight and cultivate ethical, transparent, and high-performing organizations capable of withstanding and learning from governance disruptions.

Literature Review

Evolution of Fraud Theories and Their Application to NovaCure Pharma Inc.

Current fraud research demonstrates that fraud is not an accidental occurrence but a predictable failure of governance, internal control design, and organizational behavior. Foundational and contemporary fraud theories have progressively expanded our understanding of why individuals commit fraud, moving from basic models to more complex configurations incorporating psychological, structural, and relational factors. These insights are directly relevant to NovaCure Pharma Inc., where five years of undetected procurement card misuse reflected systemic weaknesses that align with theoretical models explaining opportunity, rationalization, capability, ego, collusion, and even thrill-seeking motivations.

The earliest and most widely recognized model, Cressey's (1953) Fraud Triangle, established pressure, opportunity, and rationalization as the three essential conditions for occupational fraud. Opportunity, often arising from weak internal controls, remains the strongest predictor of misconduct, particularly in procurement environments with decentralized authority and minimal monitoring (ACFE, 2024; Lokanan, 2018). This dynamic is explicitly reflected at NovaCure Pharma, where ambiguity in oversight roles and inadequate audit review processes created persistent structural vulnerabilities that managers exploited for personal gain. Pressure due to personal financial expectations, workload demands, or performance targets can subtly influence employees to justify unethical shortcuts. Rationalization then enables offenders to view misconduct as acceptable or temporary, a process documented in both early fraud studies and contemporary behavioral ethics research (Kassem & Higson, 2012; Ramamoorti, 2008).

Recognizing that the Fraud Triangle was insufficient to fully explain the complexity of modern corporate frauds, Wolfe and Hermanson (2004) introduced the Fraud Diamond, adding capability as a fourth dimension. Capability includes the perpetrator's skills, technical knowledge, and positional authority which are traits that enable individuals to both commit and conceal fraudulent acts. Research shows that fraud cannot occur without an offender who has the competence and confidence to exploit systems (Singleton et al., 2006). In NovaCure Pharma's case, mid-level managers possessed the authority to make purchases with minimal supervisory review and had enough procedural familiarity to manipulate spending categories without triggering alarms, demonstrating capability as described in the Fraud Diamond. This aligns with research showing that individuals in privileged access roles pose heightened fraud risk, especially in organizations with fragmented oversight (Ruankaew, 2016; Wolfe & Hermanson, 2004).

The Fraud Pentagon further expanded fraud theory by adding arrogance or a sense of superiority as a fifth determinant (Crowe, 2011; Marks, 2012). Arrogance manifests when individuals believe they are exempt from rules or untouchable due to tenure, expertise, or perceived indispensability. This cognitive bias is commonly observed in environments where leadership fails to model ethical expectations, thereby normalizing misconduct (Schuchter & Levi, 2016). The NovaCure Pharma case reveals similar cultural patterns where managers repeatedly violated procurement policies without consequence, signaling a permissive environment that encouraged rule-breaking. Research by Babin et al. (2000) and Sari et al. (2020) confirms that arrogance thrives in weak ethical climates and erodes accountability, making violations more likely to persist undetected.

Vousinas (2019) advanced the field with the Fraud Hexagon by refining arrogance into ego and adding collusion as a sixth element. Ego encompasses narcissistic tendencies, dominance motives, and the desire for personal validation through illicit success. Collusion acknowledges that many modern fraud schemes involve multiple actors who cooperate to bypass controls. Fraud hexagon emphasizes structural and interpersonal vulnerabilities such as poor governance, weak internal audits, and ineffective segregation of duties which are conditions extensively documented in governance-failure research (Muslim, 2025). Although NovaCure Pharma's misconduct did not necessarily involve collusion, the prolonged duration of fraud indicates organizational blind spots that mirror hexagon dynamics, especially the interplay between ego, capability, and opportunity.

