Relationship between Good Governance and Integrity System: Empirical Study on the Public Sector of Malaysia

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Abstract

This study is an attempt to measure the relationship between the current practice status of good governance and that of integrity in the public sector of Malaysia. This study collected primary data based on a set of questionnaire survey among heads of 109 departments and agencies under 24 federal ministries, including the Prime Minister Department in Malaysia. The data were analysed under descriptive statistics, ordinal regression and structural equation model. Furthermore, standard diagnostic tests were also conducted to check the reliability of the data and models. To improve the integrity system, the study suggests to focus on the practices of strategic alliance, strategic planning, audit and fraud control. Overall, the public sector in Malaysia must also focus significantly on the development of good governance system and a proper appraisal system to achieve an effective integrity system.

Key Words: Public Sector; Integrity; Good Governance; Structural Equation Model; Ordinal Regression; Malaysia

Introduction

Integrity is an essential characteristic of human beings. At present, it is also considered as one of the essential features for the smooth functioning of an organization or institution in the modern world. Roman philosophers developed integrity as a moral notion that has a general meaning of moral uprightness and/or wholeness (Bauman, 2013). The theory of integrity was discussed not only in area of ethics, but also in many fields, such as organizational behaviour, human resource management (HRM), psychology as well as leadership (Bauman, 2013; Treviño-Rodríguez, 2007).

In an organizational viewpoint, integrity or ethical behaviour not only refers to being corrupted or fraudulent, but it also lies in the quality or characteristic of individual or organizational behaviour that represents the manner of acting in accordance to moral values, standards and rules accepted by the members of an organization and the society (Kolthoff et al., 2010; Bauman, 2013). Integrity is also considered as a matter of coherence and consistency among organizational aims, personal values and beliefs and individual behaviour (Badaracco & Ellsworth, 1991). Therefore, integrity or ethical behaviour is assumed to have a direct influence on organizational action and decisions or moral choices (Treviño-Rodríguez, 2007). Moreover, management has an important role in shaping the integrity of an organization (Kaptein, 2003).

Integrity is deliberately needed to establish relationships of trust, within the boardroom and with stakeholders (Coulson-Thomas, 2013). However, Mutula and Wamukoya (2009) determined that the ultimate aim of a government is to safeguard public interest through an efficient and effective governance system that enhances the protection of rights and demonstrates accountability and integrity in its daily activities and from its public officers. Mintrop (2012) determined the initiative by governments in encouraging that good value, ethics and integrity have a positive effect on accountability. Jones (2009) added that strength of integrity is indicated by a good balance between external demand values and perceived needs, which are rooted from culture that takes external performance responsibilities particularly to the public, thereby leading to accountability. Allocating the

resources to cultivate organizational environments, which lead to the increment of democracy perception levels, supports the development of organizational and operational integrity. Integrity stimulates employees to comply and helps instil values that support commitment to ethical conduct. Therefore, an integrity system is very important in ensuring accountability and transparency within an organization.

In an environment of well-developed integrity systems, the elements that underpin good governance and encourage ethical and effective endeavour towards political purposes are spread all the way through social, economic, cultural, law and political organizations of a country (Aulich, 2011). Nevertheless, these values and practices are usually unfairly distributed in most jurisdictions. This situation may happen because of local circumstances and the variation in critical issues that need to be addressed. First, it may correlate to the issues of funding given that integrity functions are frequently incompetently and inconsistently funded. The situation may also correlate to irregular monitoring and error arrangements. Therefore, good governance is essential to clarify and enforce the standards and to provide an explicit guidance with regard to the way public officials and bodies need to discharge their duties and accountabilities in specific jurisdictions.

The concept of good governance is a value-loaded concept, which recommend an ideal of administrative behaviour and reject behaviour that is unethical or questionable (Bouckaert & Walle, 2003). Common values and principles explain the relationship between public authorities and citizens, in which good governance depends on the morality of public service (Bhuiyan & Amagoh, 2011; Kalsi et al., 2009). Accountability is always related to good governance, and implies the involvement of public organizations that conduct public matters, manage public funds and guarantee realization of human rights in a fundamental way that is free from abuse and corruption, as well as those that obey the rule of law (Bhuiyan & Amagoh, 2011; Morrell, 2009; United Nation Human Rights, 2012). Therefore, good governance principles is essential to improve citizens' trust and legitimacy of politico-administrative system (Christensen & Skaerbaek, 2007; Salminen & Ikola-Norrbacka, 2010).

Several factors of good governance also affect the quality elements of public sector. Therefore, governments exert an effort in term of programs and budgets to ensure that public funds are managed efficiently and with integrity. Given that good governance system provides an emphasis towards achieving integrity, its practice in the public sector is apparently crucial at any stage in enhancing accountability in a public sector organization. In view of the several initiatives of practicing good governance to improve integrity in the public sectors, the performance and the relationships among the factors of good governance and integrity must be checked. This study selected Malaysia as a case study to investigate the issues. The case study on Malaysia also helps policy makers of other countries ensure accountability in the public sector.

Factors of Good Governance and Integrity System

This study considered the following factors of good governance to explore the relationship between the factors of good governance and integrity system in the public sector of Malaysia.

