



## **Greasing the Wheels of the Worldwide Governance Indicators (WGI) Through Smart Governance Matrix (SGM) in Controlling Corruption**

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### **ABSTRACT**

Corruption is perceived as one of the primary disorders to the development of a proficient government because it is a “symptom that something has gone wrong in the management of the state”. Better way to address this issue is through coupling up the effort on controlling corruption with the attention on good governance aspects. There is a need to identify a good governance indicators to measure the quality of governance in combating the issue. The World Bank Institute had published the Worldwide Governance Indicators (WGI) which is the most comprehensive set of governance indicators available publicly. Thus, this paper aims to facilitate six indicators of WGI into a new propose research framework named as the Smart Governance Matrix (SGM). SGM outlines six governance models. This paper will integrates WGI into SGM in order to establish a contribution towards corruption control initiatives.

**Keywords:** Corruption, WGI, SGM

### **1. Introduction**

Corruption has been found to have abstruse and sweeping negative effects. It is defined as the manipulation of trusted power for personal interest or for the benefit of a group to which an individual put loyalty on it (Stapenhurst and Langseth, 1997). Corruption rises in formal political processes in the form of institutional attributes and societal attitudes. The institutional attributes such as a wide range of authority, minimal accountability and tenacious incentives in government employment and the societal attitudes such as the commitment to personal loyalties over objective rules and low legitimacy of government are the possible causes that encourage corruption (Dinino and Kpundeh, 1999).

Corruption includes bribes and extortion. Thomson (2013) explains that corruption is a form of influence that distorts the decision making which divert the costs and benefits of a policy. It is also stands to benefit not solely the interests of the person involved but also the interested political team, the party or institution therefore weakening the independence of the institution (Newhouse 2014).

Generally, corruption is a serious problem in the social and economic environment of any countries around the world such as Africa and China. It introduces inertia in transition dynamics (Goorha, 2000). Empirical evidence indicates that corruption slowdowns the economic growth, led to biases in government expenditures and reinforces income inequality of a country (Stanig, 2014). It also undermines the accountability and the effectiveness of institutions, inhibits access to basic public services and give critical impacts on domestic governance and development efforts (Atwood, 2012).

According to the UNECA (2009) report, poor governance practices such as deficiency in accountability and transparency, lack of clear regulations and less institutional control are the major causes of corruption. Further, Pillay (2004) also suggests that any consideration on controlling corruption must be coupled with an equivalent focus on the good governance aspects. Therefore, it is vital to consider a good governance as one of the method to control corruption (Kaliannan, Awang & Raman., 2010; Katz and Iizuka, 2011 and Rasiah, 2011).

The establishment of the governance indicators has grown significantly over the centuries (Oman and Arndt, 2006). Yet, much of the governance indicators are originated from several preceding indicators such as the privately-owned International Country Risk Guide (ICRG) rating system, Freedom House rating, Corruption Perception Index (CPI) and the Worldwide Governance Index (WGI) (Svensson, 2005). This paper will focus on the Worldwide Governance Index (WGI) as one of the indicator of good governance.

## 1.2. The Worldwide Governance Indicators (WGI)

WGI was established by Kaufmann and Kraay in 1996 (Svensson, 2005). According to OECD (2006), WGI published by the World Bank Institute is the most comprehensive set of governance indicators available publicly. It rank over 213 countries into six aspects of “good governance” and it is the first generation aggregate indicator where both researchers and policymakers relied upon (Thomas, 2010). Kaufmann et al (1999b) defines governance as “the traditions and institutions by which authority in a country is exercised”. They justified three areas to explain the definition including (i) the process by which governments are selected, monitored and replaced; (ii) the capacity of the government to effectively formulate and implement sound policies; and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them. Each areas are constructed with two corresponding measures of governance resulting to six dimensions of governance. The indicators includes (i) Voice and accountability (VA), (ii) Political stability and absence of violence (PV), (iii) Government effectiveness (GE), (iv) Regulatory quality (RQ), (v) Rule of law (RL) and (vi) Control of corruption (CC). These indicators captured governance perceptions of survey respondents, non-governmental organizations, commercial business information providers and public sector organizations which are obtained from 31 different data sources (Kaufmann et al, 2010). Table 1 indicates the brief explanation of all six indicators.