The most contemporary contribution is the Fraud Polygon, proposed by Roffia and Poffo (2025), which introduces a seventh motivator: the pleasure or thrill of risk-taking. This groundbreaking psychological lens argues that some fraudsters derive emotional reward from manipulating systems, testing boundaries, and "winning" against controls. Through analysis of major corporate scandals, including Enron, Theranos, and Société Générale, the authors demonstrate that thrill-seeking complements rationalization and ego as internal drivers of fraud, especially in high-pressure or high-autonomy environments. In NovaCure Pharma's context, while personal gain was likely the primary driver, the persistence and repetition of P-Card violations suggest that risk-normalization gradually became embedded in managerial behavior, consistent with fraud polygon theory's assertion that fraud becomes self-reinforcing when not promptly addressed.

Cross-disciplinary research further strengthens these theoretical foundations. Governance scholars highlight that fraud flourishes when internal controls are formalistic rather than practical, oversight bodies lack independence, or leaders prioritize short-term results over ethical responsibility (Solomon, 2020; Daly & Touron, 2022; Herawati & Hernando, 2020). Empirical studies show that gaps in audit competence, technological monitoring capacity, and cross-functional coordination are strongly correlated with procurement fraud (Shahana et al., 2023; Hazaea et al., 2023). These vulnerabilities were evident at NovaCure Pharma, where the organization's governance maturity was insufficient to detect or prevent prolonged misconduct. Emerging behavioral theories, including organismic integration theory and psychological models of moral disengagement, further explain why individuals rationalize misconduct under stress, cultural normalization, or reward structures that implicitly tolerate unethical behavior (Orth et al., 2023; Hsieh & Wang, 2016).

Taken together, these fraud theories present a comprehensive, evolutionarily layered understanding of why fraud persists in organizations despite sophisticated governance frameworks. The NovaCure Pharma case illustrates how opportunity, capability, ego, and risk-normalization converge in complex organizational systems with weak oversight. The literature consistently affirms that fraud is not a failure of individual morality alone but a predictable outcome of misaligned governance, cultural weaknesses, and insufficient internal controls.

Impact of Fraud on the Company, Employees, and Stakeholders

Fraud produces profound organizational, cultural, and stakeholder consequences that extend far beyond financial loss. For NovaCure Pharma, the multi-year P-Card misuse generated operational disruptions, damaged trust, strained organizational culture, and weakened external credibility. These impacts align with established research and mirror broader patterns documented in fraud literature.

At the employee level, fraud erodes perceptions of justice and fairness. When staff witness managers violating rules without immediate consequence, they lose confidence in leadership integrity and organizational values (Victor & Cullen, 1988; Teresi et al., 2019). Such conditions encourage cynicism, reduce morale, and increase turnover intentions, especially when misconduct is perceived as tolerated or systemically overlooked (Colquitt et al., 2013).

Employees often respond to ethical inconsistency with disengagement, presenteeism, and decreased discretionary effort (Edmondson, 1999; Colquitt et al., 2013). At NovaCure Pharma, compliant employees would have experienced increased workload due to corrective audits, tighter controls, and rework, creating emotional fatigue and burnout, which are patterns consistent with organizational-behavior research on strain responses to governance failures (Wimbush & Shepard, 1994; Peterson, 2002). Over time, such environments erode psychological safety and diminish innovation capacity.

At the organizational level, fraud directly undermines financial integrity, operational efficiency, and risk governance. Asset misappropriation inflates costs, distorts budgeting, and introduces uncertainty into financial planning (Decker & Galer, 2013). The ACFE (2024) reports that sustained occupational fraud reduces an average of 5% of annual revenue, with indirect costs such as investigations, legal fees, and system remediation often surpassing the initial loss. The NovaCure Pharma case reflects these patterns, as prolonged P-Card misuse required a full reassessment of procurement governance structures and internal control redesign. Research shows that persistent control failures signal immature ERM capabilities, which reduce organizational agility and resilience (Kaplan & Mikes, 2012; Fraser & Simkins, 2021). Weak governance frameworks, such as those identified by Muslim (2025), amplify fraud exposure by creating blind spots in oversight and accountability, mirroring the systemic vulnerabilities observed at NovaCure Pharma

Stakeholders including patients, regulators, suppliers, and investors also experience significant effects. In highly regulated industries like pharmaceuticals, fraud compromises institutional credibility and triggers intensive regulatory scrutiny, increased audit frequency, and potential sanctions (OECD, 2020; ISO, 2018). External partners may respond by imposing stricter payment terms, increased documentation requirements, or reduced credit capacity, all of which raise operational costs and limit strategic flexibility

Investors, in particular, interpret fraud incidents as governance red flags that influence risk perceptions, cost of capital, and long-term valuation (Fraser & Simkins, 2021). Ethical breaches function as negative signals in financial markets, reducing stakeholder confidence and undermining competitiveness (Donaldson & Walsh, 2015).

