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Good Governance and Organization Performance in Public Sector: A Proposed Framework.

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ABSTRACT

The matter of governance has become an essential and a critical issue for the public sector particularly in Malaysia. Most of government leaders have stressed and given more focus on the issues of governance, which called for the public sector to work in a system of check and balance. Further, the public service servant, including professional management group and support group recommended to emulate a value system that stress more on the subject of ethics, openness, accountability, transparency, and wholeness in the public sector. This issue needs to be addressed accordingly as it gives bearing on the operation of an establishment. This paper performs to propose a study of good governance on the performance of the organization in the Malaysian public sector.

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INTRODUCTION

In the early 90's, the world was stunned by the collapse of Maxwell Communication, BCCI, Polly Peck, Arthur Anderson, Enron and WorldCom and other established companies which had a respectable profit in the past [9]. No one ever recognized that their stories were not equally serious as they described. The problems with these fellowships can be overcome if they have gone through a good organization structure. Clarke [9] submits that these companies had shared some common characteristics that causes it to break. These include, the power granted to a few CEO and senior's managers, the weak characters played by boards of directors and there were questionable transactions or fraud in the companies' reports. Ultimately, the financial reporting of the organization were over optimistic, too much profit and too ambitious. Some research has found grounds to confirm that the loser of these societies is due to the lack of corporate governance in managing the performance of their businesses [9]. Obviously, corporate governance has emerged as a high profile event and one of the critical interest for managers, regulators of several countries, investors, and the academicians [26]. As such, many people nowadays have begun to recognize the importance of corporate governance not only in the private sector, but likewise in the public sector [15].

According to George [15], governance is not confined to the commercial enterprise or corporate entities, but it's also significant for the public entities, which include states and local governments, federal agencies, public utilities, hospital, universities and college, boards of governors, city councils, legislators and boards of regents. Furthermore, unethical behaviour in the public sector gives huge impacts to all taxpayers and citizens [15]. In the public sector, the terminology used for corporate organization is public sector governance or as governance itself [2]. The statement made by the Australian National Audit Office (ANAO) for the different term of corporate governance used in the public and individual sector is because the word "corporate governance" is more related with the secret sector. The term public sector governance was chosen to describe governance in the public sector for the purpose of clarity and to thin out any ambiguity of the term corporate [5]. A public sector organization has a very broad coverage, it includes how an organization is done, its corporate and other social organization, its civilization, its policies and strategies and the manner it deals with several stakeholders.

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The Australian National Audit Office defined public sector organisation as the procedure by which organizations are directed, manipulated and held to account; it lets in the elements of government agencies, accountability, stewardship, leadership, management and control exerted in the organization. Another good definition given by the International Federal Of Accountants (IFAC) on public sector governance is the process by which organizations are directed, controlled and held to account and is underpinned by the principles of openness, integrity, and accountability, control and behaviour at the top of organizations.

Bob Sendt who is the auditor-general of New South Wales auditor office defines the meaning of governance in the public sector as how parliament, the government, board and management relate to one another in stewardship matters. Although there are thousands definition given by researchers, authors and organization Cadbury Report, 1992, CIPFA and The Society of Local Authority Chief Executives and Senior Managers (SOLACE) report, 2006, Victoria Public Accounts and Estimates Committee report, 2002, Audit Commission of UK Report, 2003, NSW Audit Office, Performance Audit report, in practice, 1997, Hong Kong Institute of Certified Public Account Report, 2004) the foremost important key in the public sector governance is the clear definitions of “responsibility” and a clear understanding of “relationship between the organization’s stakeholders and the management that runs the organization operation” [4].

However, on that point are many rules which are important in putting the organization in a readable and understandable framework. For example, the Cadbury’s report published in December 1992 has highlighted three fundamental rules of corporate administration, which are openness, integrity and accountability. This story sets out the basis for the first development of the public sector governance framework of the British Chartered Institute of Public Finance and Accounting (CIPFA) in 1995.

Another essential report is the First report of the commission on standards of public life, Nolan report that emphasized on the importance of seven principles of governance in the public sector. These principles are selflessness, integrity, objectivity, accountability, openness, honesty and leadership. It is observed that all the rules that are utilized in many reports, volumes and research papers are changeable according to the researchers in order to accommodate the particular country's situation. Whiteoak[38] had stressed out the importance of leadership in any public sector governance framework. While for Boyd, he stated that risk management should be part of the fundamental principle of governance in the public sector.

