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## CORPORATE INTEGRITY PRACTICES: APPLICATION OF SOCIAL CONTRACT THEORY IN THE MALAYSIAN PUBLIC ORGANISATIONS

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### Abstract:

Nowadays, corruption is seen as usual, phenomenal, and endemic. It is pinpointed as the main obstacle that prevents government services from being delivered to the population. Thus, the establishment of effective measures to prevent corruption is much needed. One of the measures is by having corporate integrity in the organisation. Corporate integrity is proven to have positive effects on organisations, which eventually helps improve performance, accountability, and sustainability. Corporate integrity has three dimensions: ethical foundation, culture, and risk management. The ethical foundation is vital as a fundamental of corporate integrity practices in organisations. A solid integrity institution further helps to advance ethical culture. Thus, a robust foundation and culture improve ethical risk management. All the dimensions and components attribute to the corporate integrity practices of organisations. Thus, future research could embed these three dimensions when examining the level of corporate integrity practices.

### Keywords:

Corporate Integrity Practices, Ethical Foundation, Ethical Culture, Ethical Risk Management, Social Contract Theory

## Introduction

Corruption, a deeply rooted and multifaceted issue, continues to cast a long shadow over the global landscape, replete with far-reaching negative consequences and deeply ingrained public perceptions. The ongoing COVID-19 pandemic has amplified this problem, laying bare the vulnerability of governments in addressing the challenge effectively (Transparency International, 2021). The economic impact of corruption and illicit financial flows is substantial, with an approximate yearly expense of approximately US\$3.6 trillion. According to a report, a significant portion of the total amount, estimated at around US\$2.6 trillion, can be directly linked to corrupt practices (The Commonwealth, 2023). This figure represents a hefty 5% of the worldwide Gross Domestic Product (GDP).

In 2024, Transparency International highlighted further examples of systemic corruption across multiple countries, emphasising that corruption now infiltrates essential healthcare systems, exacerbating inequities and diverting resources from critical services (Transparency International, 2024). The economic consequences underscore the imperative necessity for collaborative global efforts to address and mitigate corruption, as unchecked corruption not only undermines trust in governance but also hinders sustainable development and economic resilience (UNODC, 2024).

Extensive scholarly research has revealed the profound economic ramifications linked to corrupt practices. Based on the findings of Mauro (1997), it can be observed that a marginal increase of 2% in corruption is associated with a decrease of 0.5% in economic growth and a drop of 4% in investment. Developing nations see a substantial impact, resulting in an estimated yearly financial burden of USD 1.26 trillion attributed to corruption (Bågenholm et al., 2021). Additionally, countries afflicted by corruption encounter notable reductions in their GDP, ranging from 2% to 4%, as documented by the World Bank. In addition, organisations on a global scale are confronted with the repercussions of fraudulent operations, resulting in a loss of around 5% of their yearly revenue. Corruption stands out as the predominant manifestation of fraud on a global scale, albeit with a comparatively lesser financial impact when compared to alternative fraudulent practices such as asset misappropriation (Association of Certified Fraud Examiners, 2020).

In the present global context, the preservation of corporate integrity serves as a crucial element in the battle against corruption and unethical behaviour within organisations. The concept of corporate integrity has expanded beyond national borders and has gained global prominence, being acknowledged as a core public value (Huberts, 2020). The acknowledgement of this phenomenon has prompted demands for administrative and systemic changes aimed at safeguarding the credibility of organisations and effectively combatting the detrimental impact of corruption (De Souza, 2020; Lawan & Henttonen, 2024).

The concept of integrity holds significant importance in the realm of organisational governance, since it is becoming increasingly apparent that it is an essential component. In order to address and mitigate unethical corporate behaviour that has enduring consequences, it is crucial to incorporate personal integrity into business codes of conduct (Chennattu, 2020). The process of integration extends across various dimensions, including individuals, institutions, societies, and the global community. The implementation of a comprehensive strategy is of utmost importance in upholding strong moral principles, promoting effective corporate governance, and cultivating a climate of ethical leadership (Audi & Murphy, 2006).

Ensuring the preservation of corporate integrity is of utmost importance for the attainment of organisational success, as it constitutes the fundamental basis upon which numerous accomplishments are established (Neumann, 2005). Nevertheless, the endeavour to uphold integrity is not devoid of intricacies, as organisations frequently confront the intricate dilemma of abiding by ethical norms (Kaptein, 2015). Extensive study has emphasised the numerous advantages linked to business integrity. Significantly, there exists a correlation between the implementation of this practice and many positive outcomes in the workplace, such as increased levels of job satisfaction, dedication, and engagement among employees, as well as a decrease in turnover rates and an improvement in overall productivity (Agarwal & Malloy, 2002; Koh & Boo, 2004; Somers, 2001). The positive effects are in perfect alignment with the goals and objectives of the organisation, hence enhancing the level of accountability. The promotion of corporate integrity has been found to have a positive impact on the cultivation of innovation and creativity inside organisations, hence improving operational efficiency (Cheney, 2006; Nafi & Kamaluddin, 2020). Corporate integrity yields stakeholder trust, which in turn results in decreased external regulation, diminished conflicts, and enhanced cooperation (Huberts et al., 2007; De Bree & Stoopendaal, 2024).