Overall, the effects of fraud affect organizational culture, financial stability, operational efficiency, and stakeholder trust. NovaCure Pharma's experience demonstrates that fraud is not a discrete event but a systemic governance failure that disrupts the organization's social fabric, weakens its strategic position, and diminishes long-term value creation. Effective recovery, therefore requires not only structural control reforms but also cultural renewal, leadership accountability, and strengthened ethical climates.

Analytics, Theoretical And Conceptual Framework

This section applies a systems-based analytical lens to interpret NovaCure Pharma's governance failure as an interconnected breakdown across culture, controls, and decision processes. Grounded in systems theory and the learning-organization framework, it synthesizes problem-solving, organizational culture, change-management, and enterprise risk-management models to explain how structural gaps and behavioral patterns reinforced prolonged misconduct. By integrating these frameworks, the analysis offers a cohesive foundation for redesigning governance, strengthening ethical norms, and building an adaptive, resilient risk culture capable of anticipating and mitigating fraud in complex organizational environments.

Kepner–Tregoe Problem-Solving Model Application

The Kepner–Tregoe (KT) Problem-Solving and Decision-Making model presents the strongest theoretical fit for the NovaCure Pharma case because it is expressly designed for complex, cross-functional organizational failures rooted in systemic breakdowns, unclear process ownership, and interdependent controls. KT's structured diagnostic sequence: situation appraisal, problem analysis, decision analysis, and potential problem analysis aligns directly with systems theory by treating organizational issues as interconnected elements rather than isolated events (Kepner & Tregoe, 2013). This holistic approach is essential given that NovaCure Pharma's five-year P-Card misuse was not a singular act of misconduct but a manifestation of systemic gaps across procurement, finance, internal audit, and organizational culture.

Systems theorists consistently argue that organizational problems emerge from dysfunctional interactions within the system rather than individual behavior alone (von Bertalanffy, 1968; Senge, 1990; Meadows, 2008). KT similarly emphasizes understanding variance in conditions, patterns, timing, and systemic relationships to identify root causes accurately. This analytical precision is critical in a fraud context, where misaligned controls, fragmented oversight, and cultural normalization of noncompliance collectively shape failure points (Solomon, 2020; Muslim, 2025). KT's application facilitates the identification of the structural causes of misconduct, such as unclear policy ownership, inconsistent role accountability, and immature monitoring capabilities, and clarifies how these elements interacted to allow fraud to persist.

The KT model also integrates NovaCure with learning-organization principles, particularly the importance of double-loop learning, which requires organizations to question and redesign underlying assumptions rather than merely correcting surface-level errors (Argyris, 1999). By using KT's decision-analysis stage, NovaCure Pharma can evaluate alternative governance models, weigh risks, and select solutions that reinforce structural resilience rather than reverting to traditional compliance reactions that fail to address cultural and systemic roots. Furthermore, KT's forward-looking potential-problem analysis aligns with ERM's emphasis on anticipating emerging risks and preventing recurrence through scenario planning and control adaptation (Fraser & Simkins, 2021).

Overall, the KT model provides an evidence-based, systemically aligned methodology capable of transforming NovaCure Pharma's governance environment into one that detects, interprets, and corrects risk patterns through structured reasoning, intentional learning, and cross-functional engagement. Its emphasis on systemic causality, iterative learning, and disciplined decision-making makes it the most appropriate model for addressing a multiyear, organizationally embedded fraud incident.

Schein's Organizational Culture Theory

Schein's Model of Organizational Culture provides the most effective theoretical framework for diagnosing and transforming the cultural conditions that enabled prolonged P-Card fraud at NovaCure Pharma. Schein (2017) argues that organizational culture operates at three interrelated levels: artifacts, espoused values, and underlying assumptions, thus cultural failures arise when misalignments among these levels distort behavior and decision-making. This systems-based perspective is particularly relevant to NovaCure Pharma, where formal policies (espoused values) emphasized compliance and stewardship, while deeper, unexamined assumptions normalized convenience, trust-based spending, and silence around policy violations.

