

ICGSM 2014

Corporate Integrity System: Comparative Analysis of Two Giant Government Linked Companies

Jamaliah Said* and Normah Omar

*Accounting Research Institute and Faculty of Accountancy
Universiti Teknologi MARA, Shah Alam*

Abstract

This study aims to assess the level of companies' commitment to comply with a corporate integrity system in their day to day operation. Based on 105 and 230 questionnaire distributed and received from employees in Company A and Company B respectively, the findings revealed that for Infrastructure dimension, both GLCs score below 50% indicating that these companies may need to invest in financial and intangible resources annually to the ethic function as a part of organization's budget cycle. Overall, both companies score more than 50% indicating their progress towards higher level of corporate integrity system.

© 2014 Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/3.0/>).

Peer-review under responsibility of the Accounting Research Institute, Universiti Teknologi MARA.

Keywords: corporate integrity system, Government Linked Companies ;

1. Introduction

Corporate integrity in an organization is crucial in ensuring its sustainability (Brotherton, 2011; Ejiofor, 1987). The need for a country to build a society that has moral and integrity is vital in order to achieve high income economy status as well as maintaining and sustaining the country's economy. In Malaysia, the government has set up Malaysian Institute of Integrity (IIM) to act as a mechanism in the implementation of the National Integrity Plan.

* Corresponding author. *E-mail address:* jamaliah533@salam.uitm.edu.my

In addition to that, the economic and government transformation programmes were also created to help the country to reach the status of developed nation that is of high integrity, resilient and that embraces universal values.

Integrity should be demonstrated in a complete manner in both individual and organisations that play an important role to help propel the Malaysian's economy to high income economy (Aziz, 1999). Integrity has been the main theme in social science literature especially in the area of organisational and ethics behaviour (Treviño-Rodríguez, 2007). However, most of the literatures focus mainly on the integrity of individual. Kaptein and van Reenen (2001) have stated that "discussions about the concept of integrity usually refer to the characteristic that only human can have". Since organisation involves people and their relationship with each other is quite important in ensuring that the organisation thrives among its competitors, it is appropriate to conceptualise integrity as an organisational level concept. Jones and Pollit (1995) pointed out that there are three dimensions of integrity in the business life: personal; corporate and macroeconomic.

In an effort to eradicate corruption in organization, the Malaysian Anti-Corruption Commission (MACC) encourages GLCs to sign the Corporate Integrity Pledge (Bernama, 2012). By signing the pledge, organization in Malaysia would build a business environment that is free from unhealthy elements such as corruption and fraud and would practice integrity in their day to day operation. The pledges represent companies commitment not to conduct any business practices or activities that would require or encourage any of its employees, representatives or agents to commit such offences; to signal their commitment to a high standard of governance, transparency and accountability; and work together with their business partners, regulators, and law enforcement agencies to create a business environment that is free from corruption (CISM, 2010). The first stage after signing the pledge is to measure the current corporate integrity system currently practices by the company. This study aims to assess the level of company's commitment to comply with a corporate integrity system. This case study focused on two leading GLCs in Malaysia, known as Company A and Company B. This finding facilitates direct identification of a company's areas of strength and weaknesses of their current corporate integrity system. This in turn will help management of the company to develop action plans for continuous improvements for their corporate integrity system.

2. Government Linked Companies

In Malaysia, Government Linked Companies (GLCs) constitute a significant part of the economic structure of the nation. GLCs account for 36 percent of the market capitalization of the Malaysian stock market, and play a significant role in the development of the country's economy (Mokhtar, 2005). In terms of gross capital, GLCs contribute approximately 16-18% of the nation's gross capital formation and 9-10% of national GDP. In addition, GLCs employ 5 per cent of the national workforce and comprise 54 per cent of the benchmark in Kuala Lumpur Composite Index.

Many critics contend that GLCs could perform better than other private firms because of their close relationship with the government, which gives them special advantages in terms of accessing funds and engaging in growth opportunities (Wei Kiong Ting and Hooi Lean, 2011). With such connections, GLCs have larger areas of economy than private firms. However, GLCs may also perform worse than private firms because their managers are mainly civil servants who lack business acumen, and their investment decisions may be politically rather than economically motivated. While a number of Malaysia's GLCs have been loss makers for decades, some efforts are being made to improve their accountability and profitability. The GLCs should act with integrity and be held accountable for their actions. Integrity comprises both straightforward dealing and completeness. It is based upon honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of an entity's Affairs.