**Table-1.** Worldwide Governance Indicators (WGI)

Areas	Worldwide Governance Indicators (WGI)	Explanation
(a) The process by which governments are selected, monitored, and replaced.	1. Voice and Accountability (VA)	Capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government as well as freedom of expression, freedom of association and a free media.
	2. Political Stability and Absence of Violence (PV)	Capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means including politically-motivated violence and terrorism.
(b) The capacity of the government to effectively formulate and implement sound policies.	3. Government Effectiveness (GE)	Capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies.
	4. Regulatory Quality (RQ)	Capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
(c) The respect of citizens and the state for the institutions that govern economic and social interactions among them.	5. Rule of Law (RL)	Capturing perceptions of the extent to which agents have confidence in and abide by the rules of society and in particular the quality of contract enforcement, property rights, the police and the courts as well as the likelihood of crime and violence.
	6. Control of Corruption (CC)	Capturing perceptions of the extent to which public power is exercised for private gain including both petty and grand forms of corruption as well as "capture" of the state by elites and private interests.

### 1.3. The Smart Governance Matrix (SGM)

The governance system is needed based on the idea that individuals working in an organization are self-interested and willing to take actions to further their own interest at any expense of the organization's interests (Larcker and Tayan, 2014). Good governance is responsive to the present and future needs of the organization, exercises prudence in policy-setting and decision making and taken into account the best interests of all stakeholders (Bundschuh-Rieseneder, 2008). The Smart Governance Matrix (SGM) outlines six governance models such as Corporate Governance Model, Enterprise Governance Model, Human Governance Model, IT Governance Model, Policy Governance Model and Data Governance Model. This matrix is a holistic and comprehensive governance initiative which covers every aspect of management starting from planning the organization direction, implementing the decision and evaluating the performance. Table 2 indicates the definition of each governance model that will be incorporated in the propose framework.

**Table-2.** Smart Governance Matrix (SGM)

<b>Smart Governance Matrix (SGM)</b>	<b>Definition</b>	<b>Sources</b>
1. Corporate Governance Model	The framework of rules, relationships, systems and processes within and by which authority is exercised and controlled where the mechanisms that the companies and those in control are held to account.	Owen (2003)
2. Enterprise Governance Model	The set of responsibilities and practices applied by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, determining that risks are managed appropriately and verifying that the organisation's resources are utilize responsibly.	Information Systems Audit and Control Foundation (2001)
3. Human Governance Model	Human governance is an internal, inside-out and values-based conviction to guide human to behave which focuses on the axiology covering the traits of values, religion, belief system, culture, and ethics in order to nurture a trust culture that produce high ethical values and moral conduct.	Salleh and Ahmad (2010)
4. IT Governance Model	A management-backed initiative that implement a structured framework that allow management to strategically align, measure and manage Information Technology resources to increase visibility and value to the business through risk reduction and ensure continual improvement.	Slater (2013)
5. Policy Governance Model	A fundamental restructure of the board role, values, vision, empowerment of both board and staff and strategic ability to lead by providing a values-based foundation for discipline, a framework for precision delegation and a long term focus on the objectives of the organization.	Carver (2001)
6. Data Governance Model	The framework for decision rights and accountabilities to encourage desirable behaviour in the use of data by exercising a corporate-wide data policies, guidelines and standards that consistent with the organization's mission, strategy, values, norms and culture.	Wende and Otto (2007)

**1.4. Worldwide Governance Indicators (WGI) and Smart Governance Matrix (SGM)** This paper intends to facilitate each of WGI into a new holistic SGM in order to control corruption. Figure 1 indicates the framework proposed.