Systems theory suggests that how organizations behave is influenced by ongoing patterns within the whole system, rather than just the choices made by individual people (Senge, 1990). Schein's framework exposes how these patterns form and become self-reinforcing. At NovaCure Pharma, ambiguous accountability structures, inconsistent enforcement, and tolerance for procedural shortcuts collectively constructed a cultural assumption that financial controls were flexible rather than mandatory. Research confirms that weak ethical climates and misaligned cultural assumptions increase both opportunity and rationalization for fraud (Victor & Cullen, 1988; Schuchter & Levi, 2016). These dynamics align directly with the persistent misconduct documented in the case.

Learning-organization literature reinforces Schein's claim that cultural transformation requires surfacing and reshaping underlying assumptions through reflection, dialogue, and systemic redesign (Argyris & Schön, 1996). By examining the gap between NovaCure Pharma's artifacts (policies, training programs), espoused values (integrity, compliance), and underlying assumptions (operational convenience over oversight), leaders can identify cultural drivers of fraud that technical fixes alone cannot remedy. Research shows that organizations with rule-plus-caring ethical climates that balance accountability with relational support experience stronger compliance behavior and reduced misconduct (Teresi et al., 2019; Babin et al., 2000).

Furthermore, Schein's model supports the development of adaptive, learning-oriented cultures capable of preventing future governance failures. When leaders intentionally reshape assumptions through consistent modeling, transparent communication, and reinforced structures, organizations strengthen psychological safety, improve decision quality, and enhance resilience (Edmondson, 1999; Grojean et al, 2004). For NovaCure Pharma, this means embedding ethical expectations, strengthening cross-functional governance norms, and fostering a culture where questioning and escalation are normalized rather than discouraged.

Thus, Schein's model provides a comprehensive cultural diagnostic lens and a transformation pathway grounded in systems thinking, making it the most suitable framework for rebuilding NovaCure Pharma's ethical infrastructure and strengthening risk-aware behaviors across the organization.

Kotter's 8-Step Change Management Theory/Framework

Kotter's 8-Step Change Model is the most appropriate change-management framework for the NovaCure Pharma case because it provides a structured, systemic, and behavior-focused approach capable of transforming governance practices, ethical norms, and cross-functional accountability in a complex organizational environment. Kotter (1996) emphasizes that sustainable change requires organizational alignment across leadership behaviors, cultural expectations, operational systems, and employee engagement which are elements that directly shape fraud vulnerability and risk-management maturity.

Kotter's systemic orientation aligns closely with the conceptual foundation of this study, which frames organizational adaptability as an emergent capability driven by continuous learning, decentralized decision-making, and proactive risk culture. Establishing urgency, the model's first step, is essential because NovaCure Pharma's prolonged misconduct reflects not only technical gaps but a cultural complacency requiring disruption. Research shows that fraud-prone environments often lack visible leadership urgency around ethics and controls, thereby enabling normalization of misconduct (Solomon, 2020; Hazaea et al., 2023). Building a guiding coalition and articulating a compelling vision facilitate distributed ownership, critical in systems theory, where interdependence across functions influences outcomes.

Kotter's change model also supports learning-organization principles. The steps related to communication, empowerment, and short-term wins reinforce iterative learning and experimentation, enabling organizations to test governance reforms, adjust controls, and strengthen cultural norms. Researchers argue that change initiatives grounded in learning cycles are more likely to address underlying assumptions and behavioral drivers rather than merely imposing procedural updates (Argyris, 1999; Argote & Miron-Spektor, 2011; Senge, 1990). For NovaCure Pharma, this means combining new controls with cultural reinforcement, leadership modeling, and opportunities for employees to internalize new expectations.

The final step, which is anchoring change in culture, is especially relevant. Fraud literature consistently demonstrates that sustainable reduction in misconduct requires embedding ethical expectations into the organization's value system, not just its policies (Schuchter & Levi, 2016; Vousinas, 2019). Kotter's focus on institutionalizing new behaviors aligns with Schein's view that unstated assumptions must shift for true cultural transformation.

