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Good Governance Practices and Employee Integrity: Evidence from Local Government

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Abstract
Good governance is necessary to enable companies to operate more efficiently, improve access to capital, mitigate risk and safeguard stakeholders. Good governing practices will lead employees to behave with integrity. Currently, governance in the public and private sectors has been exposed to public criticism due to governance failure, fraud, corruption, bribery, and internal control. Thus, the main focus of this study is to determine the significant influence between good governance which comprised of fraud control, risk management, infrastructure and facilities, and quality performance and employee integrity. Besides that, this study also determines the level of good governance practices among employees. For this research, the researcher employed a quantitative method. For data collection, the survey method was used by constructing a self-administered questionnaire to collect data. The questionnaires were distributed among the employees of a local government office in a northern state of Malaysia and only 140 of the data were usable for analysis. The data analysis employed reliability test, Cronbach alpha, mean level, and regression analysis. The finding reveals that a significant influence exists between risk management and infrastructure facilities with employee integrity. However, the result indicates that there is no significant influence between fraud control and quality performance with employee integrity. Furthermore, it was also found that the level of good governance practices among employees is only moderately high. Therefore, in achieving a developed country status, Malaysia needs to strategize its approach to increase the level of good governance among local and public sectors.

Keywords: Good Governance Practices, Employee Integrity and Local Government.

Introduction
Integrity is an important human characteristic and is considered as one of the essential features for a smooth functioning of an organization or institution in the modern world (Mahmudul, 2018). Bauman (2013) states that integrity is a moral notion that has a general meaning of moral uprightness. Integrity is also described as an indicator of trust, skill, and professionalism (Akir & Malie, 2012). From an organizational perspective, ethical behavior or integrity describes corrupt or fraudulent activities as well as the characteristics or quality of
an individual or organization’s behavior that reflects the quality, rules, and ethical values established by the members of a corporation and also the society (Johari, 2017).

The Malaysian government introduced a guideline for Integrity Pact (IP) implementation in public procurements in 2010. This has been promoted by the Malaysia Anti-Corruption Commission since then. The latest National Anti-Corruption Plan (2019-2023) continues to endorse the use of IP to meet the objective of strengthening Malaysian Public Procurement Framework. The Malaysian IP includes obligations on the part of procurement authorities and bidders with respect to integrity and anti-corruption commitments, as well as sanctions for non-compliance, but it does not establish particular monitoring oversight systems. The government has implemented public service quality and integrity in this country through the introduction of a number of policies starting with the “Bersih, Cekap dan Amanah” campaign in 1982, the “Kepimpinan Melalui Teladan” campaign in 1983, “Dasar Penerapan Nila-Nilai Islam” campaign in 1985, Islam Ethics Code in 1987, Excellent Work Culture in 1989, the Quality Award in 1990, the Charter in 1993, e-government and the MS ISO 9000 in 1996, the Distinguished Service Award in 2002, the key performance indicators (KPI), Islam Hadhari in 2005 and many other measures.

Integrity for organizations is just as important for individuals since an organization also involves people, and, the relationship with each of them is quite important in ensuring that the organization thrives among its competitors. Integrity implies not only to being corrupted or fraudulent, but it also lies in the quality or characteristic of individuals (Said et al., 2016). Regular incidents of negligence, lack of discipline, corruption, and misconduct among civil servants were revealed in the Malaysian Auditor-General’s Report, which confirms recurring integrity violations in the public sector (Noor et al., 2017). In Malaysia, corruption and abuse of power among government officials is similar to cancer that threatens to damage government institutions slowly (Bernama, 2020). Moreover, empirical evidence has shown that the public sector, particularly local authority, is one of the top five (5) agencies that receive the highest number of complaints from the Enforcement Agency Integrity Commission (EAIC) of Malaysia (Mohamed et al., 2018). In 2020, statistics from the Malaysian Anti-Corruption Commission (MACC) indicates that there were 998 cases of corruption involving public servants and the public in general. In 2019, there were 1,011 cases, and 894 cases in 2018. Moreover, corruption will have an impact on a nation’s economy. Malaysia needs to improve its CPI ranking for 2021 to attract more foreign investments. According to a 2020 report released by the United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment (FDI) into Malaysia has decreased 68 percent, totalling to a meagre US$2.5 billion.

