Assessment of the Principles of Corporate Governance Practice in the Public Sector Organizations in a Developed Domain

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Abstract
Good corporate governance has become a yardstick for assessing the development of a nation as a whole. Without good corporate governance, no reasonable sustainability can be achieved from the part of country inhabitants and the country as a whole. Most of the previous write up on corporate governance principles gave much concerned at the private sector setting such as companies in relating to the achievement of shareholders wealth or firms performance. The previous studies give less concerned on the operation or how such principles can bring changes to the corporate governance in the public sector organizations. Therefore, the objective of this conceptual paper is to give highlight on the corporate governance principles adopted by various developed nations so that to enable other nations to appreciate and thereby to implement such principles. So that at the end to have good corporate governance practices in their various public sector setting. The paper concluded that these principles should be given due consideration in order to achieve good corporate governance practice in the public sector setting.

Key words: Corporate governance, principles, public sector organizations.

1. Introduction
Despite the fact that arrangement of corporate governance system as well as the regulatory systems is entirely different among countries. The system of corporate governance in United State has recently been condemned due to certain failures in WorldCom and Enron (Holmstrom & Kaplan, 2003). This led to the development of various laws that may enable good corporate governance system in US among which is Sarbanes-Oxley Act. These enactments make more researchers concerned on US corporate governance in the private sectors while given less concerned to US corporate governance system in the public sector. Even Aguilera, Williams, Conley & Rupp (2006) revealed that limited consideration has been given to such corporate governance differences in the US.

In this vein, there is the need to broadly understand clearly the operation of corporate governance at different levels and in a different context (Kersbergen & Waarden, 2004). In fact, global concerned are being expressed on the improvement of public sector corporate governance (Ryan & Ng, 2000; Horwood, 2001). Public sector is the sector were a high level of gain is possible and where efforts of government need to be given due consideration (ICANZ, 2003). Effective public sector governance play important role in a society, encourage the efficient use of resources, support accountability for the stewardship of those resources, management improvement and service delivery which in turn contribute in improving people standard (International Federation of Accountants, 2001). Therefore, consideration must be given toward better public sector corporate governance worldwide. Good corporate governance necessitates sound public governance system (Hontz, Shkolnikov & Abello, 2009).

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Application of corporate governance is entirely different among countries and equally varies according to economic development of such countries (Hontz et al., 2009). Corporate governance within the context of public sector is an important agenda (Horwood, 2001). But then, it is important to recognize that there is different setting of public sector and different model of governance is applying in different countries and in different sectors (IFAC, 2001). That is why some countries provided a framework for their public sector corporate governance. For instance, in Britain, public sector corporate governance framework was issued out by Chartered Institute of Public Finance and Accountancy (CIPFA) as an effort toward improving the public sector corporate governance.

Likewise in Australia, such principles that guide effective corporate governance in the public sector were provided in the Australian National Audit Office (ANAO) (Ryan & Ng, 2000). In New Zealand, the corporate governance in both public and private sector are very good, because the government give concerned on achieving good corporate governance (ICANZ 2003). All this effort made toward improving the standard of their respective public sector corporate governance system so that to aid the development of their countries. The system of corporate governance in US has keep changing unceasingly over the past quite a few decades (Jackson, 2010; Holmstrom & Kaplan 2003). It is a system of governance that is based on standard corporate law. This is in line with Porta, Silanes, Shleifer and Vishny (2000) which posited that corporate governance that is based on sound legal system provided praiseworthy corporate governance system.

In addition, ICANZ (2003) provided that one of the options for improving effective public sector corporate governance was through effective regulatory practice. Even though Hampel Committee report emphasized that good corporate governance is not just a matter of describing corporate structures and compliance with relevant rule and regulation (Horwood, 2001). But then, effective corporate governance needs consistent and effective compliance with relevant rule and regulation (Hontz et al., 2009). Public corporation should have a well-established committee which should keep addressing the issue concerning corporate governance (Roundtable, 2002).