Strategic Alliance and Integrity

According to Dickson, Phelps and Waugh (2010), alliance is “whichever inter-firm cooperation that falls between the extremes of discrete, short term agreements and the complete merger of between organizations”. Glaister et al. (2003) defined international alliance as cooperation formed among firms from different nations. Alliances involve several forms, such as joint ventures, equity alliances, nonequity alliances (Li, 2008), mergers and acquisitions (Wiklund and Shepherd, 2009), licensing contracts (Baker et al., 2008) and partnerships (Bu`yu`ko`zkan, Feyzioglu and Nebol, 2008).

Cannatelli (2012) showed that strategic alliance and trust among small and medium sized enterprises (SMEs) moderate the relationship among views on capability, integrity and humanitarianism as well as inter-organizational trust. The most successful customer or business connections, such as the finest marriages, are the real connections that incline to fulfil specific criteria, such as integration and integrity (Zineldin and Bredenlw, 2003; Zineldin, 1998).

Strategic Planning and Integrity

Zineldin and Bredenlw (2003) defined strategic planning as a good entrepreneurial reminder, with the focus on client satisfaction. In general, most institutions have long recognized business survival planning as part of an important priority to ensure the effectiveness of expecting, avoiding, reducing and enduring natural disasters, data harm, accidents and intentional maleficent behaviour. However, most people nowadays only realize that integrity survival planning is due to diligence. The fact is that ethical practices are part of a strategic program. Thus, planning should be driven over compliance issues and responsive disciplinary procedures to accomplish integrity.

The National Strategy on Anti-Corruption and Integrity Promotion (2008) indicated that an effective anticorruption drive by the network below the national strategic action plan is an essential instrument that is anticipated to be an operative corruption precaution and oppression given that the national planned corruption precaution and oppression have been identified in Thailand. The study on ‘USDA Forest Strategic Plan (2000 Revision)’ (2000) indicated that the strategic plan, by itself, is a minor foundation. Nevertheless, in relation to the other elements of the USDA Forest Service management framework, the strategic plan acts as a foundation in an arch that prepares integrity towards arch structure. Moreover, the strategic plan sketches the aim and circumstances for agency actions, which prepare integrity for that near-term behaviour and affect growth in long-term consequences.

Abd Rahman, Farley and Naidoo (2012) conducted a study to examine the implementation of federal government strategic plans in Malaysian public universities. They determined that funding reform allows public universities to be proactive in implementing the programs introduced by the government. The integrity and quality of its operation are improved through the implementation of government programs by public universities, which are important to achieve national and institutional priorities.

Risk Management and Integrity

Risk management becomes crucial for good governance because governance framework itself includes strategic as well as operational decision making. The latter depends mostly on knowledge and understanding towards a business and access to compulsory information, whether via electronic or any other means (Barret, 2007). The presence of good governance guarantees that all elements of ethical values, codes, roles and responsibilities are being executed in a clear risk management framework together with a well-defined set of accountabilities.

Furthermore, an effective risk management system is perceived to help an organization achieve its business objectives, while improving its financial reporting and maintaining its reputation (Subramaniam, McManus, and Zhang, 2009). While the audit committees give attention on the challenge of whole risk profile and context, internal audit emphasizes on assurance of effective risk management and preserves its objectivity that is consistent with its formation. Hence, the effectiveness of risk management is closely related to the integrity and ethical standards of senior management. The effectiveness of risk management is a matter of understanding the principles of the organization and mixing a formal risk management strategy into strategic decision making. Thus, risk management can

be part of the strategic thinking and ethical standards of an organization. Therefore, corporate governance can be developed beyond the traditional ground of corporate philanthropy to become one of the organization's competitive advantages (Demidenko and McNutt, 2010). According to Zulkifli, Shokiyah and Mohd Serjana (2014), corporate governance assists the public organization in Malaysia to achieve its integrity, improve government program implementation and cultivate confidence among societies. Corporate governance also assists stakeholders through proper risk management and establishment of internal audit.

Audit and Integrity

Auditors become a major part of an organization's monitoring system. Hence, they also become one of the important factors of corporate governance arrangement. Therefore, in principle, auditors have to work together with other actors in the corporate governance arrangement to ensure that the highest quality financial reports are presented to stakeholders, while protecting the interests of the existing as well as future potential shareholders and investors (Arnold, 2002).

Alleyne and Howard (2004) determined that organizations with good internal control, auditors and strong audit committee are effective in coping with fraud in any practice. Halimah et al. (2009) examined the effectiveness of internal audit of Malaysian public sector and determined that the number of audit staff is lacking. In their study, insufficient audit staff is ranked as one of the main problems faced by internal auditors in conducting an effective internal auditing, which leads to low integrity level of an organization. Thus, the findings suggest the need to highlight and emphasise internal audit competence, objectivity and quality of work performed.

In addition, Okpala (2012) revealed that even though external auditors have strong position in an organization, the internal audit committee also plays an important role in encouraging corporate governance. The results of the research show that audit committee practices are connected to financial statement integrity, which strengthens the quality of corporate governance and avoids corporate failure. Jenny (1999) stated that auditors are concerned about the integrity of outside parties, as well as the integrity of client management organizations, but they are worried towards integrity source if the evidence is not aligned with the evidence from a different source. Furthermore, Bernardi (2008) stated that management integrity is an extra part of audit evidence where corporate governance basis and audit value are both damaged if client integrity becomes doubtful.