Good governance is considered to be one of the most effective strategies of success and development at the national level (Abdelhadi, 2016). Governance and integrity are two critical aspects that strengthen professionalism in an organization. Good governance is a concept that verifies an ideal administrative behaviour and rejects unethical behaviours (Jr & Penol, 2018; Salminen & Rinna, 2010). In 1989, the concept of “governance” was, for the first time, highlighted in a World Bank Document on Sub-Saharan Africa. Four key dimensions identified in this context were: (i) public sector management; (ii) accountability; (iii) legal framework for development; and (iv) information and transparency. Said et al. (2016) stated that good governance also affects quality elements of the public sector such as strategic
alliance, strategic planning, audit, fraud control, risk management, audit, quality performance, financing human resource management, and infrastructure and facilities. Assavasukee (2015) stresses the six principles that govern good governance in accordance with the Royal Degree were 1) rule of law; 2) ethics; 3) transparency; 4) participation; 5) accountability; and 6) value for money. Good governance practices are essential to improve employee integrity (Rachmat, 2020; Salminen & Ikola, 2010). Good governance is so crucial that it will eventually lead to a performance that is effective and efficient. In strengthening good values, ethics, and integrity, companies need to focus on managing conflicts of interest and prevent corruption. Therefore, it is interesting to study the relationship between good governance which consists of fraud control, risk management, infrastructure and facilities, and employee integrity.

**Literature Review**

**Employee Integrity**

Huberts et al (2007) state that integrity is the quality of acting based on moral values, norms, and rules that are accepted by society. In fact, it refers to the quality of individuals and organizations that suit the words and actions or how well people suit their adopted values to their actual values (Nafi & Kamaluddin, 2019). Employee integrity could also be measured by conscientiousness. Conscientiousness is seen as the trait with profound predictive utility, having shown optimistic effects in educational, health, and personnel psychology spheres. In essence, conscientiousness denotes a sense of self-regulation and having the natural ability to plan, organize, and perform tasks optimally. This implies that a conscientious person is strong-minded, focused, results-driven, having a clear aim, achievement-oriented, hardworking, and tenacious. Furthermore, someone who is conscientious is reliable and trustworthy as well as systematic and structured in their approach to work (MacCann et al., 2009).

**Fraud Control and Employee Integrity**

Fraud and corruption are common issues in procurement worldwide (Matthew, 2013). Martinov (2007) describes institutional fraud as a deliberate practice involving dishonest behavior to obtain unjust or unlawful benefits. The effect of a slightly effective internal control of environments is usually a fraud committed by the management. A study by Mustafa et al. (2017) was on the effects of fraud risk elements and integrity on asset misappropriation in the Royal Malaysian Police (RMP). The findings show that minimizing the risk elements of fraud is crucial in increasing the incidence of misappropriation of assets. Another research done by Sow et al. (2018) was on fraud prevention in Malaysian small and medium enterprises (SMEs). This study used self-administered questionnaires and were distributed among 126 respondents comprised of general managers, financial managers, and supervisors in SMEs. The finding of this study showed that a culture of honesty and high integrity has a positive and significant relationship on fraud control mechanisms.

Few researchers advocate the direct influence of fraud control and employee integrity (Martinov-Bennie, 2017; Irianto et al., 2012; Donker & Zahir, 2008). The result of the research shows that modern corporate indignities are mostly infected by fraud. Several new codes of practice and endorsements of corporate governance codes were introduced to reduce fraud cases and litigations in the future. The basic point is that well-governed organizations are ambiguously accountable for fraud cases and litigations. This shows that organizations must
have an independent audit committee, and this committee should meet frequently to evaluate the integrity of financial reports.

**Risk Management and Employee Integrity**

Risk management is the identification, evaluation, and prioritization of risks followed by synchronization and cost-effective application of resources to manage the impact of unfortunate events or to maximize the realization of opportunities (Rae et al., 2017). Three important elements of risk management (Andersen & Schronder, 2010) identified are policy setting, strategy setting, management, and leadership aspect of governance. According to Zulkifli et al (2014), risk management exists to directly promote the fulfilment of organizational good governance. Therefore, it helps governments to acquire a balance between preventive measures and enforcement. Besides that, it aligns with the government’s objectives and aids managerial decision making and ultimately helps ensure the achievement of employee integrity.

Risk management is significantly and positively related to employee integrity and has been identified as one of the key drivers of good governance in public sectors in Malaysia (Mahmudul, 2016). There is the connection of employee integrity to risk management, and the researcher argues that there are compelling reasons to consider employee integrity practice as an essential part of risk management. Ethical risk management concerns the infrastructure that promotes employee integrity, that is, the directives and supports that both manage risks associated with lack of integrity practices and provide incentives to promote ethical conduct. These can include conformance with externally mandated legal and legislative requirements as well as internal supports and expectations.

