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Abstract

Corporate crime is not new in Malaysia. Each year the cases reported have increased dramatically. The phenomenon will undermine the confidence of both existing and potential investors. In this study, we aim to investigate the determinants of corporate crime activities in organizations, in order to minimize the occurrence of fraud. A survey involving existing and potential investors was undertaken. The findings indicate that the corporate crime determinants ranked by most of the respondents are insufficient controls, followed by personal financial pressure and expensive lifestyle. To minimize the occurrence of corporate crime activities in the organizations, the management team should impose tighter control over internal operations.

Keywords: Corporate crime, internal control

JEL Classification: K42, K20

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1.0 INTRODUCTION

Fraud can be defined as an intentional act by one or more individuals among management, employees, or third parties, which results in a misrepresentation of financial statements [Malaysian Approved Standards on Auditing (2001), AI No. 240]. Recently, fraud has received tremendous public attention and it tends to become serious corporate problems and challenges in today's competitive business environment (Smith et al., 2005). Corporate crime has caused most of the organizations suffered from various form of damages such as a loss of assets and reputation, decreased staff motivation, and damaged business relations.

Corporate crime cases reported each year are on the upward trend and it has increasingly become a serious problem in Malaysia. The phenomenon is empirically supported by a number of surveys; for example KPMG Malaysia fraud survey (KPMG, 2005) found an increase of 33% of respondents experiencing fraud in their organization, as compared to a 2002 survey. Clarence (2005) revealed that in Malaysia, white-collar crime caused losses exceeding RM3.93 billion during 1999-2002, with approximately 6,000 cases being reported annually. Furthermore, 36% of companies have each suffered losses between RM10,001 to RM100,000 due to fraudulent conduct between January 2003 to December 2004, while 17% have suffered losses of greater than RM1 million (KPMG, 2005). Assessing the company's risk to corporate crime is becoming more complicated particularly when financial transactions are performed electronically and when operations are located in multiple geographical locations (Seetharaman et al., 2004). Therefore, it is anticipated that corporate crime will become a serious corporate problem and the loss wrecked by economic crime will exceed direct monetary loss.

The purpose of this study is to identify the determinants of corporate crime activities on the public listed companies in Malaysia in order to minimize the occurrence of fraud. The remainder of this paper is organized in the following sections: literature review, research method, results/data analysis, and conclusion.

2.0 LITERATURE REVIEW

Early on, corporate illegalities mainly referred to the corporate crimes activities. According to Szwajkowski (1985), corporate crime was engaged mainly for the firm's benefits. Subsequently, Baucus and Baucus (1997) observed that illegal corporate behavior also include, illegal activities committed by members of a firm. Later, in KPMG survey (2005), corporate crime can be defined as in the making if one tries to deliberately plan, deceit or con with the intention of deprive other's property or rights, regardless of whether the perpetrator gain any benefit or not in the process.

In terms of nature and type of corporate crime committed, Palshikar (2002) found that economic crime covers more than 50 categories which include the most serious and prevalent crime such as fraud in financial markets, followed by counterfeiting, securities, tax evasion, liquidation, bankruptcy, the future market, insurance, franchise, commodities, and so forth. Meanwhile, KPMG Survey 2001 reported that the highest losses involved secret commission (43%), followed by expense account

(29%), false invoicing (27%), and others include soliciting purchases for personal use, cheque forgery, price fixing, corporate surveillance and automatic teller machine fraud. A KPMG's (2001) survey reported that 74% of its respondents claimed that frauds in their companies were committed by non-management staffs in spite of the common beliefs that corporate crimes tend to be associated with top management staffs. The findings can be corroborated with those from a subsequent survey by PricewaterhouseCoopers (2005). The latter argued that corporate crimes tend to be committed by those who closest to or are involved in the operational line, which are mostly non-management employees.