However, several studies, such as those by Kaplan and Reckers (1984), Bernardi (1994) and Peecher (1996), have surveyed auditors' responsiveness towards the integrity of client management in several circumstances. The results of these studies were ambiguous. Peecher (1996) determined that management integrity influences auditors' acceptance of client explanations. By contrast, Kaplan and Reckers (1984) and Bernardi (1994) determined that most auditors are not concerned with client integrity when evaluating the likelihood of material misstatement of a financial position. Nevertheless, in a discussion of Bernardi's study, Pincus (1994) defined this finding as 'deeply disturbing'. Conducting an additional research was also recommended before firm conclusions can be drawn.

Fraud Control and Integrity

Martinov-Bennie (2007) defined fraud in an institution as an intentional practice by individuals that involve dishonest actions to gain an unjust or illegal benefit. The effect of slightly effective internal control environments usually allows the management to commit fraud. As cited by Donker and Zahir (2008), recent corporate scandals are mostly infected by fraud. Several new regulations and recommendations of corporate governance codes were introduced to lessen fraud cases and lawsuits in the future. The basic point is that well-

governed organizations are vaguely accountable to fraud cases and lawsuits. The International Federation of Accountants also suggested that organizations must have an independent audit committee that functions independently from the management. This committee should have good financial experience and should meet frequently to evaluate the integrity of financial reports.

Biegelman (2007) stated that in the business environment nowadays, no business organization can bear the expense of overseeing corporate integrity, given that all kinds of organizations, regardless of their size, businesses or locations, are exposed to fraud practices and should be able to prevent themselves from financial loss. However, an organization that has low resources for a full corporate integrity unit should still be able to help retain its integrity by outsourcing integrity services to a professional investigative institution or by providing cross-training to someone with at least a fundamental fraud discovery skill and by signing external investigator consultants to help when matters need investigation.

Makkawi and Schick (2003) introduced two methods that auditor should apply to assist in fraud detection. First, they claimed that auditors must be able to perform 'audit smarter' as they work in a secure fee environment with bound fees that their clients are willing to pay. Second, auditors must perform significant scepticism and diligent evaluation on management's integrity, which is also needed in SAS No. 99.

Quality Performances and Integrity

The results of the research performed by Luther (2000) showed that integrity may be a valuable predictor of work performance with self-managed work groups. They determined that both true leadership and leader behavioural integrity are connected to the job role performance of followers, which is wholly mediated by the follower's affective organizational obligations. Leroy, Palanski and Simons, 2011 added that these associations monitor ethical organizational cultures. Agus, Barker and Kandampully (2007) showed that the existence of established relationship in service quality, performance quality, as well as customer satisfaction leads to improved performance and integrity in the Malaysian public service.

Jones & Jayawarna (2010) stated that any organization that has developed a culture with integrity is inclined to have high quality revenue. This type of organization also brings individuals with integrity to build a consensus around shared values. This culture later influences interpersonal association inside the organization and generates a highly valued work environment. Workers are motivated and innovative, feel proud of their work and enjoy the company of their colleagues. The culture of integrity affects the actions and policies of the leadership group, as well as the quality of corporate governance framework.

Financial Resourcing and Integrity

Companies consist of financial, physical, human, organizational, and other resources (Barney, 1991; Colombo and Piva, 2008; Jones and Jayawarna, 2010). Resources are improved by linking entrepreneurs' endowments, such as funds, experience, time and contacts together with the outside resources as the business is recognized (Brush, Manolova, and Edelman, 2008). By contrast, tangible resources, such as property plant and equipment, together with intangible resources are also important to the establishment of new business (Lichtenstein and Brush, 2001).

Martin, Linda, Joyce and Max (2007) stated that a well-planned, thoughtful strategy assists to ensure successful implementation of financial control while providing a powerful fraud fighting resource for the entire organization.

HRM and Integrity

According to the notes of Lisiecka and Papaj (2008) on the Human Capital Programme, good governance can be considered as a tool that raises the potential of public administration in drafting laws and policies, preparing good-quality service delivery, and strengthening partnership. In other words, good governance encompasses advancement in the social aspect management. The principles of good governance must be implemented to improve the efficiency and effectiveness of public administration.

Lin, Lee and Tai (2012) showed that human resource approaches contribute substantial and positive effects to market access capabilities, integrity-associated competencies, and functionality-associated competencies of core competencies. Nazlina (2011) mentioned that SMEs must focus on HRM practices to facilitate the achievement of an organization, improve the integrity, and generate innovation.

Infrastructure, Facilities and Integrity

A fundamental part of infrastructure encourages the standardization, improvement, and interoperability of services (Landsbergen and Wolken, 2001), thereby mitigating control and operating and maintenance expenses (Kaplan, 2005); e-government is also enhanced (Janssen et al., 2009). Irrespective of ownership, good governance always plays a major role in infrastructural development (Akanbi, 2013). The significance of good governance was emphasized in the World Development Report about infrastructure, which undertook various issues that include both public and private roles in laws and regulations and the management of state-owned enterprises. According to Johnson (2007), the Organization for Economic Cooperation and Development introduced the Ethics Infrastructure Concept and Integrity Assessment Framework to check corruption change, identify problems and recommend countermeasures to institutionalization towards integrity assessment.