**Infrastructure and Employee Integrity**

Infrastructure is defined as a general term for the basic physical systems of a business. Examples of infrastructure include basic facilities, structures, equipment, technologies, and services that serve daily operations (Jamaliah, 2015). Infrastructure helps achieve cost-effective and collective objectives of employee integrity. Therefore, managers should continuously pay attention to adjusting their infrastructure facilities, so that it can carry out organizational goals effectively towards good governance practices. Said (2016) found that infrastructures are the main key in driving organizational performance both directly and indirectly. Besides, many scholars have identified the critical role of infrastructures and employee integrity in enhancing an organization’s business performance and generating a higher effectiveness (Liu et al., 2019; Said, 2016; Jamaliah, 2015). This is because infrastructures have a significant positive impact on employee integrity leading to company prosperity and competitiveness (Said, 2016). In fact, infrastructures and employee integrity make a positive contribution to organization performance across sectors (Jamaliah, 2015). Likewise, infrastructures have a significantly positive impact on employee integrity (Liu et al., 2019). Several researchers advocate the direct influence of infrastructures and employee integrity (Greenbaum, 2020; Hanapiyah et al., 2017; Said et al., 2015). The result of the research shows that after excluding environmental and random factors, the adjusted sample investment efficiency value is significantly improved. This shows that environmental factors in various provinces reduce government investment efficiency. Also, the study proved that a low degree of government integrity significantly reduces the efficiency of infrastructure investment.
Another finding of the research by Tremblay et al (2017) is related to integrity and infrastructure. Lack of integrity, honesty, and trust elements could contribute to workplace injuries or deaths. The attitude of taking shortcuts and circumventing the standard operating procedures (SOPs) could lead to unsafe practices at the workplace such as purchasing low-quality personal protective equipment. Therefore, all parties should always maintain integrity practices to reduce the risk of workplace accidents. Without adequate infrastructure, modern commerce characterized by production specialization and exchange across markets would grind to a halt. Hence, infrastructure helps achieve economic and social objectives. Moreover, successful facilities and infrastructure can lead to workplaces that better support the flow of productive processes while adding value and reducing costs. Thus, the value of integrity needs to be given more focus in ensuring safety and health issues at the workplace are not viewed lightly.

Quality Performance and Employee Integrity

Quality performance is defined as a numerical measurement of the performance of an organization, division, or process. The quality of performance can be assessed through measurements of physical products, statistical sampling of the output of processes, or through surveys of purchasers of goods or services (Joiner, 2007). Bakri et al (2015) found that quality performance is the main driver for improving the competitiveness of organizations in a globalized market. Therefore, an employee’s integrity is highly affected by his/her quality performance. Besides, many scholars identify a high degree of quality as achieving, enhancing, and sustaining competitiveness and is dependent on delivering superior quality products or services to customers (Beitelmal et al., 2017; Bakri et al., 2015). This is because quality performance is one of the significant aspects for fulfilling organizational goals, and it is also one of the crucial elements for business success through fixing quality services towards ultimate customer satisfaction. Service quality, performance quality, as well as customer satisfaction, lead to enhanced performance and integrity in the Malaysian public service. Likewise, quality performance has a significantly positive impact on employee integrity. The implementation of a quality management initiative would successfully contribute to the desired impact on performance if the quality management systems and quality governance issues are considered together to drive performance improvement (Wiernik & Ones, 2018).

Employee integrity may be a reliable predictor of work performance with self-managed working groups. Research done by Rosli et al (2018); Bakar et al (2018) which state that ethical leaders treat followers in an ethical and respectful way, which makes for a better-quality relationship, and employees react with more positive work behavior, thus increasing performance quality. The result from the survey showed that quality practices and quality governance brought positive impacts on organizational performance, particularly in terms of meeting customer requirements.
The hypothesized model of employee integrity is shown in Figure 1 and the hypotheses developed a relationship between fraud control, risk management, infrastructure and facilities, quality performance, and employee integrity.

H1: Fraud control has a positive significant influence on employee integrity.
H2: Risk management has a positive significant influence on employee integrity.
H3: Infrastructure and facilities have a positive significant influence on employee integrity.
H4: Quality performance has a positive significant influence on employee integrity.

Methodology

Methods
Data were collected from employees of local authorities in Malaysia. Random sampling was applied to select elements in the population. A total of 140 were useable to analyse the findings using IBM SPSS. The dependent variable of this study is employee integrity. The items used to measure was adapted from (Said et al., 2016). Meanwhile, the independent variable was good governance (fraud control, risk management, infrastructure and facilities, quality performance) taken from (Said et al., 2016).

