Genius Is Not the Excuse for Governance Failure:
Case of FTX Trading Limited

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EXECUTIVE SUMMARY

This chapter explores the evolving landscape of fraud in the cryptocurrency industry, emphasizing the vital role of corporate governance in addressing this challenge. Several companies are involved in crypto frauds schemes such as Ponzi schemes, rug pulls, pump and dump, and exit scams. This chapter studies FTX's dramatic downfall from a $32 billion valuation to bankruptcy and will illustrates the broader issues within the startup culture, such as enabling misconduct, lack of accountability, immature governance, and distorting trust of stakeholders. This study presents recommendations for combating cryptocurrency fraud and improving corporate governance, including strengthening regulations and promoting transparency. The chapter also suggests implementing a corporate governance maturity model (CGMM) to effectively combat fraud, outlining its potential benefits. This study can be beneficial to the regulators, policy setting bodies, and financial institutions where they can implement the CGMM and foster the environment of transparency and accountability.

INTRODUCTION

Fraud is considered as the breach of trust (Cumming, Hornuf, Karami, & Schweizer, 2021). Fraud exists in our society even when there were no standards, official rules and regulating bodies (Sood & Bhushan, 2020). Over the time, the fraud is changing its features and characteristics, but the major component is the same i.e. fraudster first develops the trust and then breaches it for the purpose of personal gain (Vousinas, 2019).

Keeping the three scenarios of fraud triangle, all fraudsters meet similar traits namely opportunity, motivation and pressure (Sánchez-Aguayo, Urquiza-Aguiar, & Estrada-Jiménez, 2021). Opportunity provides fraudsters to commit fraud. Not all the people in the organization have the opportunity to invest, approve and pay; therefore, only those who have authority have the opportunity to commit fraud (Elisabeth & Simanjuntak, 2021). Similarly, motivation and pressure to conduct fraud can be developed in any point in time and in anyone within organization; however, when pressure is coupled with motivation and person has the opportunity then fraud chances of fraud increases (Fitri, Syukur, & Justisa, 2019; Hudayati, Nisa, & Sanusi, 2022). It is important for organizations to implement strong internal controls and fraud prevention measures to mitigate this risk.

Similar to fraud, startups are not the new concept. The concept of startups started in the 1930s, but the term itself was not coined until then (Euchner, 2019). The startup movement really took off in the 1980s and 1990s (Feld, 2020) and has continued to grow in recent years. In the current business environment, the startup movement has experienced a resurgence. This is due in part to the rise of new technologies, such as cloud computing and mobile devices. These technologies have made it easier for startups to launch and grow their businesses (Sami, et al., 2020). Table 1 demonstrates the few startups in last five years that were considered successful:

Similar to the successful startups, there are plenty of failures which ended up in the closure of entire organization. Table 2 demonstrates the startups which ended up as failures.

In the case of the startups listed in the table, there are a variety of factors that contributed to their failures. Juicero’s product was overpriced and unnecessary. Theranos’ technology was fraudulent. Zenefits was a victim of its own rapid growth. Quirky was unable to scale its business effectively. Pets.com ran out of money after spending too much on advertising. Munchery was unable to compete with larger food delivery companies. Brandless was unable to gain traction in the market. Quibi failed to attract enough subscribers. Adam Neumann’s Flow is still in its early stages and it remains to be seen whether it will be successful. FTX was a victim of the cryptocurrency market crash of 2022.