However, it was reported in an annual survey conducted by Transparency International all around the world to measure the degree to which corruption is perceived among public sector officials in 183 countries around the world. The lower the number in the overall result indicates that the country has high corruption tendency. In 2011 Malaysia scored of 4.3 (no 60th in the rank) is lower than the 4.4 recorded in 2010. And significantly lower than the government's benchmark of 4.9. As such, it is important for Malaysian government to stamp out corruption and to reflect a consensus among corporation to combat corruption and enhance the confidence among foreign investors that there is healthy competition among businesses in Malaysia.

In terms of bribe payers index, Malaysia managed to score 7.6 out of 10 in the Transparency International 2011 Bribe Payers Index released which is below the global average of 7.8. The index, with a score of 10 indicating the perception that companies are unlikely to engage in bribery while doing business abroad, and Malaysia was placed in the 15th position together with Hong Kong, Italy and South Africa.

This issue of the unethical culture practice among GLCs has become a public concern. The case of the National Feedlot Corporation (NFCorp) which had breached the loan conditions and had used the fund for other purposes instead of the original purposes for cattle industry is an example of issues. According to the Minister in the Prime Minister's Department Datuk Seri Mohamed Nazri Abdul Aziz, the loan was granted to NFCorp with the main intention of helping the government in meeting the objective of reducing beef imports and at the same time to reduce the price of beef locally[†]. There has been a constructive breach of trust. The de facto minister then commented that until the amount of RM250 million of federal loans had been recovered and those responsible were hauled to court, yet people would not be satisfied on that case. A question has been raised, to what extent GLCs in Malaysia have implemented adequate level of Corporate Integrity System or ethical guidelines that reflects a situation where the organization is less likely to fall as a victim to corruption, damage of reputation and loss of business opportunities.

3. Methodology

This study is a quantitative study to assess the level of corporate integrity system by two giant GLCs using The Corporate Integrity Assessment Questionnaire (CISM). CISM is a tool introduced and made available by the Malaysian Institute of Integrity (IIM) in late 2010 to facilitate organizations to assess and measure their progress in making a formal and transparent commitment to ethics and integrity in the workplace. CIAQ comprises of twelve global Corporate Integrity System (CIS) categories. For each category, there are further descriptors making a total of 214 items. These twelve categories that make up the benchmarks reflect emerging successful organizational practices. The best practices in each category are shown as 100%. For each category, the benchmarks are divided into five levels that indicate progress towards the best practices in that category. The 0% level typically identifies an organization that has not yet begun to focus on this specific ethics consideration. The 25% through 100% levels then progressively show where an organization might be situated as it improves in that category, and finally reaching the 100%, or best-practice level.

The questionnaire was administered to a group of employees ranging from executive, top managers, engineers to technicians of a selected GLC known as Company A and Company B. The self-assessment questionnaire has been divided into 14 main sections. Section 1 captures the demographic profile of respondents. Sections 2 to 13 obtain responses from the respondents on the twelve categories of corporate integrity system. Table 1 describes the twelve dimensions of corporate integrity system and a number of items were asked for each dimension. Participants were asked to rate their responses using a 5-point scale: 0 = Not Sure, 1 = Strongly Disagree, 2 = Disagree, 3 = Agree and 4 = Strongly Agree. In the analysis section, the Scales of 3 and 4 are combined to denote "At least agree" and the scales of 1 and 2 are combined to denote "At least disagree". Unanswered items by the participants were coded as "0".