Effective legislation can be regarded as one of the fundamental requirement for corporate governance effectiveness in the public sector setting (ANAO, 1999). Even Ryan and Ng (2000) noted that good legislation serve as one of the principles of public sector corporate governance. Good code of conduct equally strength the reputation of corporate governance (Wright & Rwabizambuga, 2006). That is why corporation are required to have effective code of conduct which might guide it corporate governance effectiveness (Roundtable, 2010). Though different public sector setting have different legislation and different setting of corporate governance system (Hepworth 1994), nevertheless, the system of corporate governance within the public sector setting all over need to be given due consideration. The system of corporate governance in US is more of dynamic than static (Jackson, 2010). Likewise that of Germany is also dynamic in nature (Beyer & Hopner, 2003). It is important for governing body to keep reviewing and changing the governing practice from time to time (IFAC, 2001). In this vein, it has been noted that US have the best system of corporate governance (Roundtable, 2010; Roundtable, 2002).

The key pillars of corporate governance in the U.S. “model” were mostly displayed in the year 2000 which thereafter incorporated as a good system corporate governance practices around the world (Jackson, 2010). The effectiveness of such system of corporate governance by the US government enables the effectiveness of other countries corporate governance system (Holmstrom & Kaplan, 2003). This reveals the goodness of US corporate governance system. Corporate governance is more of reality issues than a concept (Horwood, 2001). In the United State, the model of governance which is applicable in most of their public sector corporation has generally been one of individual than group leadership (Roundtable, 2002).

This reveals that US vested the responsibility of corporation to the top management of such corporation not diffusing to different individuals within the corporation. Because they handle some responsibilities of the corporation which includes; operating the corporation, strategic planning, annual operating plans and budgets, selecting qualified management and establishing an effective organizational structure, identifying and managing risks and finally good financial reporting (Roundtable, 2002). It is the responsibility of the
Executive that also controls other entities or agencies, to ensure that appropriate governance arrangements are applied in all such controlled entities (IFAC, 2001).

As mentioned above that must of the researchers that focus on corporate governance in the US concentrated their efforts on such corporate governance in the aspect of private sectors while give limited concerned to such system in regard to public sector. Despite the fact that, the study of Ryan and Ng(2000) revealed that there is limited literature on corporate governance in the aspect of public sector. This is quite agreeing when viewing such literature on public sector corporate governance system. Therefore, in line with this, the objective of this paper is to give highlight on the principles of corporate governance system in the public sector setting predominantly within the context of developed nation like US and others. The paper considered public sector corporate governance reporting practice in the literature no the actual corporate governance practice. The paper proceeds to section two which is literature review on corporate governance system, section and last section was the conclusion drawn and future research recommendation.

2. Literature Review

Concepts of Corporate Governance in the Public Sector

IFAC (2001) defined the term “public sector” as the national governments, regional governments (e.g., state, provincial, territorial), local governments (e.g., city, town) and related governmental entities (e.g., agencies, boards, commissions and enterprises). In the public sector, governance entails the means upon which goals are established and accomplished, involves activities that ensure the credibility of government, equitable provision of services, reducing the risk of public corruption and assure appropriate behavior of government officials (IIA, 2006). In spite the fact that most of the definitions given to corporate governance are relating it to private sector setting; for instance, Hardman (1996) stated that corporate governance is the responsibility functions of board of directors of a given firm.

It is also defined as the systems through which companies are properly directed and controlled (Cadbury Report, 1992). Despite these definitions, it is then argued that corporate governance principles are commonly similar in both the private and the public sector (Barrett, 1997). In addition, Barrett (1998) expressed that public sector corporate governance mainly concerned with the decision-making process on how to improve good performance outcome as well as effective accountability. Plessis, Hargovan & Bagaric (2011) expressed that corporate governance deals with the way in which corporations are managed and regulated. While Horwood (2001) stated that corporate governance is systems through which organizations are ensure to achieve openness, integrity and accountability. Therefore, for the purpose of this paper, corporate governance means the effective system in which corporate is governance. As such, good systems of corporate governance are expected to have broadened responsibilities in ensuring good governance (Ryan & Ng, 2000). Likewise, effective corporate governance system established a framework upon which management discharge their responsibilities (Roundtable, 2002).