In sharp contrast, the absence of corporate integrity within organisations can have a wide range of negative consequences. These include damage to reputation, legal penalties, loss of employees, decreased voter engagement, violations of stakeholder regulations, harm to stakeholders, deterioration in project quality, public distrust, significant financial losses, harm to reputation, bankruptcy, and even the collapse of a nation's economic and political framework (Aguilera & Vadera, 2008; Huberts et al., 2007; Johari et al., 2020; Kaptein, 1999, 2003; Petrick & Quinn, 2001; Said et al., 2015; Said & Omar, 2014). Moreover, nations afflicted by corruption tend to exhibit lower levels of investment appeal compared to their less corrupt counterparts (Sarkar & Hasan, 2001). Considering the extensive consequences associated with corruption, it is crucial to prioritise comprehensive initiatives aimed at mitigating this phenomenon, hence preventing its detrimental effects on various entities such as organisations, communities, and nations.

Despite an increasing amount of scholarly material that underscores the importance of corporate integrity practises, there is a substantial lack of understanding regarding their actual implementation in practice. Hence, the primary objective of this research is to examine the complexities associated with corporate integrity comprehensively practises and their diverse aspects. Our aim is to develop a comprehensive corporate integrity framework that is firmly grounded in Social Contract Theory. This framework will provide guidance to organisations in effectively implementing these practices, thereby filling a significant gap in the existing body of knowledge. The objective of this endeavour is to provide organisational management with relevant insights into the efficient implementation of corporate integrity practices.

## Literature Review

### *Definition of Corporate Integrity Practices*

Corporate integrity practises are a fundamental component of ethical governance within organisations, serving as a guiding force for their behaviour, interactions, and engagements with stakeholders. The notion of integrity, which is fundamental to comprehending corporate integrity practises, lacks a distinct definition (Becker, 1998). Nevertheless, it is closely interconnected with the prevalent problem of corruption (Erakovich & Kolthoff, 2016; Huberts

et al., 2007; Kolthoff et al., 2010). The roots of the term 'integrity' may be traced back to the Latin word 'integritas,' which signifies a sense of completeness, suggesting that it embraces the entirety of an individual's character and extends beyond the world of personal attributes (Heywood et al., 2017; Hoekstra & Kaptein, 2021; Huberts, 2018). The examination of integrity throughout scholarly discourse has resulted in the identification of repeating motifs, indicating the multifaceted nature of this concept. The attributes that are encompassed in this context include wholeness, authenticity, consistency between verbal expressions and behaviours, resilience in the face of challenges, the absence of unethical conduct, a pervasive sense of ethics, honesty, trustworthiness, justice, respect, openness, empathy, and compassion (Palanski and Yammarino, 2007). It further requires adherence to a set of standards and principles, reflecting a deep respect for stakeholders affected by corporate actions (Verhezen, 2024).

The importance of integrity is emphasised by the concise wisdom of respected entrepreneur Warren Buffet, who highlighted that when considering potential candidates for employment, three key attributes are crucial: integrity, intelligence, and enthusiasm. Buffet argued that the lack of the first attribute could have negative consequences. On the other hand, the Islamic approach highlights the significance of 'akhlaq' in understanding the connection between integrity and ethics (Akmalovna, 2024). It defines ethics and morality as being oriented towards a common objective, which is to assess the moral appropriateness of human activities (Sabahuddin, 2007). The viewpoint has demonstrated its significance in fostering a moral work environment among those employed in public service (Mat et al., 2015).

As such, corporate integrity practises encompassing a steadfast dedication to ethical principles and behaviours throughout all aspects of an organisation's management and functioning. This commitment encompasses the delineation of ethical expectations and responsibilities of organisations in their engagements with stakeholders, including employees, customers, partners, and the wider community. Significantly, it is crucial to note that these practices are not temporary in nature; rather, they serve as a steadfast framework that steers an organisation's ethical journey. Corporate integrity practises are fundamental to ethical governance since they play a pivotal role in moulding the behaviour of organisations, establishing trust among stakeholders, and ultimately contributing to the long-term success of the organisation.

## Methodology

This paper adopts a conceptual approach to examine corporate integrity practices within Malaysian public organisations. This concept paper synthesises existing literature to analyse dimensions of corporate integrity through the lens of Social Contract Theory. Concept papers are valuable in exploring and refining theoretical frameworks, as they allow for an in-depth examination of constructs and variables. This conceptual analysis enables the development of a structured framework that highlights best practices in corporate integrity, with implications for policy makers and public organisations.

A thematic analysis was employed to identify recurrent themes in corporate integrity literature, ensuring a comprehensive exploration of ethical principles, leadership accountability, and institutional mechanisms. This approach aligns with prior studies that have emphasised the role of conceptual frameworks in providing foundational knowledge for further empirical research (Tranfield, Denyer, & Smart, 2003). Additionally, the paper incorporates Social Contract Theory as an underpinning theoretical perspective to discuss corporate obligations to

stakeholders and ethical governance in Malaysian public sector organisations (Donaldson & Dunfee, 1999).