Because NovaCure Pharma's governance failure stems from systemic cultural, structural, and behavioral weaknesses, a holistic, staged, and learning-oriented framework like Kotter's provides the most effective theoretical foundation for driving sustainable change and strengthening organizational resilience.

COSO Enterprise Risk Management Framework

The COSO Enterprise Risk Management (ERM) Framework represents the most strategic and systemically aligned risk-governance model for addressing NovaCure Pharma's prolonged fraud exposure. COSO ERM integrates governance, culture, risk assessment, internal controls, information flows, and performance monitoring into a unified system that supports organizational resilience and learning (COSO, 2017). Its holistic orientation reflects systems theory's core assumption that organizational failures stem from interactions across components rather than isolated control breakdowns (Senge, 1990).

NovaCure Pharma's five-year misconduct demonstrates a clear misalignment across oversight functions, cultural norms, monitoring systems, and accountability mechanisms, which are conditions COSO's integrated model is specifically designed to address. Research by Fraser & Simkins (2021) and Kaplan & Mikes (2012) show that organizations with fragmented risk processes, unclear risk ownership, and inconsistent information flows experience higher fraud vulnerability and lower detection capability. COSO's emphasis on governance and culture as foundational ERM components makes it particularly relevant, as NovaCure Pharma's weak ethical climate, role ambiguity, and misaligned values were central contributors to fraud persistence.

Additionally, COSO ERM reflects the principles of a learning organization by positioning risk management as a continuous, iterative process that adapts to emerging threats, incorporates feedback, and promotes cross-functional learning (Rasiel & Friga, 2002). Its focus on performance integration ensures that risk decisions are embedded into operational and strategic planning, reducing the likelihood that compliance becomes siloed or reactive (Aven, 2016). This directly responds to the case study's findings that NovaCure Pharma relied on outdated systems, occasional monitoring, and informal oversight, which limited learning and hindered proactive risk mitigation.

COSO's structured approach to risk identification, assessment, and response also aligns with fraud theory, particularly the need to address opportunity, capability, and rationalization through well-designed controls, accountability structures, and policy clarity (ACFE, 2024; Wolfe & Hermanson, 2004). Its emphasis on information and communication further supports transparency and early detection, which are critical given that most frauds are uncovered through tips rather than systems (ACFE, 2024).

By adopting COSO ERM, NovaCure Pharma can re-engineer its risk governance architecture, strengthen ethical culture, modernize internal controls, and institutionalize continuous learning. This makes COSO the most effective and theoretically consistent framework for enhancing governance maturity and preventing recurrence of misconduct.

Analysis and Discussion

The NovaCure Pharma case shows how governance breakdowns emerge not from a single failure but from the interaction of weak culture, fragmented controls, and low ERM maturity. Systems theory indicates that organizational misconduct arises from interconnected structural and behavioral weaknesses, rather than from individual actions taken in isolation (Senge, 1990). The five-year P-Card misuse at NovaCure Pharma reflects this interconnected dynamic: ambiguous ownership of the P-Card program, ineffective monitoring, siloed communication between Procurement and Finance, and a permissive ethical climate collectively allowed fraud determinants such as opportunity, capability, and rationalization to thrive (Cressey, 1953; Wolfe & Hermanson, 2004; Vousinas, 2019).

The analysis further reveals how cultural assumptions, particularly the normalization of convenience and trust-based spending contradicted the organization's espoused commitment to compliance. Schein's model explains how the discrepancies between artifacts, values, and underlying assumptions strengthen informal norms that is prioritized over formal controls (Schein, 2017). This cultural misalignment enabled mid-level managers to rationalize repeated violations, consistent with research showing that weak ethical climates increase moral disengagement and noncompliance (Teresi et al., 2019; Victor & Cullen, 1988).

The systemic vulnerabilities at NovaCure Pharma also demonstrate limited ERM integration, where risk practices operated more as isolated compliance activities than as enterprise-wide learning mechanisms. COSO ERM emphasizes that effective governance requires a unified system connecting culture, oversight, information flows, and performance (COSO, 2017). NovaCure Pharma's fragmented processes mirrored the conditions documented in governance-failure research, where decentralized authority and inadequate monitoring heighten fraud exposure (Muslim, 2025; Hazaea et al., 2023).

