Corporate Governance and Misappropriation

Larelle Chapple
Colin Ferguson
Diana Kang

Abstract

This study examines the occurrence of misappropriation-type fraud within Australian listed firms and the relation between the incidence of this type of fraud and a firm’s governance strength. We measure governance strength using factors relating to traditional corporate governance, such as board composition, CEO duality, and audit committee composition, as well as factors relating to information technology governance. In our study, we use actual dollar amount of fraud reported by listed companies responding to the 2004 KPMG Fraud Survey as one of three different misappropriation measures and publicly available firm-specific data to measure the other variables in the model. Our study found that where the chief executive officer (CEO) also holds the position of chairperson of the board of directors, the likelihood of fraud increases. We also find that the greater the number of independent directors on the audit committee, the lower the level of fraud. Taken together, these results are particularly encouraging as they provide support for regulatory bodies such as the Australian Stock Exchange (ASX) and the Australian Securities and Investment Commission (ASIC), which place considerable emphasis on the importance of establishing good corporate governance practices. The study provides empirical evidence that employing good corporate governance reduces the risk of the misappropriation of assets.

Keywords: Fraud; Misappropriation; Corporate Governance; Board Structure; Audit committees.

* The authors are, respectively, Associate Professor at the Australian National University, Chair Professor of Business Information Systems at the University of Melbourne, and Honours Graduate at the University of Melbourne.