

Accepted Manuscript

Corporate fraud and external social connectedness of independent directors

Yu Flora Kuang, Gladys Lee

PII: S0929-1199(17)30036-6
DOI: doi: [10.1016/j.jcorpfin.2017.05.014](https://doi.org/10.1016/j.jcorpfin.2017.05.014)
Reference: CORFIN 1208
To appear in: *Journal of Corporate Finance*
Received date: 20 January 2017
Revised date: 10 May 2017
Accepted date: 24 May 2017



Please cite this article as: Yu Flora Kuang, Gladys Lee , Corporate fraud and external social connectedness of independent directors, *Journal of Corporate Finance* (2017), doi: [10.1016/j.jcorpfin.2017.05.014](https://doi.org/10.1016/j.jcorpfin.2017.05.014)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Corporate Fraud and External Social Connectedness of Independent Directors*

YU FLORA KUANG

flora.kuang@unimelb.edu.au

The University of Melbourne

GLADYS LEE

gladys.lee@unimelb.edu.au

The University of Melbourne

Abstract: We examine the effects of independent directors' external social connectedness on corporate fraud commission and detection. The results show that well-connected independent directors do not affect the likelihood of fraud commission but significantly reduce the likelihood of fraud detection given occurrence of a fraud. In particular, with a one-standard-deviation increase in independent directors' connectedness, the likelihood of fraud detection reduces by 22.5 percent. We also find that the consequences of fraud commission faced by firms with well-connected independent directors are less severe as fraud remains undetected for a longer period of time and fewer people are charged with fraud when independent directors are well connected. We further show that independent directors' connections to fraud firms significantly increase a firm's propensity to fraud commission and the likelihood of fraud detection is also higher. Overall, our results suggest that directors' personal networks have a "dark side". Regulators should be aware of unintended consequences associated with directors' external social connections when considering how to prevent and detect corporate fraud.

Keywords: Corporate Governance; Fraud Commission; Fraud Detection; Social Connectedness

JEL Code: M410

* The authors would like to thank Jeffry Netter (the Editor) and an anonymous reviewer. The authors gratefully acknowledge the helpful comments of Margaret Abernethy, Mary Barth, Steven Balsam, Neil Fargher, Anne Lillis, Stephan Hollander, Xinning Xiao, Reggy Hooghiemstra, Bo Qin, Chen Chen, Chung Yu Hung, and Wen He. The authors also thank all the seminar and conference participants at the University of Melbourne and 2016 AFAANZ Annual Conference on the Gold Coast for helpful comments. Yu Flora Kuang acknowledges the financial support from the 2016 Faculty Research Grant of the University of Melbourne.

Download English Version:

<https://daneshyari.com/en/article/5093049>

Download Persian Version:

<https://daneshyari.com/article/5093049>

[Daneshyari.com](https://daneshyari.com)