Result and Discussion
A reliability test was conducted to determine the internal consistency of the measures used. Table 1 shows the result of the Cronbach’s alpha for good governance (fraud control, risk management, infrastructure and facilities, quality performance) were above the suggested threshold with more than 0.6, which is higher than that recommended by (Hair et al., 2010; Chua, 2012). The entire construct was considered to have adequate reliability. Table 1 summarizes the reliability coefficients of the measures.
Table 1

Reliability Coefficients of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of Items</th>
<th>Deleted Item</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud control</td>
<td>5</td>
<td>1</td>
<td>0.715</td>
</tr>
<tr>
<td>Risk management</td>
<td>5</td>
<td>0</td>
<td>0.762</td>
</tr>
<tr>
<td>Infrastructure and facilities</td>
<td>5</td>
<td>0</td>
<td>0.763</td>
</tr>
<tr>
<td>Quality performance</td>
<td>5</td>
<td>0</td>
<td>0.661</td>
</tr>
<tr>
<td>Employee Integrity</td>
<td>15</td>
<td>0</td>
<td>0.732</td>
</tr>
</tbody>
</table>

Table 2

Level of Good Governance Practices by Employees

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud control</td>
<td>3.4857</td>
<td>Moderately High</td>
</tr>
<tr>
<td>Risk management</td>
<td>3.8357</td>
<td>Moderately High</td>
</tr>
<tr>
<td>Infrastructure and facilities</td>
<td>3.8414</td>
<td>Moderately High</td>
</tr>
<tr>
<td>Quality performance</td>
<td>3.8229</td>
<td>Moderately High</td>
</tr>
</tbody>
</table>

As indicated in Table 2, the mean score interpretation in this study is as follows: 1.00 - 2.00 (low), 2.01 - 3.00 (moderately-low), 3.01 - 4.00 (moderately-high) and 4.01 - 5.00 (high) (Nunally, 1978). Table 2 shows good governance practices (fraud control, risk management, infrastructure, and facilities and quality performance) of employees at local authorities in Malaysia were moderately high.

Table 3

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.543a</td>
<td>.295</td>
<td>.45236</td>
</tr>
</tbody>
</table>

Table 3 illustrates the relationship between good governance and employee integrity. The result of the analysis shows the $R^2$ value is 0.295. It was found that 0.295 percent of the variance in the dependent variable was explained by the independent variables. Meanwhile, the remaining 70.5% of the variable might be explained by other factors that were not investigated in this study such as leadership, organizational size, financial resources, and others.
A summary of the result of the structural model and hypothesis in this study is shown in Table 4. Based on regression analysis, it reveals that fraud control shows no significant influence on employee integrity when the coefficient for risk management is 0.08, t = 0.096, p = 0.0924 where p > .05. Therefore, the first hypothesis (H1) is not supported. Meanwhile, risk management also shows a significant influence with employee integrity when the value of coefficient is 0.261, t = 3.511, p = 0.001 where p < .0.05. As a result, the second hypothesis (H2) is supported. Moreover, infrastructure and facilities show a significant influence on employee integrity when the value of coefficient is 0.203, t = 2.510, p = 0.013 where p < .0.05. So, as a result, the second hypothesis (H3) is supported.

Finally, the variable quality performance shows there is no significant influence on employee integrity when the value of the coefficient for quality performance is 0.115, t = 1.136, p = 0.184 where p > .05. Therefore, the first hypothesis (H4) is not supported.

**Conclusion**

Theoretically, this research describes and offers insights on the importance of good governance which comprises of fraud control, risk management, infrastructure and facilities, quality performance, and employee integrity. A significant impact that emphasized good governance principles are the key to enhance performance. The objectives of this study are to know the good governance practiced by the local authorities and to identify the significant influence of good governance practices and employee integrity. The regression result shows that risk management and infrastructure and facilities have a significant influence on integrity. This result is in line with (Said et al., 2016). However, fraud control and quality performance reveal that there is no significant influence on employee integrity. This finding could be because of the increase in bribery and complaints from the public towards local authorities. This result is in line with Siddiquee (2009) who found that practicing quality performance of good governance has no influence on integrity system. As a result, high level of corruption and fighting corruption within the society may have no significant difference with respect to most of the strategies and campaigns. Therefore, in achieving a developed country status, Malaysia needs to strategize its approach to increase the level of good governance in its local and public sectors.
Like most studies, this study has limitations. For future research, the researcher has to conduct the same study for employees in other industries such as educational institutions in order to provide a deeper understanding of the important factors of good governance and employee integrity. The next recommendation is to make an enlargement on the sampling of respondents, so that the feedback and finding will be more accurate, clear, and precise. When you increase your sample size, you also increase the precision of your estimates, which means that for any given estimate or size of an effect, the greater the sample size, the more "statistically significant" the result will be. It is hoped that the present study will help to identify new areas for future research, i.e., new variables which have not been identified in previous studies may be explored and new hypotheses may also be generated for further research on employee integrity. Future research also needs to focus on other factors that could affect employee integrity such as leadership style, financial resources, and organizational size. Overall, the local authorities in Malaysia must focus significantly on the development of good governance practices to achieve an effective integrity system.

References