Table 1. Measurement of variables

No	Description	No of items
1	This dimension covers the organization's overall concept of and approach to ethics and integrity, including its formal articulation of the organization's underlying philosophy about ethical and moral conduct, and how these expectations are embedded in the organization.	19
2	Covers the responsibilities of the organization's leadership in shaping, guiding, and supporting the organization's ethics and integrity initiatives.	21
3	Explores the way the organization structures or organizes its ethics and integrity function so that it can carry out its goals effectively.	17
4	This category assesses the internal framework that provides the floor for ethical behavior. It also includes compliance with the external legal framework, established by the multiple jurisdictions and legal frameworks within which the organization operates.	17
5	Addresses the overall organizational culture and how it promotes ethical conduct in the context of the organization's mission, vision, structure, and strategy.	20
6	Assess how the organization sets and enforces its standards for ethical conduct and behaving with integrity. This category addresses rewards and punishments, incentives that promote ethical behavior, and disciplinary action taken to limit or punish unethical work conduct	17
7	Evaluates how ethics and integrity are measured, whether the organization undertakes research to support ethics strategies that create a culture of ethics and integrity.	17
8	Describes how the organization provides confidential, neutral, professional, and independent ethics advice to employees, supervisors, managers, executives, members of governing bodies, and other stakeholders.	16
9	Explores ethics and integrity awareness, skill-building training and education, and the integration of such training into the overall development of all employees. This category includes the provision of ethics-related training and skill building throughout the life cycle of staff members, and the degree to which these initiatives are integrated into other organization-wide training commitments.	18
10	Describes how the ethics and integrity initiative is articulated and promoted, both internally and externally. This category covers how the organization defines its stakeholders and how it gears its key messages to distinct audiences.	18
11	Explores how the organization encourages individuals (both internal and external to the entity) to speak up and make reports of questionable conduct.	18

4. Background of Case Company

Company A is one the leading GLC companies in Malaysia and a leading utility company whereas Company B is a leading healthcare Industry

5.0 Result and Discussion

In total, 105 employees of Company A and 230 employees in Company B took part in the survey by returning fully completed questionnaires. The demographic characteristics of respondents are presented in Table 1. Out of the 105 employees participated in the survey in Company A, 13% are top management, 21.9% are the heads of

department and the remaining 67% are the managers, executives and union leaders. Whereas in Company B, the respondents comprised of 13% executives, 39% top management, 27% middle management and 20% administrative staff. All responses received were screened for missing data, outliers, departure from normality and other appropriate checks for anomaly. The results of this screening have revealed no major problem with the collected data.

Table 2. Demographic profile of respondents

Company A		Company B	
Position	%	Position	%
Top Management	14 (13.3%)	Executive	28(12.8%)
Head of Department	23(21.9%)	Top Management	86(39.0%)
Managers, executive, Union leaders	67(63.8%)	Middle Management	61(27.7%)
		Others (Administrative staff)	45(20.5%)
Total	105 (100%)	Total	220(100%)

The reliability analysis was carried out to assess the internal consistency of the scales or items used. Table 2 disclosed the finding of Cronbach's Alpha. According to Hair, Anderson, Tatham and Black. (1998) Cronbach's Alpha of 0.60 to 0.70 is deemed to be the lower limit of acceptability. The results of the Cronbach's Alpha shown in Table 2 revealed that Cronbach's Alpha range from the lowest at 0.717 to the highest of 0.915. Based on the cut-off value of 0.70 as suggested by Nunnally (1978), the Cronbach's Alpha displayed in this study can be considered as a high value for internal consistency. Hence it can be concluded that for each of the 12 dimensions of corporate integrity assessment the results of the reliability test have provided the evidence that the measurement model possess good measurement properties.

Table 3. Overall Progress summary of ethics and integrity system at Company A

No	Category of Ethics and Integrity System	Company A	Company B
		%	%
1	Vision and Goals	79.2	73.0
2	Leadership	71.7	69.2
3	Infrastructure	46.8	45.8
4	Legal Compliance, Policies and Rules	79.4	68.6
5	Organizational Culture	63.1	64.2
6	Disciplinary and Reward Measures	68.6	63.6
7	Measurement, Research and Assessment	55.5	46.2
8	Confidential Advice and Support	61.7	55.0
9	Ethics Training and Education	65.7	49.8
10	Ethics Communication	69.2	51.0
11	Whistleblowing	68.5	56.0
12	Corporate Social Responsibility	83.1	73.4
	OVERALL	67.7	59.7

Table 3 summarized the percentage of agreement on each category of corporate integrity system. The findings showed that overall score for both companies are more than 50 per cent (Company A= 67.7%; Company B = 59.7%) indicating that these two GLCs are serious in initiating proper integrity mechanism into their daily business activities to maintain the highest levels of transparency, integrity and professionalism. Overall score of 67.7 per cent for Company A indicated 67.7 % of the total respondents at least agreed that their companies do have a proper ethical integrity system. On the other hand, the score for Company B is 59.7% slightly lower than score for company A.

