

**UNIVERSITI TEKNOLOGI MARA**

**THE INFLUENCE OF CORPORATE  
GOVERNANCE AND HUMAN  
GOVERNANCE TOWARDS  
CORPORATE FINANCIAL CRIME IN  
MALAYSIA**

**WAN NAILAH BINTI ABDULLAH**

Thesis submitted in fulfillment  
of the requirements for the degree of  
**Doctor of Philosophy**  
**(Accountancy)**

**Faculty of Accountancy**

**May 2018**

## CONFIRMATION BY PANEL OF EXAMINERS

I certify that a Panel of Examiners has met on 24<sup>th</sup>. November, 2017 to conduct the final examination of Wan Nailah Binti Abdullah in her **Doctor of Philosophy** thesis entitled “The Influence of Corporate Governance and Human Governance Towards Corporate Financial Crime in Malaysia” in accordance with Universiti Teknologi MARA Act 1976 (Akta 173). The Panel of Examiner recommends that the student be awarded the relevant degree. The Panel of Examiners was as follows:

Mustafa Mohamed Zain, PhD.  
Professor Dato’  
Faculty of Accountancy  
Universiti Teknologi MARA  
(Chairman)

Corina Joseph, PhD.  
Associate Professor  
Faculty of Accountancy  
Universiti Teknologi MARA  
(Internal Examiner)

Hasnah Haron, PhD.  
Professor Dato’  
Faculty of Industrial Management  
Universiti Malaysia Pahang  
(External Examiner)

Kiymet Caliyurt, PhD.  
Professor  
Faculty of Business Administration  
Trakya University  
(External Examiner)

**PROF SR DR HAJI ABDUL HADI  
HAJI NAWAWI**  
Dean  
Institute of Graduates Studies  
Universiti Teknologi MARA  
Date: 14 May 2018

## AUTHOR'S DECLARATION

I declare that the work in this thesis 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 thesis 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.

Name of Student : Wan Nailah Binti Abdullah

Student I.D. No. : 2010723827

Programme : Doctor of Philosophy (Accountancy) – AC990

Faculty : Accountancy

Thesis Title : The Influence of Corporate Governance and Human  
Governance Towards Corporate Financial Crime in  
Malaysia

Signature of Student :  .....

Date : May 2018

## ABSTRACT

Corporate financial crime (CFC) incidences happen every single year in listed companies of Bursa Malaysia, regardless of various recognitions received for exemplary practices of corporate governance (CG) standard. CFC involving listed companies can be traced down through the Securities Commission's criminal cases and various reports in the mass-media. The ineffectiveness of CG mechanisms in curbing this crime has been proposed in this study as being due to the inappropriateness of CG as "corporate mechanisms" to be used as means for controlling the behaviour of human-being behind the organization. The study, hence, proposes the significance of human governance (HG) factors to be explored, in investigating their effectiveness in mitigating CFC. HG has been used to address the issue of CG's failure as a controlling mechanism, suggesting that there should be needs to concentrate on people, as in the study i.e., directors and top management teams, in formulating the governance regulations. Motivated by lack of studies in CFC in Malaysia and empirical evidence in the area of HG, the study is significance to the literature through the inclusion of HG factors in the area of CFC. Using educational background and previous job experiences of directors and top management teams (TMT) as proxies to HG, the study postulates that organizations with higher HG are expected to be free from CFC incidences. In addition, the study also seeks to investigate the effectiveness of internal and external governance in relation to CFC incidences to find out whether CG roles are still relevantly effective in the current situation. Theoretical contributions include 1) providing empirical evidence of HG concept; 2) adding more studies lacking in CFC in Malaysia; 3) inclusion of Religious Education, Business Education, Military and Police and separate Risk Management Committee variables in relationship with CFC incidences; 4) testing the theory originally used in "street crime" i.e., Social Control Theory, and management's Agency Theory in the study of CFC. Practical contributions include 1) providing empirical evidence in the recruitment criteria for human resource management; 2) as additional information in providing value added standards, rules or regulations by authorities, legislators or governments in the efforts of combatting corporate malfeasance. CFC categories are used to search for crime cases from 2002 until 2014 disclosed from internet, Lexis-Nexis and Securities Commission. 41 crime companies matched with 82 non-crime companies (case control matching ratio 1:2) have resulted into 123 observations. Data for HG, internal and external governance are derived from annual reports of the 123 samples. Logistics regressions results reveal two HG variables: Business Education; and Military and Police job experience indicate significant positive and negative relationship respectively, with CFC incidences. Separate Risk Management Committee (internal governance), Ownership Concentration and Foreign Corporation Ownership (external governance) indicate significant negative, positive and positive relationship respectively, with CFC incidences. Upper Echelon Theory, Social Control Theory and Agency Theory are found to be effective in postulating CFC incidences. The study concludes HG as effective mechanisms in preventing CFC and should be importantly considered besides the conventional CG mechanisms. It is also concluded in the study that internal and external governance are still relevant as effective mechanisms in combating CFC incidences.

# TABLE OF CONTENTS

	<b>Page</b>
<b>CONFIRMATION BY PANEL OF EXAMINERS</b>	<b>ii</b>
<b>AUTHOR'S DECLARATION</b>	<b>iii</b>
<b>ABSTRACT</b>	<b>iv</b>
<b>ACKNOWLEDGEMENT</b>	<b>v</b>
<b>TABLE OF CONTENTS</b>	<b>vi</b>
<b>LIST OF TABLES</b>	<b>xi</b>
<b>LIST OF FIGURES</b>	<b>xiii</b>
<b>LIST OF ABBREVIATIONS</b>	<b>xiv</b>
<b>CHAPTER ONE: INTRODUCTION</b>	<b>1</b>
1.1 Introduction	1
1.2 Background of the Study	1
1.3 Problem Statement	6
1.4 Research Question	14
1.5 Research Objective	15
1.6 Scope and Limitation	15
1.7 Contribution of the Study	17
1.7.1 Theoretical Contribution	17
1.7.2 Practical Contribution	18
1.8 Summary	19
<b>CHAPTER TWO: LITERATURE REVIEW (I) - CORPORATE FINANCIAL CRIME</b>	<b>20</b>
2.1 Introduction	20
2.2 Background	20
2.3 History of Corporate Misconducts	34
2.4 Corporate Crime and Corporate Financial Crime	36
2.5 Categories of Corporate Financial Crime	42