Formation of effective corporate governance system is regarded as an effective tool that might restrict any unforeseen consequences (Ryan & Ng, 2000). That is why Hepworth (1994) even noted that concentration must be given in ensuring the existence of an effective system of corporate governance. In fact, a comprehensive oriented public sector governance model should be well developed (NSW Audit Office 1997). Even Ryan and Ng(2000) noted that it is the right time for the literature to give attention on effectiveness of public sector corporate governance setting. Horwood (2001) also noted that in UK, such corporate governance agenda in the public sector setting is more of implicit than explicit. Nevertheless, within the few decades, concerned has been showed on the reformation of the system of corporate governance in some counties that include; Asia, Western and Eastern Europe and Latin America (Porta et al., 2000).

The system of governance keep changing within various environment as a result of changing in history and geography, public administration, laws, political dispensation (Kersbergen & Waarden, 2004). Most of the American corporations are well helped and served by the top management (Roundtable, 2002). Meaning
that, the top management has the responsibilities of ensuring effective corporate governance within such corporations. Therefore, corporate governance in the public sector needs to be given priority (ICANZ 2003). Effective public sector corporate governance is essentials for improving public confidence in the public corporations (IFAC, 2001). Likewise, effective corporate governance in the public sector prevents the occurrences of corruption, misused of resources and poor public service (Hontz et al., 2009).

The work of Committee on Standards of Conduct in Public Life expressed concerned over the proper establishment of well corporate governance framework in the public sector setting (Nolan 1995). An effective corporate governance structure in any corporation serves as a working system which set up goals, making effective decisions and monitoring compliance and performance appropriately (Roundtable, 2010; Roundtable, 2002). Risk management is being regarded as an imperative part of corporate governance in the public sector setting. For example, Horwood (2001) expressed that, achieving effective corporate governance in the public sector is not possible without considering the role of effective risk management. Such risk management offers some benefits to corporate governance that include; operational and financial management, provide means of improving strategic, maximize opportunities and minimize loss events. Equally, IFAC (2001) recommended that effective risk management should be well-established in all public sector setting so that to enable effective corporate governance system.

Effective corporate governance needs a clear understanding of the roles of management and their respective relationship in the corporate structure (Roundtable, 2002). It is the responsibilities of the management to ensure effective risk management, strategic planning and effective reporting system within the organization. Governance is very important because it is an essential means for improving economic growth of a country, determining the quality of government regulation and equally serves as means for determining whether public corporations implement the objective of government’s and meets public expectations for acceptable standards of conduct (ICANZ 2003). Even though, there would be some problem within the system of corporate governance in US, but then, other nation’s problems with regard to governance systems is even worse (Holmstrom & Kaplan, 2003). Good corporate governance has significant effect on the development of countries (Hontz et al., 2009).

One of the blunt instruments for enforcing good corporate governance practices on individual public sector entities is election and it is based on this, the governments are required to take strong steps in order to promote effective public sector governance (ICANZ, 2003). Being politician and public interference in US system of corporate governance does not reveals the broken of the system rather they are part of the corporate governance system (Holmstrom & Kaplan 2003). In this vein, IFAC (2001) provided some recommendation that might improve the corporate governance in the public sector entities that include; standards of behaviour (comprised of; leadership, code of conduct and objectivity, integrity and honesty); organizational structures and processes (comprised of; statutory accountability, accountability for public money, communication with stakeholders and roles and responsibilities); control (comprised of; risk management, internal audit, audit committees, effective internal control system and budgeting, financial management and staff training); external reporting (comprised of; annual reporting, use of appropriate accounting standards, performance measurement and external audit).

Principles of Corporate Governance in the Public Sector

Although, there is no single approach that is precise to all corporations (Roundtable, 2010; IIA, 2006), and most of the public corporations make used of different approaches in their corporate operation (Roundtable, 2002). Nevertheless, commonly principles of governance are applicable to public sector organizations which embrace the policies, structures and processes employed to direct and control its different activities and objective achievement (IIA, 2006). The principle of corporate governance that is applying in private sector is almost equal to that of public sector (Barrett, 1997; Horwood, 2001).