Hong (2008) stated that several issues arose in newspapers, which indicate that the Malaysian public sector is facing problems in managing its property and facilities, which can damage the value of integrity in the public sector. The failure of systematic and effective property management has caused the federal government to face several problems that burden both the government and the public. Pawi et al. (2011) mentioned that Malaysian local authorities are accountable for the proper management of its public infrastructure and facilities to ensure that integrity and public satisfaction level are well managed.

Methodology

Sampling and Data Collection

Malaysia was selected as a case study because it is a very fast-growing country in the track of transforming from a developing country to a developed one. Malaysia can achieve its target to become a fully developed nation in 2020. To facilitate the development of the country and to achieve Vision 2020, good governance is considered an important element. Several reform initiatives were considered since the 1980s to promote and introduce a good governance system. These initiatives include 'Clean, Efficient and Trustworthy', 'Integration of Islamic Values', 'Excellent Work Culture', 'Code of Work Ethics', 'Client's Charter' and 'ISO 9000'. Malaysia incorporated an integrity system as one of the important mechanisms in developing a concrete foundation for the country's present and forthcoming economic prosperity. Therefore, some strategies have been introduced to improve quality of good governance while cultivating integrity across all segments of the Malaysian public sector (The New Straits Times, 2014). Moreover, Malaysia developed the Malaysian Institute of Integrity (MII) to cultivate compulsory human capital and knowledge resource within the civil sector (Rusnah et al., 2011).

Data were collected from a targeted survey among 682 departments and agencies under 24 federal ministries including the Prime Minister Department in Malaysia. The rate of response per actual sample was 16% from the targeted group. A total of 109 respondents replied to the e-mail questionnaire. Previous studies indicated a response rate of 5% to 10% (Alreck & Settle, 1995). A set of questionnaire was distributed via e-mail through Google Docs application to department heads with the guaranty of information confidentiality. The e-mail addresses of the respondents were collected from the website of the respective ministries. A follow-up reminder e-mail was sent to the respondents to ensure a high successful response rates, as suggested by previous studies (Fan & Yan, 2010; Hamilton, 2009; Kaplowitz, Hadlock, & Levine, 2004). Finally, we have received responses from 109 participants from different departments.

Measurements of Variables

This study used twelve parameters to measure practices of integrity system and nine factors to measure the good governance system, where each of these factors has several parameters to assess. The list of the items/parameters is presented subsequently. The variables of the study were adapted with some modifications from the Corporate Integrity Assessment Questionnaire developed by MII (2012). A seven-point Likert-type rating scale ranging from 1 (strongly disagree) to 7 (strongly agree) was used in the questionnaire.

Strategic alliance (SA) in the public sector of Malaysia

- SA1 Top management in my department has been working effectively.
- SA2 My department distinguishes governance from management.
- SA3 My department measures the performance of top management.

Strategic planning (SP) in public sector of Malaysia

- SP1 My department reflects global trends in planning and decision making.
- SP2 My department achieves balance between sectoral administration and business issues.
- SP3 My department have a clear, agreed distinction between strategy and operations.

Risk management (RM) system in the public sector of Malaysia

- RM1 My department considers strategic as well as specific risk issue.
- RM2 My department monitors government priorities.
- RM3 My department focuses most attention on drivers of organizational success.
- RM4 My department keeps up to date with international developments/technology.
- RM5 My department ensures that succession planning is conducted.

Audit (AU) in the public sector of Malaysia

- AU1 My department appoints and monitors thoroughness of an internal auditor.
- AU2 My department is satisfied with the diligence of the audit/finance committee.
- AU3 My department ensures that audit reports are timely and understood.
- AU4 My department spends sufficient time in meetings to consider and action audit findings.

Fraud control (FC) in the public sector of Malaysia

- FC1 My department maintains independence and challenges senior management.
- FC2 My department ensures that internal controls exist to minimize risk of fraud.

- FC3 My department insists on reference checks for employee recruitment.
- FC4 My department ensures that internal and external audit processes cover fraud prevention.
- FC5 My department have a thorough process to investigate and deal with fraud.

Quality performance (QP) in the public sector of Malaysia

- QP1 My department has a sound system to monitor program/service quality
- QP2 My department develops commitment from all internal people to quality performance.
- QP3 My department ensures that managers are exposed to good practice outside the sector.
- QP4 My department provides training and education for top management and staff.
- QP5 My department considers the implications of relevant government legislation.

Financial resourcing (FR) in the public sector of Malaysia

- FR1 My department determines that the organization has relevant up-to-date services.
- FR2 My department insists on thorough, professional approaches to new business.
- FR3 My department determines that good forecasting and performance management system exist.
- FR4 My department has a reliable system and descriptive reporting.
- FR5 My department takes a conservative approach to risks.