The findings have also revealed an interesting finding for dimension 3 (Corporate integrity Infrastructure). The score for corporate integrity infrastructure is the lowest for both companies (Company A =46.8%; Company B = 45.8%). This dimension assesses the way the organization structures or organizes its ethics and integrity function so

that it can carry out its goals effectively. The lowest score indicates that these two leading GLCs placed less emphasis on integrity infrastructure to support the companies to carry out its integrity's goals effectively. The finding implies that these companies currently does not have adequate level of ethics function, structure, staff, and resources, as well as its formal and informal reporting relationships. This category also includes the roles and responsibilities of those individuals who are assigned to implement the ethics and integrity function. Overall, the respondents believed that these two companies need to address infrastructure dimension of corporate integrity system.

5. Conclusion

Malaysia Corruption Perceptions Index results for 2012 is 49 with a country ranking of 54, together with Czech Republic, Latvia, and Turkey. Malaysia's position continues to be in the mid-range average, indicating that while many steps have been undertaken under the Government Transformation Programme initiatives, they have not experienced a significant decrease in corruption. This study aims to assess the level of corporate integrity system in place by two giant GLCs in Malaysia. Based on the finding, it could be used as a guideline to put in place a proper mechanism in enhancing its integrity thus encourage better performance and reduce the cost of doing business. High commitment to corporate integrity programme and ethical guidelines reflects a situation where the organization is less likely to fall as victim to corruption which leads to corporate crime, damage of reputation, lost of business opportunities and lack of trust amongst their employees. By measuring the Corporate Integrity System assessment, policymakers could identify gaps and obstacles pertaining to corporate integrity within the company. With gaps clearly identified, they will be able to devise the best strategies and policies to overcome them for example, by attending trainings, workshops or seminars. Form the findings, this study proposed some measures to be adopted by both giant GLCs to further enhance the corporate integrity system. For the Infrastructure dimension where the score is below 50% for both GLCs, this study proposes that the sample company have to appoint senior chief integrity officer to lead the ethics function, report regularly to senior management on activities and results of the function.

Acknowledgment

We would like to thank Accounting Research Institute (ARI), Universiti Teknologi MARA, in collaboration with Ministry of Higher Education Malaysia (MOHE) in providing the financial support for this research project. We are indeed very grateful for the grant, without which we would not be able to carry out the research.

References

- Aziz, T. A. (1999). Malaysia Incorporated: Ethics on Trial. *Australian Journal of Public Administration*, 58, 19–25
- Bernama, (2012). MACC encourages GLCs, companies to sign integrity pledge. *News Straits Times*, [online] 28 January. Available at: <<http://www.nst.com.my/latest/macc-encourages-gllcs-companies-to-sign-integrity-pledge-1.38324>> [Accessed at 23 September 2013]
- Brotherton, P. (2011). Corporate Integrity Pays Off in Better Performance, *T+D*, 65(1), 24-24.
- CISM, (2010). Corporate Integrity System Malaysia. [online] 2010. Available at: <<http://cism.my/cismv2/>> [Accessed 18 September 2013].
- Ejiofor, P.N.O. (1987). *Management in Nigeria: Theories and issues*, Onitcha. Africana-Fep Publishers Limited.
- Jones, I.W. and Pollitt, M.G. (1995). Economics, ethics and integrity in business, *Journal of the Association of Christian Economists*, 19.
- Hair, J. E., Anderson, R. E., Tatham, R. L. and Black, W. C. (1998). *Multivariate Data Analysis*. 5th Edition. New Jersey: Prentice-Hall.
- Kaptein, M., and Van Reenen, P. (2001). Integrity management of police organizations. *Policing: An International Journal of Police Strategies and Management*, 24(3), 281-300.
- Mokhtar, A. (2005). The Malay Way of Business Change. *Economist*, 376(8440), 50.
- Nunnally, J. C. (1978). *Psychometric Theory*. NY: McGraw Hill Inc.
- Trevinyo-Rodríguez, R.N. (2007). Integrity: A Systems Theory Classification, *Journal of Management History*, 13(1), 74-93.
- Wei I. K. T., and Hooi, H. L. (2011). Capital Structure of Government-Linked Companies in Malaysia, *Asian Academy of Management Journal of Accounting and Finance*, 7(2), 137-156.