There are many reasons why employees commit corporate crime. Goldstraw et al. (2005) state that greed, gambling, financial strain either personal or business, feasibility of business as well as influence of others are the major determinants of fraud. The above statement is supported by the findings from Blaszczynski and McConaghy (1994) and Crofts (2002), in which they found corporate crime activity in Australia is closely related to gambling activity. On the other hand, KPMG (2001) discovers poor management or internal controls, conspiracy between employee and third party, and type of business operation that is favorable for fraud to happen are the main causes for fraud to happen in Malaysia. In addition, PricewaterhouseCoopers (2005) also reports that the perpetrator's need to maintain an expensive lifestyle, lack of internal controls in the company, the perpetrator's low temptation threshold and lack of awareness that what he or she was doing was wrong are the major reasons leading to corporate crime.

Corporate crime is a pressing problem that not only causes direct financial losses, but also jeopardizes an organization's reputation and relationships with external stakeholders, such as customers, suppliers, financiers and business partners. Previous studies on corporate crime focused mainly on organizations in developed countries. Very little empirical evidence has been collected in the context of developing countries such as Malaysia. In response, this study aims to fill this gap in literature and seeks to develop guidelines for managers in taking pre-emptive actions to manage corporate crime.

3.0 DATA AND METHODOLOGY

This study intends to empirically examine the determinants of the corporate crime in organizations by seeking the perceptions from respondents using questionnaire. The respondents in this study were selected randomly from the existing and potential investors in Kuching.

The questionnaire is divided into two major sections. The first part concerns the demographic of the respondents and the second part asks for the respondents' view about the determinants of corporate crime using those determinants proposed by the Australian Institute of Criminology and PricewaterhouseCoopers (2003) as well as PricewaterhouseCoopers (2005). These factors are further divided into two main categories namely company factors and personal factors. The respondents were required to indicate their perception on the degree of agreeable on a five-point Likertscale, denoted by “1” strongly disagree, “2” disagree, “3” neutral, “4” agree, and “5” strongly agree.

Questionnaires were randomly distributed to 285 target respondents and 200 completed questionnaires were returned, representing a 70.18% response rate. The Statistical Package for Social Science (SPSS) was used to analyze data from the returned questionnaires. Results from data analysis are discussed in the following section.

4.0 RESULTS AND DISCUSSIONS

Demographic Information of Respondents

The respondents in this study include 93 male and 107 female. Most of them are between 20 to 29 years old. There are a total of 108 Chinese respondents, followed by Malay (51), ethnic groups that consist of Iban and Bidayuh (36), and Indian (5). Among them, 104 are single, and the rest are married. In terms of education, majority of the respondents are degree (114 persons) and diploma (32 persons) holders. Around 75% of the respondents involve in professional, administration and management works. In terms of monthly income, most of the respondents (51.5%) are earning between RM2,000 to RM3,999 a month.

Relationship between Demographics and Importance Level

One-way Analysis of Variance (ANOVA) was conducted to determine whether respondents’ perceptions of the determinants of corporate crime were influenced by respondents' demographic characteristics. To conserve space, the results are not presented here[1]. Overall, only gender, education level and occupation of the respondents showed significant impact on the perception of corporate crime determinants.

Result and Data Analysis for Corporate Crime Determinants

Table 1 exhibits the ranking of 25 corporate crime determinants. From the ranking, all the reasons listed in the questionnaire achieved an average score above 3.000, with the highest score being 3.980. This indicated that basically the respondents are agreed with the reasons listed.

Table 1: Ranking of Corporate Crime Determinants

Rank	Corporate Crime Determinants	Mean
1.	Insufficient controls	3.980
2.	Financial pressure (personal)	3.970
3.	Expensive lifestyle to maintain	3.945
4.	Greed	3.925
5.	Financial pressure (business)	3.900
6.	Gambling	3.795
7.	External collaboration	3.765
8.	Career disappointment	3.720
9.	Dissatisfaction with employer	3.715
10.	Internal collaboration	3.705
11.	Dissatisfaction with the company	3.675
12.	Management over-ride	3.660
13.	Financing new business interests	3.585
14.	Maintaining own/family business	3.545
15.	Self-denial of consequences to company	3.525
16.	Influenced/implicated to others	3.505
17.	Anonymity within the company	3.485
18.	Lacking awareness of wrongdoing	3.450
19.	Low temptation threshold	3.415
20.	Layoff/redundancy	3.410
21.	Addiction to drugs/alcohol	3.385
22.	Foreign business customers	3.255
23.	Desire to ensure the viability of the corporation	3.250
24.	Pleasing others	3.155
25.	Terminal illness	3.120

[1] The ANOVA results are available from the authors upon request.

