

FACTORS STIMULATING CORPORATE CRIME IN MALAYSIA

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ABSTRACT

Building on the perception of both existing and potential investors in Kuching, Sarawak, this study aims to identify the factors that appear to stimulate corporate crime activity in organizations. A survey was carried out by distributing questionnaires to both types of investors selected on randomly basis. The findings reveal that corporate crime activities are mostly due to inadequate cash security practices, inadequate supervision as well as a lack of internal auditing. To minimize the effects of corporate crime on investors and organizations, managers should pay extra attention to these factors. On the other hand, future research within the context of corporate crime may consider the extent to which organizational crime can affect the shareholder value creation of organizations.

Keywords: Corporate Crime, Internal Control

JEL Classification: K42, K20

INTRODUCTION

Fraud is a significant and growing threat worldwide. Over recent years, fraud has received tremendous attention among the public. Though fraud can be easily committed, but prevention or detection of corporate crime is not an easy task (Seetharaman *et al.*, 2004). At the same time, knowledge about the organizational conditions that can reduce the cost of white-collar crime is yet little is known (Schnatterly, 2003).

Corporate crime is not new in Malaysia and based on the cases reported each year, the rate is on the upward trends. According to KPMG Malaysia fraud survey (KPMG, 2005), it is found that there has been an increase of 33% of the respondents experiencing fraud in their organizations, as compared to the 2002 survey. In Malaysia, white-collar crime has caused losses of exceeding RM3.93 billion from the year 1999 until 2002, with approximately 6,000 cases being reported yearly (Clarence, 2005). Additionally, 36% of companies have suffered a total losses between RM10,001 to RM100,000 due to fraudulent conduct between January 2003 to December 2004, while 17% have suffered losses exceeding RM1 million (KPMG, 2005). On the other hand, assessing the company's risk to corporate crime is getting more

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