Even though, it is impossible to have a single framework and recommendations of governance that could be appropriated to all entities in the public sector. But then similar principles can then be applicable, whether such controlling body are appointed or elected (IFAC, 2001). ICANZ (2003) argued that what is obtainable in private sector on good corporate governance are entirely absent in the public sector setting and
therefore, different approach should be given to the different sectors. Nevertheless, various developed countries are making effort toward improving the standard of their public sector corporate governance system through some principles.

For instance, in UK, it is the report of Cadbury that gave the foundation to the development of public sector corporate governance first framework by Chartered Institute of Public Finance and Accountancy (CIPFA, 1995) which thereafter modified the report to suit the context of public sector setting in UK in which three principals were given consideration that is; integrity, accountability and openness (Ryan & Ng, 2000).

These principles are very significant and fundamental to all public sectors corporations as they are to the private sector setting (IFAC, 2001). This indicates that individual’s integrity, openness and accountability within a public sector entity is the basic for effective corporate governance system. Thus, the CIPFA stresses on the important for honesty, integrity, probity in the public funds stewardship, agency’s activities management and high standards of propriety and the need to include performance information in any corporate governance framework (Ryan & Ng, 2000). Equally, the value of corporate governance is built upon the respective principles of corporate governance which includes; fairness, responsibility, accountability and transparency (Hontz et al., 2009). IIA (2006) emphasized that the principles of corporate governance that is applicable to public sector is uniquely to such public sector and this include; the principles of transparency, accountability, equity and probity.

For Australia, the core document that provide a guide of effective corporate governance principles in the public sector setting is the Australian National Audit Office’ (ANAO). The ANAO concerned with the structure of corporate governance in Australia, it then concentrated on five key principles of corporate governance which may improve the standard of the public sector setting that includes; leadership, risk management, management environment, monitoring and accountability (Ryan & Ng, 2000). Therefore, good public sector governance in all public sector organizations are requires to comply with the above principles so that to improve the standard of their public sector organizational settings.

Nolan (1995) equally provided seven principles that should be applied in the public sector corporate governance setting that include; openness, leadership, selflessness, objectivity, integrity, accountability and honesty. In addition, Horwood (2001) disclosed some of the fundamental principles of corporate governance which are applying in the public sector organizations that include; community focus, service delivery arrangements, structures and processes risk management and internal control and standards of conduct.

In US, the American Law Institute (ALI) which was founded in 1923 adopted its corporate governance principles: Analysis and recommendations in May 1992 which was published in 1994 and keep updating from time to time. These principles and recommendation are based on laws that are relating to best corporate governance practice in the US public sector settings and private setting. These principles include; responsibility for governance; corporate governance transparency; competency and commitment of individual members; accountability & objectivity; good leadership; ethics, integrity & responsibility; attention to information, agenda & strategy; and protection against entrenchment (Gregory & Grapsas, 2012). Likewise, in the US, Roundtable (2002) identified some of the principles which should guide toward achieving best practices good corporate governance system in both private and the public sector corporation in US, among which are: top management of integrity; legal compliance and integrity communicated to personnel at all levels of the corporation; effective system of internal control system; and effective code of conduct.

3. Conclusions

Due to the fact that the operation of public sector corporate governance varies across various nations, studies that focus on the corporate governance in the public sector setting are very scanty within the globe. Therefore, this study highlighted the system of corporate governance in the context of public sector setting particularly the developed nations like US, Australia and UK with the intention for the other nations to
appreciate such system and thereby make comparison with their established system so that to improve their existing one. Equally to have effective corporate governance system that may improve the confidence level of the public over the activities of the government. This paper concerned with the literature reporting on corporate governance practice by various researchers and does not consider the practical aspect of such corporate governance system. Therefore, both developed and developing countries are required to consider the principles reported in this paper so that to improve the system of their corporate governance within the public sector. Finally, more research is needed in the aspect of corporate governance in the public sector worldwide.

References