Human resource management (HRM) in the public sector of Malaysia

- HRM1 My department has a professional human resource plan.
- HRM2 My department encourages the involvement of employees in planning.
- HRM3 My department complies with modern workplace requirements.
- HRM4 My department ensures that staff development programs exist and are valued.
- HRM5 My department ensures accountability for performance at all levels.

Infrastructure and facilities (IF) in the public sector of Malaysia

- IF1 My department monitors the competitiveness of buildings and equipment.
- IF2 My department ensures that maintenance management is planned.
- IF3 My department plans for asset replacement financing.
- IF4 My department complies with occupation, health and safety management.
- IF5 My department maintains up-to-date registration of assets.

Integrity system (IS) in public sector of Malaysia

- IS1 Integrity conduct is considered as a requirement for departmental and individual performance.
- IS2 Managing integrity is considered an essential leadership competency.
- IS3 Integrity aspect is incorporated into all departmental cultures.
- IS4 Concrete guidance for integrity and on how to address them is provided.
- IS5 Integrity conducts are promoted as part of activities.
- IS6 Policies and guidelines for disciplinary action and rewards on its integrity practice are provided.
- IS7 Reports about integrity are published.
- IS8 The confidentiality of the ethics advisory process is respected.
- IS9 Its ethics training for effectiveness is evaluated and constantly updated and improved.

- IS10 Transparency in connection with all of its activities is promoted.
- IS11 Integrity training is provided to employees and department heads.
- IS12 Other departments are supported and assisted in their integrity initiatives.

Econometric Models

The data were analysed using descriptive statistics, ordinal regression and path modelling. Descriptive statistics was used to analyse the general features of the data. Regression and path modelling show the intensity of the effect of good governance factors on integrity system. For the data analysis, we used Excel, SPSS, EVIEWS and SmartPLS software.

For the regression analysis, the study used ordered logit regressions based on the probit and logit model. The equations in functional form are as follows:

$$IS = f(SA, SP, RM, AU, FC, QP, FR, HRM, IF), \quad (1)$$

where the variables are as follows:

- SA Strategic alliance practices in the public sector of Malaysia
- SP Strategic planning practices in the public sector of Malaysia
- RM Risk management practices in the public sector of Malaysia
- AU Audit practices in the public sector of Malaysia
- FC Fraud control practices in the public sector of Malaysia
- QP Quality performance practices in the public sector of Malaysia
- FR Financial resourcing practices in the public sector of Malaysia
- HRM Human resource management practices in the public sector of Malaysia
- IF Infrastructure and facilities practices in the public sector of Malaysia
- IS Integrity system practices in the public sector of Malaysia

For the path modelling, this study used a nonparametric bootstrap procedure to test the significance of the coefficients. Partial least squares (PLS) path modelling method has advantages, such as non-normal data, small sample sizes, formative indicators and very complex models, in addition to other common modelling conditions that present challenges with covariance-based methods. Variance-based structural equation modelling can be regarded as a multivariate extension of ordinary least squares (OLS) regression. The iterative algorithm conducted in PLS generally consists of a series of OLS analyses (Chin, 1998).

PLS path modelling methodology allows reflective and formative computations with respect to the measurement of latent variables. Formative measurement models come into use when an explanatory combination of indicator variables underlies the latent construct, which is best used when the items describe and define the construct rather than vice versa (Diamantopoulos, 2006; Petter et al., 2007). In a formative measurement model, indicators represent the latent construct's (potentially) independent causes. Thus, they do not necessarily correlate highly. Furthermore, formative indicators are presumed error-free (Edwards and Bagozzi, 2000). While developing the structural equation path modelling, this study followed formative measurement model.

Data validity was tested by checking the normality of data through skewness and kurtosis tests. Data reliability and path modelling was tested using the Internal Consistency Reliability, Indicator Reliability, Convergent Validity and Discriminant Validity tests.

Findings and Discussions

Demographic Information

The study collected few demographic data of the respondents, which includes gender, age, job position, service scheme, grade, highest academic qualification, working experience in current organization and total year of working experiences in public service. Among the

respondents, approximately 46% are female and 51.4% are male. The rest did not provide gender data. Most of the respondents are in the 30 to 40 years age group, which comprised approximately 69% of the total respondents. Nearly all of the respondents have at least a bachelor's degree. Among the respondents, approximately 93% are in the management and professional position. In terms of job scheme, 69% of the respondents are in the administrative and diplomatic scheme, followed by 10% in financial services and 6.4% in administrative and support scheme. Approximately 42% of the respondents are at grade 48, followed by grade 44, which consists of 16.5%, and grade 52, which consists of 11% of the respondents. Approximately half of the respondents (50.5%) have been working for more than 5 years in the current organization, whereas 26.6% of the respondents have been working for 1 to 3 years. As for working in the public sector, 81.7% of the respondents stated that they have been serving the government for more than 5 years.

Descriptive Analysis

About 74% of the respondents agreed that they practiced integrity system in their department. Moreover, among the good governance factors, approximately 75% of the respondents agreed that they practice different good governance factors, except fraud control issue, which was agreed by 66% of the respondents (Table 1). However, most of the respondents followed the fraud management issue, which is 81% of the respondents.