Applying the Kepner–Tregoe model shows that the organization lacked structured problem diagnosis and risk anticipation, resulting in reactive rather than preventive controls. Double-loop learning was largely absent, as leadership corrected individual behaviors without challenging systemic assumptions (Argyris, 1999). Kotter's model highlights additional weaknesses such as insufficient urgency, limited cross-functional coalitions, and ineffective communication, all of which inhibited meaningful cultural and structural reform (Kotter, 1996).

Overall, NovaCure Pharma's fraud incident represents a classic systems-level failure where cultural drift, unclear governance, and immature ERM processes converged to create a space where misconduct could persist undetected. Strengthening resilience requires integrated, culture-centered, and learning-oriented reforms that address the systemic roots of fraud rather than its symptoms.

Recommendations

Building resilience at NovaCure Pharma requires solutions that integrate culture, governance, technology, and risk capabilities. The following best-practice, evidence-informed recommendations support agility, accountability, and fraud-resistant operations.

1. Launch a Kotter-aligned change program to drive cultural realignment

Governance reform requires an intentional, leader-driven change effort anchored in urgency, coalition-building, and clear communication (Kotter, 1996). NovaCure Pharma Inc.'s leadership must openly communicate the control failures, fraud exposure, and reputational risks to create a shared sense of urgency across the organization. A cross-functional guiding committee should then be established to champion governance reforms, model accountability, and remove barriers to change. Early wins, such as rapid improvements in monitoring accuracy, timely exception resolution, or increased training compliance, help demonstrate progress and reinforce credibility. Sustaining these wins enables the organization to anchor new behaviors into its culture and strengthen long-term governance resilience.

2. Establish a Centralized P-Card Governance Office

Centralizing oversight directly addresses the fragmented controls that enabled prolonged P-Card misuse at NovaCure Pharma Inc. Research consistently shows that unclear accountability increases opportunity, which is the leading driver of occupational fraud (ACFE, 2024; Lokanan, 2018). A dedicated P-Card Governance Office should own policy design, approvals, exception management, data monitoring, training, and issue escalation. Aligning Finance, Procurement, Compliance, and Internal Audit under the COSO Three Lines of Defense Model (COSO, 2017) ensures clear, non-overlapping roles and strengthens second and third-line defenses. Codifying a "zero-tolerance for personal spend" risk appetite and embedding it into performance scorecards reinforces expectations, accountability, and cultural alignment across the organization.

3. Implement an advanced analytics-driven monitoring and detection system

AI-enabled anomaly detection provides earlier and more accurate fraud identification than manual reviews (Shahana et al., 2023; Yaqoub et al., 2023; Muslim, 2025). NovaCure Pharma Inc. should leverage continuous monitoring of merchant codes, spend patterns, off-hours transactions, and user-to-peer comparisons to reduce concealment opportunities. Automated anomalies should be routed to second-line review in line with COSO oversight principles (COSO, 2017). Strengthening controls such as Merchant category codes (MCC) blocking, split-transaction detection, dual approvals, and automated holds further limits capability exploitation. Linking managerial incentives to compliance KPIs and publishing a quarterly "Trust & Controls" scorecard enhances transparency, reinforces expectations, and supports reputational recovery (Kaplan & Mikes, 2012; Fraser & Simkins, 2021).

4. Strengthen ERM integration with COSO principles

Embedding risk management in strategy, performance, and operations enhances resilience and supports early threat detection (Fraser & Simkins, 2021). NovaCure Pharma Inc. should run cross-functional risk workshops, adopt standardized scoring models, and centralize reporting through real-time dashboards. Performance metrics such as <0.5% exception rates and 30% faster cycle times reinforce accountability. Controls should include MCC blocking, split-transaction detection, dual approvals, and automatic holds, with quarterly testing and dashboards reported to the Audit Committee (COSO, 2017). A formalized risk register capturing financial, compliance, operational, and reputational risks help calibrate inherent and residual risk (Decker & Galer, 2013; Fadun, 2021) as analytics narrow opportunity within the Fraud Triangle/Diamond (Cressey, 1953; Wolfe & Hermanson, 2004).