Problem Statement:

Ryan and Ng [31] has said that at this instant, in that location is increasing attention devoted to the subjects of governance from worldwide. Governance issues include the way an organisation is structured, operated and manipulated in society to attain long term strategic goals, appropriate returns to the shareholders, and secure customer and employee relations. In the public sector, governance matter takes on even wider dimensions. It’s about how Parliament, the Government, boards, and management relate to one another in stewardship, besides their responsibility in ensuring that they deliver the best delivery systems to the citizens within the public interest [17]. While there may be many similarities between governance in the private sector and public sector, and even many of the general principles translate across perfectly well, there are some fundamental differences in the nature of governance in the public sector [3].

Nowadays, the issue of governance has become a hot topic and a critical issue for the public sector especially in Malaysia. The Former Prime Minister of Malaysia, Tun Abdullah Ahmad Badawi has stressed more on the transparency, accountability, integrity and openness in the public sector. By having these values, which are part of governance practices, Malaysian public sector can become more effective, efficient and performing. Well, in their daily operation as well as building a better nation with a trust given from the public.

Given that, the main part of corporate governance in the private sector had been covered in various studies, but there is a lack of study of governance in the public sector, especially in the disclosure, practices and the effectiveness of governance matter (New South Wales Audit office, 1997a). According to Ryan and Ng (2000), there is less research, study or literature review on governance issues in the context of public sector as a whole. Furthermore, the authors describe that the first step in creating good governance in the government is to really understand the term “governance”. Then, governance model must be developed which has the consistency of approach across the wider dimensions of the public sector. Ryan and Ng also argued that, there is a scarcity of reporting on governance practices and its diversity in the public sector. The above statement had been supported by Ryan, Stanley and Nelson [31] and Kloot [19], where they claimed that, there has been limited research undertaken for the governance issues in the public sector.

Ryan and Purcell [32] argued that, a lot of public sector governance literatures were only concerned with establishing the framework and developing best practice by the professional bodies, researchers and the government audit office, whereby, the practices and disclosure of governance issues relatively limited in the public sector. According to Langlands [20] there is a strong need for good governance practices and example in the public sector as they play an important role in the economy. Therefore, more variety of disclosure and practices of governance issues of public sector governance should investigate in order to provide guidance across the complex and diverse world of public service.

The relationship of good governance and organization performance are one of the examples of disclosure and practices of governance issues in public sector governance. According to Parekh [27], the relationship between good governance and organization performance received a tremendous interest from the managers, researchers, policy makers and the academicians. The focus on whether or not good governance leads to good organization performance had been strongly debated and received wide attention in the private as well as public sector. Among others, the research by Stanwick and Stanwick [37], Drobotz, Schillhofer and Zimmermann [11], Klapper and Love [18], Coles, McWilliams and Sen [10], showed that good corporate governance seems to be effectively improved the organizational performance.

Research Objectives:

Research is an organized investigation of a problem in which there is an attempt to gain solution to a problem. To get the right solution of a right problem, clearly defined objectives are very important. Clearly defined objectives enlighten the way in which the researcher has to proceed. Therefore, this study proposes two research objectives:

1. To investigate the relationship between good governance in public sector and the organization performance.
2. To investigate the most influential factors of good governance that lead to public organization performance.

Literature Review:

Organization Performance:

Performance is referred to as being about doing the work, as well as being about the results achieved (Otley, 1999). Performance is a multidimensional construct, the measurement of which varies, depending on a variety of factors that comprise it [13]. Others argue that performance should be defined as the outcome of work because they provide the strongest linkage to the strategic goals of organization, customer satisfaction, and economic contribution [30]. Performance can be defined as the execution of an action or something accomplished or the ability to perform. In the context of public sector, performance can be described as the achievement of planned results [12,29]. Other author describes performance as the level of satisfaction of stakeholder's expectation.

According to Bovaird and Sharifi, the concept of performance is interpreted differently in the social science and in management study. In the public sector, there are three dimensions of performance that need to be considered, which is under the judgment of the organization itself, secondly, the service system and finally the communities or public [6]. According to Bovaird [6], the different dimensions above need different types of measurement in order to show its performance. It is common practice in public sector performance management literature to talk about the three E's of economy, efficiency and effectiveness based upon a simple input and output model of organizations [8,14].