The most accepted reason for the occurrence of corporate crime is insufficient controls (mean = 3.9800). Insufficient control in the company will create an opportunity for the employee to commit crime. The other top five acceptable reasons are financial pressure (personal) (mean = 3.9700), expensive lifestyle to maintain (mean = 3.9450), greed (mean = 3.9250), financial pressure (business) (mean = 3.9000) and gambling (mean = 3.7950). With this, it can be concluded that when someone is facing financial strain associated with business or personal matters (maintaining expensive lifestyle, greed or gambling), the likelihood that person will commit to corporate crime in order to handle the financial strain is very high.

Comparing the findings with those from PricewaterhouseCoopers (2005) as well as Australian Institute of Criminology and PricewaterhouseCoopers (2003), it is found that the result gained from the respondents is closely similar to those highlighted in both of the surveys. Based on the finding from PricewaterhouseCoopers (2005), the reasons for committing corporate crime are lack of awareness of wrongdoing, the perpetrator's low temptation threshold, insufficient controls in the company, and the perpetrator's need to maintain an expensive lifestyle. On the other hand, Australian Institute of Criminology and PricewaterhouseCoopers (2003) discovered that greed and gambling were the two most frequently identified reasons of the perpetrators. Moreover, financial strain (business and personal) is also an important reason, as it comprised of 27% from the total accused persons.

Furthermore, the least acceptable reasons for committing in corporate crime are foreign business customers (mean = 3.2550), desire to ensure the viability of the corporation (mean = 3.2500), pleasing others (mean = 3.1550) and terminal illness (mean = 3.1200). This may be explained that the possibility of getting in contact with foreign business customers is relatively quite low, if compared with domestic customers. The PricewaterhouseCoopers (2005) survey shows that only 16% of respondents regard foreign business customers as a reason for committing corporate crime. Desire to ensure the viability of the corporation, pleasing others and terminal illnesses do not seem to be major reasons to commit corporate crime. This may be due to the respondents perceiving that perpetrators are mostly related to financial matters, or fulfilling the greed desire, instead of to fulfill the desire to ensure the viability of the corporation or to please the others. In terms of terminal illness like cancer, with early detection and proper treatment, the illness does not necessarily caused death to the patient, especially in this new era of technology. This is consistent with the findings from Australian Institute of Criminology and PricewaterhouseCoopers (2003), where 5% of perpetrator committed corporate crime due to desire to ensure the viability of the corporation and also pleasing others. Meanwhile, terminal illness only comprised of 1% from 148 accused persons.

5.0 CONCLUSION

Corporate crime is a major concern among investors, investment managers, regulators and the general public. It is an ethical issue that should not be taken lightly. Corporate crime not only has an adverse impact on organization's reputation and performance, it also undermines the nation's economy as foreign investors may choose to steer clear from countries with poor corporate governance. The present study has analyzed the perception of 200 potential and existing investors in Kuching on the determinants of corporate crime. The study found that the highest ranking corporate crime determinant is insufficient controls, followed by personal financial pressure and expensive lifestyle. We can conclude that personal financial pressure will lead to corporate crime, especially when there are insufficient controls in the organization.

Effective and stringent control over the internal operations needs to be initiated and supported by top management. This would enhance the likelihood of minimizing corporate crime activities. Indeed, top management needs to exhibit a positive attitude towards internal control. The general public and regulators also play important roles in preventing corporate crime. They should work together with the top management and employees of organizations. The findings from this study indicate that crime can occur if organizations fail to take extra precautionary efforts from time to time. Lastly, the present study directs future research towards examining whether the determinants which have been identified in this study are indeed helpful in the investigation of reported fraudulent cases in Malaysia.

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