Table 1: Survey score on the factors of good governance practices in the public sector of Malaysia

Variables	Disagree (Score 1 to 3)	Agree (Score 5 to 7)	Mean	Std. Deviation	Skewness	Kurtosis
SA	10(8.9%)	85(77.7%)	5.30	1.03	-0.80	0.76
SP	7(6.7%)	86(78.9%)	5.36	0.96	-0.34	0.23
RM	8(7.7%)	88(81.1%)	5.41	1.00	-1.32	3.81
AU	8(6.9%)	85(77.8%)	5.45	1.04	-0.64	-0.08
FC	13(11.7%)	72(66.2%)	5.07	1.11	-0.46	-0.34
QP	7(6.8%)	85(78.3%)	5.44	0.93	-0.59	0.21
FR	6(5.7%)	88(80.6%)	5.45	1.00	-0.68	0.85
HRM	10(8.8%)	86(79.1%)	5.36	1.07	-1.11	1.61
IF	13(11.6%)	82(74.9%)	5.28	1.13	-0.84	0.45
IS	11(9.7%)	81(74.2%)	5.24	0.99	-0.45	-0.48

Regression Analysis

The practices of strategic planning, audit and fraud control have statistically significant relationship with the practices of integrity system in the public sector of Malaysia (Table 2). The odd ratios for all of the three variables are more than 1, which indicates that increasing the practices of these three good governance factors increases the tendency of practicing integrity system in the public sector of Malaysia.

Table 2: Regression output on the relationship of practices of integrity system with the practices of good governance

Variables	Ordered Probit		Ordered Logit	
	Odd Ratio	P-value	Odd Ratio	P-value
SA	1.314	0.140	1.506	0.225
SP	1.656^	0.008	2.024^	0.072

RM	1.062	0.777	1.496	0.326
AU	1.271	0.168	1.700^	0.087
FC	2.822*	0.000	6.306*	0.000
QP	1.162	0.500	1.452	0.357
FR	0.847	0.472	0.712	0.412
HRM	1.135	0.530	1.187	0.636
IF	0.795	0.158	0.807	0.469
Pseudo R-squared	0.436		0.454	
Schwarz criterion	2.132		2.083	
Hannan–Quinn criterion	1.939		1.890	
LR statistic	129.445*		134.752*	
Prob (LR statistic)	0.000		0.000	
Akaike information criterion	1.808		1.758	
Log likelihood	−83.705		−81.051	
Restricted log likelihood	−148.427		−148.427	
Average log likelihood	−0.782		−0.757	

*, ^ denoted as significant at 1% and 10% level, respectively.

The odd ratios are calculated as e^{β} .

Structural Equation Model Analysis

Structural equation model shows that the practices of strategic alliance and fraud control are significant in determining the practices of integrity system in the public sector (Table 3). The path coefficients show that a 100-point change in the practices of strategic alliance and fraud control brings 18.7- and 48.7-point changes in the practices of integrity system in the public sector, respectively (Figure 1).

Table 3: Path coefficients and total effect of structural equation model

Path Direction	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
SA -> IS	0.1872^	0.1785	0.1081	0.1081	1.7323
SP -> IS	0.1441	0.114	0.1623	0.1623	0.888
RM -> IS	0.0461	0.0524	0.1838	0.1838	0.2508
AU -> IS	0.0395	0.0495	0.1055	0.1055	0.3746
FC -> IS	0.4875*	0.5045	0.1181	0.1181	4.1294
QP -> IS	0.1938	0.1931	0.1194	0.1194	1.6226
FR -> IS	−0.0307	−0.0403	0.0878	0.0878	0.3494
HRM -> IS	−0.0715	−0.0589	0.1155	0.1155	0.619
IF -> IS	−0.0424	−0.0328	0.1317	0.1317	0.3222

*, ^ denoted as significant at 1% and 10% level, respectively.

Figure 1: Path diagram for structural equation model

Diagnostic Test

Normality Test

In this study, skewness and kurtosis tests were used as indicators to test the assumption of normal distribution. To assume that the data are normally distributed, skewness should be within the range of +1 to -1, and kurtosis value should be within the ranges of +3 to -3, some may also use that range of +2 to -2 (Field, 2009). The results in this study showed that the value of skewness for all variables is in the range of +2 to -2, and that kurtosis value is between +3 and -3, except for the variable of risk management (Table 3). Therefore, the data are normally distributed, as assumed.

Reliability Test

Internal Consistency Reliability: All the constructs have internal consistency reliability, given that the composite reliability is higher than 0.7 for all of the constructs (Table 4).

Table 4: Composite reliability and convergent validity (average variance extracted [AVE])

Latent Variable	AVE	Composite Reliability	R Square	Cronbach's Alpha	Communality	Redundancy
SA	0.7669	0.908	0.7751	0.848	0.7669	0.0358
SP	0.7034	0.8766		0.789	0.7034	
RM	0.6753	0.9122		0.880	0.6753	
AU	0.7909	0.9379		0.911	0.7909	
FC	0.7257	0.9292		0.903	0.7257	
QP	0.6513	0.9031		0.868	0.6513	
FR	0.7909	0.9497		0.933	0.7909	
HRM	0.7538	0.9386		0.918	0.7538	
IF	0.7799	0.9465		0.929	0.7799	
IS	0.6499	0.9567		0.950	0.6499	

Convergent Validity: Average Variance Extracted (AVE) is higher than 0.5 for all of the constructs, which indicates that convergent validity exists among all the constructs (Table 4). *Discriminant Validity:* The comparison of cross loading with outer loading in Table 5 indicates that an indicator's loading on its own construct is in all cases higher than all of its cross loadings with other constructs. The results indicate that discriminant validity exists among all the constructs, based on cross loading criterion.