5. Redesign policies, approval pathways, and role structures using a systems-based, risk-tiered model

Effective policies must address both procedural clarity and the cultural assumptions that shape employee decision-making (Schein, 2017). A systems-based, risk-tiered structure, such as higher approval thresholds for risky categories, dual signatures for exceptions, and automated routing, reduces rationalization and minimizes opportunity for fraud (Muslim, 2025). Strengthening segregation of duties is essential, as inadequate separation increases fraud capability and concealment (Ruankaew, 2016). No individual should be able to initiate, approve, and reconcile transactions. Automated escalations and periodic access audits further protect policy integrity. Together, these measures establish a coherent control environment that reduces ambiguity and reinforces compliant behavior.

6. Strengthen leadership modeling, ethics, and enterprise learning

Research shows that ethical environments focused on rules and care can greatly lower misconduct and promote psychological safety (Victor & Cullen, 1988; Teresi et al., 2019). Leaders at NovaCure Pharma Inc. need to visibly demonstrate compliant decision-making, reinforce expectations, and show consistent accountability. Required ethics and control training tailored to specific roles, which includes identifying warning signs, practical case scenarios, and consequences, helps reduce excuses and increases fraud awareness (Kassem & Higson, 2012). Implementing double-loop learning through reviews after actions and risk debriefs (Argyris, 1999) encourages teams to look at underlying assumptions, not just surface mistakes, enhancing adaptability and lowering the chances of repeating governance failures.

7. Build a whistleblower-positive culture with secure escalation mechanisms

Since 43% of global fraud is discovered through tips (ACFE, 2024), NovaCure Pharma Inc. needs to improve anonymous reporting channels, ensure protections against retaliation, and show that leadership responds to concerns. Clear communication about how to report issues, regular reminders, and support from leaders can help make reporting a shared ethical responsibility. Including whistleblower data trends in quarterly risk reviews boosts early-warning abilities (Roffia & Poffo, 2025). When employees trust the system to keep them safe, organizations gain from more transparency, quicker detection, and less chance for hiding fraud, which are all important for preventing long-term occupational fraud.

Collectively, these recommendations align cultural, structural, and technological levers to create a resilient, adaptive, and fraud-resistant organization capable of sustaining trust, compliance, and operational excellence.

Future Research Directions

Future research should explore how integrated fraud frameworks, such as the fraud hexagon and polygon, interact with ERM maturity, ethical climate, and digital monitoring capabilities in highly regulated industries. Empirical studies comparing organizations with varying cultural configurations and control designs would deepen understanding of how opportunity, ego, capability, and thrill-seeking behaviors manifest in decentralized procurement environments (Vousinas, 2019; Roffia & Poffo, 2025). Further research is also needed on AI-driven fraud detection, particularly its effectiveness in identifying behavioral anomalies before misconduct escalates (Yaqoub et al., 2023).

Conclusion

This study advances the understanding of procurement-related fraud by synthesizing modern fraud theories, systems thinking, organizational culture models, change-management frameworks, and enterprise risk-management principles into a unified analytical lens. It shows how fraud is rarely the product of individual misconduct alone but the predictable outcome of interacting cultural, structural, and governance weaknesses. By integrating models such as the Fraud Triangle, Fraud Hexagon, Schein's culture framework, Kotter's change model, the Kepner–Tregoe problem-solving method, and the COSO ERM framework, the study offers a comprehensive explanation of how opportunity, capability, rationalization, and cultural drift converge in complex organizational systems to weaken internal controls and normalize noncompliance. This cross-disciplinary approach provides scholars and practitioners with a richer, evidence-based understanding of the conditions under which fraud becomes systemic and persistent.

Applying these insights to NovaCure Pharma illustrates how prolonged P-Card misuse emerged from fragmented oversight, weak cultural alignment, and immature ERM practices. More importantly, the study equips other organizations, especially those in regulated environments, with a roadmap for strengthening governance, redesigning controls, enhancing ethical climates, and institutionalizing learning. These insights support practitioners in building resilient, transparent, and fraud-resistant organizations capable of anticipating risks before they escalate.

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