As reported by Halachmi and Bouckaert [16], public sector performance measurement is a system that consists of the elements practices, procedures, criteria and standards that govern the required outcomes (input and output). According to Organization of Economic and Community Development (OECD), the main objective of performance measurement in the public sector is to support better decision making and towards improving outcomes for the public. According to Pollitt, Girre, Lonsdale, Mul, Summa, and Waerness [28], economy, efficiency and effectiveness are the three main elements used in assessing performance in terms of whether the achievements of planned results is being achieved by the public sector organizations.

Skelcher and Mathur [35] states that, performance measurement deals with efficiency, effectiveness, service quality and compliance with normative standards. Other author also outlined the purpose of performance measurement for example, Sorber [36] states that performance measurement in the public sector deals with measuring the hidden aspect of a production, policy and budget process and to be able to control these processes. Besides that, performance measurement is a key element in monitoring, controlling and improving public services.

Good Governance:

Good governance in current perspective refers specifically to efficient service delivery and improvement in the performance of the public sector. Good governance depends on transparency, accountability and equality in ways that are responsive to the needs of people. It's composed of the mechanisms, processes and institutions through which citizens and groups can articulate their interests, exercise their legal rights, meet their obligations and mediate their differences to promoting effective governance, including corporate governance, law, and civil society in managing the public sector[1]

Basically put, governance is good provided it is able to achieve the desired purpose of the polity defined in terms of equity, justice and protection of individual life and property, preservation of rule of law, enhance popular participation and improved the living condition of the governed. Governance is bad if it fails to achieve the purposes of state [24]. Uncertainty the government is not good it entails to the absence of transparency,

accountability, an avenue for providing chances to well-connected elites and interest groups in the society to corner for themselves certain proportion of state resources at the impairment of the masses [23].

The United Nations Development Program identified nine fundamental characteristics of good governance including transparency, accountability, responsiveness, effectiveness and efficiency, participation, rule of law, strategic vision, consensus orientation, and equity.

The ANAO framework of good governance in public sector are developed specifically to the CEO, Boards members, corporate governance practitioner and other management and staff within the context of public sector in order to have a greater understanding and to assist them in improving their governance processes and practices. It provides guidance relevant to all public sector organizations (Barret, 2003). The framework contains seven elements of good governance in public sector which is leadership, stakeholder relationship, risk management, accountability, planning and performance monitoring, information and decision support and review and evaluation.

The Malaysian circular of good public sector governance framework was drawn heavily based on the Australian National Audit Office (ANAO) good governance in public sector, but instead of 7 dimensions, the Malaysian framework of good governance in public sector is only outlined 5 dimensions. The dimensions are leadership, stakeholder relationship, risk management, accountability and strategic management and monitoring [21].

Methodology:

In this cross-sectional survey, the data will be collected from the selected public organizations through the distribution of questionnaires and the data will be analyzed and interpreted through Statistical Package for Social Sciences (SPSS), version 19.0 to determine the relationship involve. This study survey method is used because it has the lowest comparative cost compared to other methods of quantitative data collecting method [33]. This study is going to identify the relationship between variables by using Pearson correlation. Besides that, the most factors of good governance that lead to public organization performance will be analyzed based on the Multiple Regression Analysis. In addition, this study also aims to identify the level of public organization performance based on descriptive analysis.

Conclusion:

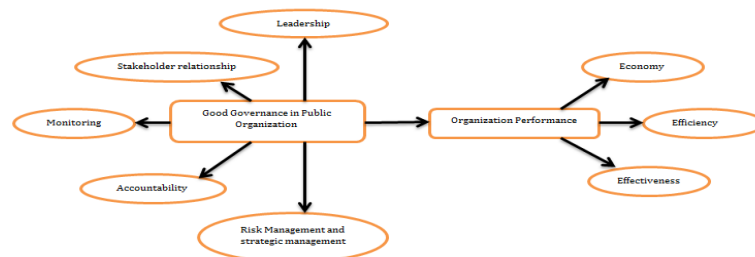


Diagram 1:

Diagram 1 above shows the relationship between good governance and organization performance. In this diagram it consists of five dimensions (leadership, stakeholder relationship, monitoring, accountability, risk management and strategic management). Thus, this model will describe the relationship of two variables and this proposed model will give better understanding either the relationship will affect directly on the relationship between the benchmarks of good governance in public organization. In order to understand the effect of good governance in public organization towards organization performance, this conceptual framework provides the dimension of good governance in public organization that able to advance the organization performance. From the conceptual framework, the independent variables comprise the good governance in public organization. The dependable variable in this study is about the organization performance. The conceptual framework highlight that organization performance achievement base on good governance in public organization.

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