Table 5: Outer loading and cross loading of the path model

Indicators	Cross Loading (Original Mean)										Outer Loading	T Statistics (O/STERR)
	SA	SP	RM	AU	FC	QP	FR	HRM	IF	IS		
SA1	0.88	0.72	0.70	0.59	0.63	0.63	0.62	0.61	0.54	0.61	0.88	25.52
SA2	0.88	0.59	0.56	0.51	0.53	0.51	0.48	0.49	0.52	0.63	0.88	28.12
SA3	0.87	0.72	0.62	0.60	0.65	0.59	0.59	0.53	0.55	0.67	0.87	28.37
SP1	0.68	0.82	0.60	0.52	0.56	0.48	0.45	0.47	0.38	0.60	0.82	19.62
SP2	0.70	0.89	0.64	0.61	0.64	0.59	0.58	0.58	0.56	0.67	0.89	37.27
SP3	0.56	0.80	0.62	0.41	0.53	0.53	0.66	0.61	0.53	0.53	0.80	13.83
RM1	0.60	0.69	0.81	0.56	0.57	0.56	0.62	0.67	0.55	0.50	0.81	14.33
RM2	0.52	0.60	0.81	0.51	0.59	0.61	0.63	0.50	0.45	0.56	0.81	15.29
RM3	0.61	0.54	0.86	0.57	0.55	0.68	0.64	0.52	0.51	0.56	0.86	21.79
RM4	0.60	0.63	0.81	0.60	0.60	0.63	0.66	0.61	0.52	0.60	0.81	16.10
RM5	0.60	0.59	0.82	0.74	0.71	0.63	0.61	0.49	0.53	0.72	0.82	21.37
AU1	0.64	0.62	0.71	0.91	0.72	0.70	0.58	0.52	0.61	0.68	0.91	47.20
AU2	0.58	0.54	0.64	0.91	0.74	0.66	0.54	0.46	0.58	0.68	0.91	44.68
AU3	0.57	0.52	0.67	0.90	0.70	0.67	0.59	0.53	0.62	0.66	0.90	29.33
AU4	0.52	0.52	0.59	0.83	0.57	0.59	0.50	0.48	0.51	0.52	0.83	15.76
FC1	0.64	0.62	0.66	0.67	0.87	0.65	0.57	0.49	0.61	0.75	0.87	37.82
FC2	0.39	0.37	0.44	0.52	0.71	0.57	0.39	0.30	0.40	0.56	0.71	8.73
FC3	0.70	0.75	0.77	0.69	0.88	0.74	0.70	0.68	0.64	0.78	0.88	35.52
FC4	0.55	0.56	0.62	0.68	0.89	0.76	0.64	0.60	0.63	0.71	0.89	28.36
FC5	0.62	0.60	0.65	0.71	0.90	0.75	0.68	0.57	0.56	0.76	0.90	48.31
QP1	0.52	0.51	0.59	0.60	0.73	0.81	0.59	0.49	0.52	0.70	0.81	25.01
QP2	0.55	0.50	0.66	0.66	0.75	0.87	0.64	0.49	0.53	0.73	0.87	29.06
QP3	0.59	0.60	0.63	0.57	0.62	0.80	0.72	0.64	0.54	0.63	0.80	16.61
QP4	0.54	0.53	0.62	0.55	0.57	0.80	0.68	0.70	0.65	0.47	0.80	15.38
QP5	0.45	0.43	0.55	0.59	0.57	0.76	0.70	0.65	0.61	0.49	0.76	12.70
FR1	0.51	0.54	0.64	0.57	0.66	0.80	0.89	0.76	0.69	0.59	0.89	33.68
FR2	0.61	0.60	0.73	0.52	0.63	0.71	0.89	0.71	0.61	0.60	0.89	37.60
FR3	0.61	0.63	0.74	0.64	0.69	0.77	0.92	0.79	0.69	0.65	0.92	51.01
FR4	0.64	0.63	0.71	0.61	0.68	0.76	0.94	0.76	0.69	0.62	0.94	62.66
FR5	0.45	0.57	0.58	0.42	0.45	0.54	0.81	0.77	0.55	0.41	0.81	16.26
HRM1	0.37	0.43	0.53	0.37	0.45	0.54	0.74	0.82	0.59	0.39	0.82	15.28
HRM2	0.49	0.56	0.51	0.38	0.53	0.58	0.71	0.83	0.53	0.44	0.83	20.01
HRM3	0.59	0.61	0.66	0.50	0.58	0.65	0.79	0.91	0.72	0.58	0.91	51.71
HRM4	0.57	0.63	0.61	0.57	0.57	0.62	0.70	0.90	0.74	0.50	0.90	37.94
HRM5	0.61	0.60	0.60	0.56	0.58	0.69	0.73	0.87	0.81	0.56	0.87	27.03
IF1	0.56	0.60	0.58	0.58	0.59	0.63	0.65	0.75	0.83	0.48	0.83	18.74
IF2	0.55	0.52	0.45	0.53	0.58	0.56	0.59	0.68	0.87	0.50	0.87	28.89
IF3	0.56	0.54	0.53	0.63	0.59	0.63	0.71	0.73	0.91	0.53	0.91	52.17
IF4	0.44	0.43	0.54	0.57	0.59	0.61	0.59	0.62	0.88	0.54	0.88	32.45
IF5	0.58	0.52	0.64	0.59	0.63	0.63	0.68	0.70	0.91	0.57	0.91	56.21
IS1	0.60	0.56	0.67	0.62	0.65	0.61	0.51	0.41	0.44	0.83	0.83	17.66
IS2	0.66	0.61	0.64	0.64	0.64	0.62	0.52	0.43	0.46	0.83	0.83	24.00