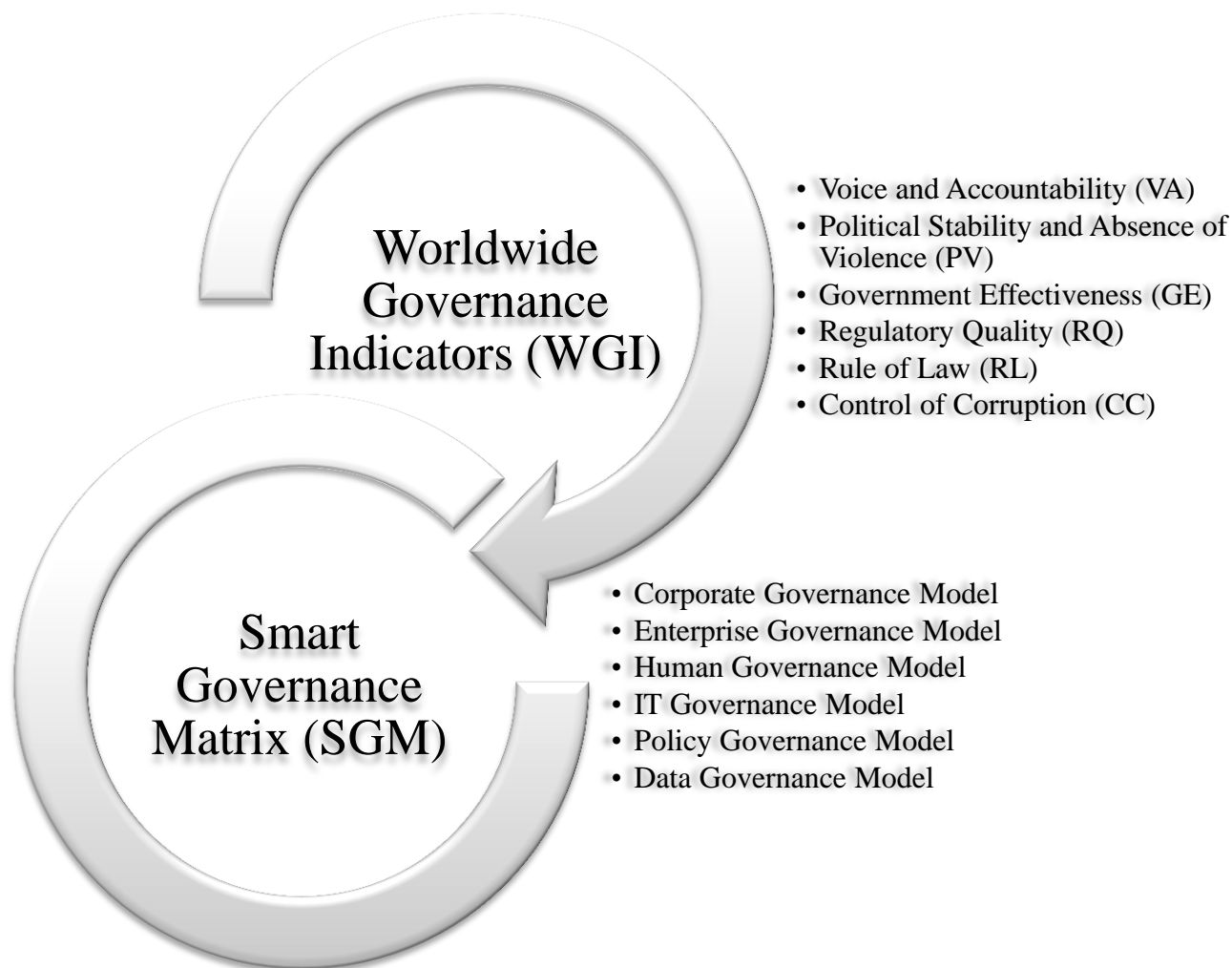


Figure-1. WGI and SGM

### 1.5. Methodology

This cross-sectional study will be conducted based on the quantitative research. The proposed unit of analysis of this paper are the directors, senior managements, internal and external auditors of sample of Public Listed Companies (PLC's) and the Auditor General Department at the Federal Government of Malaysia. This paper will employ the usage of questionnaire in order to obtain the data as the survey method described people's thoughts and feeling efficiently. This cluster based sampling will employ the usage of parametric test. The data will then interpret using the Partial Least Square (PLS) analysis.

### 1.6. Expected Outcomes

The expected outcome for this paper will contribute to the improvement towards governance practices by providing insight to the Malaysian Anti-Corruption Commission (MACC) as well as the Malaysian Institute of Corporate Governance (MICG) to work together in strengthening governance framework to fight corruption in Malaysia. Further, the potentially reformed framework and mechanisms where several thorough governance elements such as human governance and data governance are put into one matrix can be used to assess leakages of the public funds. Additionally, this paper may also provide as a reference to the interested party who want to assess the efficiency and the effectiveness of the governance practices in Malaysia and the fragility of the available programmes implemented in battling corruption.

## **1.7. Concluding Remarks**

Battling corruption have been increasingly vital in the transition economies over the past few years. Corruption is mostly cause by policy distortion and weak governance. Hence, an extensive reforms efforts such as the introduction of the Smart Governance Matrix is crucial in order to control corruption. The Smart Governance Matrix (SGM) that intends to facilitate the Worldwide Governance Indicator (WGI) is a comprehensive new governance framework that promote accountability and transparency which establish a contribution towards corruption control initiatives.

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