

UNIVERSITI TEKNOLOGI MARA

**THE CORPORATE GOVERNANCE
AND ECONOMIC CONDITIONS
INFLUENCE ON CORPORATE
FRAUD IN MALAYSIA**

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DBA

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AUTHOR'S DECLARATION

I declare that the work in this dissertation was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This dissertation has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.


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ABSTRACT

The issue of corporate fraud has received considerable critical attention since the high-profile scandal at Enron, Tyco, and WorldCom. Investigating corporate fraud is a continuing concern as it has a devastating threat to all organizations regardless of their type and sizes around the world. Previous literature agrees that strong and effective corporate governance will reduce the opportunity for a company to commit fraud. However, there has been a lack of research into corporate governance effectiveness in deterring corporate fraud in developing countries, especially in Malaysia. The unique environment, regulations, and economic policies in the Malaysian context may provide different results. Therefore, this study aims to provide empirical evidence whether the models, characteristics, and variables of corporate governance selected in this study are significantly related to Malaysia's corporate fraud incident. Apart from the corporate governance characteristics, this study also examines the influence of economic conditions on corporate fraud incidences. Understanding the economic situations that contribute to the increase in corporate fraud incidences helps firms make better decision-making, especially the necessity to review and strengthen their corporate governance structure and designs. The sample of fraudulent companies is the publicly listed companies charged by the Malaysian Securities Commission and were listed in the Malaysian Securities Commission Enforcement Release (MSCER) from the year 2000 to 2016. The corporate governance data were collected for a period of four years, the fraud year, and three years before that. Panel logistic regression analysis was carried out to determine the relationship between corporate governance characteristics and corporate fraud incidences. Meanwhile, the macroeconomic variables data were collected for 21 years, starting from 1996 until 2016. The time-series analysis was conducted by observing the time series data on macroeconomic variables and their association with corporate fraud incidences. The empirical findings revealed that board size and executive directors' compensation has a significant relationship with corporate fraud occurrences. In relation to economic conditions, the results suggested that corporate fraud incidences tend to increase during a good economic condition. The findings of this study will help public companies, auditors, and policymakers in formulating and developing effective corporate governance structures, rules, regulations, and institutional environments to better address the challenge of combating corporate fraud. The general findings suggested that the board size and executive directors' compensation are the corporate governance characteristics that can effectively combat corporate fraud incidences in Malaysia. Furthermore, this study found that favourable economic conditions can encourage more managers to commit corporate fraud.

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