IS3	0.67	0.64	0.64	0.62	0.68	0.63	0.53	0.50	0.54	0.87	0.87	31.83
IS4	0.61	0.63	0.65	0.60	0.67	0.66	0.59	0.58	0.59	0.85	0.85	21.92
IS5	0.57	0.58	0.50	0.56	0.59	0.56	0.49	0.46	0.41	0.71	0.71	10.03
IS6	0.60	0.58	0.54	0.56	0.79	0.63	0.56	0.48	0.51	0.86	0.86	38.34
IS7	0.39	0.40	0.37	0.41	0.57	0.45	0.30	0.24	0.31	0.64	0.64	7.64
IS8	0.62	0.63	0.66	0.66	0.70	0.66	0.59	0.56	0.52	0.84	0.84	22.94
IS9	0.60	0.58	0.64	0.54	0.75	0.63	0.61	0.53	0.54	0.85	0.85	21.11
IS10	0.61	0.59	0.58	0.61	0.75	0.60	0.56	0.50	0.51	0.83	0.83	25.49
IS11	0.57	0.60	0.58	0.59	0.73	0.67	0.50	0.43	0.46	0.80	0.80	18.91
IS12	0.55	0.47	0.53	0.51	0.61	0.64	0.55	0.44	0.42	0.73	0.73	12.03

*Bold data indicate the loading of the indicator on its own construct

Indicator Reliability: Indicator reliability exists in the model, as outer loadings of all of the indicators are higher than 0.7 (Table 5). The t-stat for all the indicators is significant at 1% level. This finding indicates that all of these indicators can appropriately measure the practices of good governance of the public sector of Malaysia.

Conclusions and Recommendations

Malaysia aims to achieve Vision 2020 to become a developed nation. However, many steps should be taken to improve the integrity of the public sector. The study tries to measure the relationship between the status of current practices of good governance and integrity in public sector of Malaysia. The regression result showed that among the factors of good governance, the practices of strategic planning, audit and fraud control have statistically significant positive relationship with the practices of integrity in the public sector of Malaysia. The structural equation model shows that among the factors of good governance, the practices of strategic alliance and fraud control significantly contribute to determine the practices of integrity in the public sector of Malaysia. Therefore, the practices of strategic alliance, strategic planning, audit and fraud control must be focused to improve the practices of integrity system in the current setup.

However, most of the factors of good governance practices, such as risk management, quality performance, financial resourcing, HRM and infrastructure and facilities, do not have statistically significant influence on the practices of integrity. The reason these factors are not statistically significant with the practices of integrity system must be investigated further. Practicing these factors of good governance has no influence on the practice of integrity system; thus, high level of corruption as well as fighting corruption within the society may have no significant differences with respect to most of the strategies and campaigns (Siddiquee, 2009). According to the Asia Pacific Fraud Survey Report Series 2013, Malaysia and China have the highest level of both bribery and corruption. Another recent survey by Transparency International on Corruption Perceptions Index 2013 has shown that Malaysia has just managed to advance one slot in the rankings from 54 to 53 out of 177 countries and has scored 50; however, it remained in the average range of perception from the people, indicating that graft-fighting measures efforts are still inadequate (The Sunday Daily, 2013). This indication appears even though the government is on the right track to restore public confidence. Numerous steps should be taken to improve public perception particularly towards public sector accountability.

Merely changing the structure of bureaucracies is not enough to improve this situation. The public sector must be transformed into a reliable and efficient sector by ensuring good governance and its proper assessment system. Enhancing the practices of integrity system can help achieve the aspiration of stakeholders and ensure accountability in the public sector. Every department and ministry is suggested to report on the ethics and integrity activities are organized by these departments and ministries to cultivate good

governance in the organization. The report should be made available to the public to educate them on the significant step taken by the government to reduce misconduct among its employees.

The findings of this study will help different government agencies and departments improve their governance system based on the relevant service scheme. The factors and techniques of measuring the relationship between good governance and integrity used in this study may help the government develop internal efficiency measurement techniques for the public sector.

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