### **Dimensions of Corporate Integrity Practices**

The benchmarks of corporate integrity practices cover the aspects of ethical foundation, ethical culture, and ethical risk management (Dubinsky & Richter, 2015; Yahya, 2022). These benchmarks reflect the emerging practical standards and practices in the organisation. A solid ethical foundation is crucial to developing an ethical culture further and embracing ethical risk management. The challenge to develop organisation systems such as ethical foundations is integrating the moral dimension of economic transactions into an organisation's strategies, policies, and procedures. The ethical foundation is the guide for integrity basis in an organisation and reflects top management's beliefs that shape the organisation's ethical culture (Adro & Leitão, 2020; Arjoon, 2006; Ilyas et al., 2020). Further, ethical culture helps develop risk management, which involves some control over the organisation. With the fulfilment of ethical risk management, the organisation could eradicate fraud, bribery, and corruption in its operation (Dubinsky & Richter, 2015)

### ***Ethical Foundation***

Dubinsky and Richter (2015) have effectively expounded upon the ethical underpinnings within the conceptual frameworks of organisational studies. The presented viewpoint encompasses various aspects, including the overall organisational visions and goals related to integrity. Additionally, it highlights the intricate roles of leadership, the ethics resources infrastructure, and the interconnectedness of legal compliance and policies. Commencing with the framework of integrity visions and goals, it is important to acknowledge that this aspect is beyond the mere creation of a formalised obligation. To provide further clarification, let us examine the analogy of a prominent global corporation that is dedicated to promoting environmental sustainability. The demonstration of this dedication, within a genuine context, should not only be evident in official declarations of purpose but, more significantly, in concrete measures such as the implementation of sustainable adjustments to the supply chain, the creation of environmentally friendly products, and the proactive initiation of grassroots green projects. The integrative practices, as outlined by Wieland (2005), seek to effectively reconcile moral obligations with economic goals, thus creating a solid foundation for corporate integrity. This viewpoint is supported by empirical research, such as the study conducted by Othman et al. (2014), which emphasises the significant impact of an ethical framework in strengthening the integrity of those serving in public positions.

It becomes evident that leadership plays a crucial role in shaping the ethical dimensions of an organisation. In the present setting, leadership extends beyond traditional hierarchical roles and instead manifests as the embodiment of the ethical principles guiding the organisation. Hence, Ethical leaders act as role models, influencing the performance and ethical behaviour of their subordinates (Muktamar, 2023). According to empirical research conducted by Huberts et al. (2007) and Verschoor (2005), the actions and behaviours of leaders have significant effects on ethical tendencies inside organisational contexts. These studies indicate that leaders can either reduce or intensify unethical behaviours through their own conduct. When contemplating real-life situations, it is worth examining the conduct of chief executive officers (CEOs) in significant technology sectors who ardently advocate for the protection of user privacy. The moral stances of individuals or organisations not only influence their internal policy frameworks but also have the capacity to readjust norms that are prevalent throughout an entire industry. The study conducted by Alykallam et al. (2018) further supports the notion that leadership dynamics have a significant role in forecasting the trajectory of organisational



integrity. In addition to this viewpoint, Mohamed et al. (2019) present a thought-provoking aspect of spiritual motivation in leadership, proposing a comprehensive framework that effectively promotes an ethical culture. This perspective bears a resemblance to the influential research conducted by Bass & Avolio (1993).

Upon exploring more into the complex realm of moral resources, it becomes evident that their significance extends beyond mere acquisition, and instead resides primarily in their strategic utilisation. Consider, for example, a hypothetical situation in which a multinational conglomerate establishes the position of a specialised corporate integrity officer. The effectiveness, independence, and contextually adaptable techniques utilised by an officer of this nature could play a crucial role in influencing the ethical environment of the organisation. The viewpoint expressed here is supported by Audi and Murphy (2006), who argue in favour of the importance of a strong ethical framework in determining the success of an organisation. In conclusion, the framework of legal compliance, reinforced by policies and regulations, functions as the foundation that supports ethical principles inside a legal structure. However, according to Havel (2008) and Reichert et al. (2000), the endeavour to uphold ethical behaviour within an organisation extends beyond simply complying with legal requirements. Its objective is to foster trust within social structures. Arjoon (2006) supports this viewpoint by suggesting a recommended course of action, advocating for organisations to engage in self-reflection to evaluate their systems and processes. This will enable them to effectively align with both legal requirements and ethical principles. The alignment described ultimately solidifies the fundamental values of an organisation, enabling it to effectively navigate the complex and ever-changing landscapes of the business realm.

### ***Ethical Culture***

The ethical culture of an organisation plays a crucial role in shaping its operational ethos. This is evident through the activities and routines that are infused with moral principles. The culture observed in this context is characterised by the combination of organisational culture, disciplinary and reward systems, corporate social responsibility (CSR), effective communication of ethics, and a strong focus on ethics training and education.

Firstly, it is important to note that organisational culture plays a fundamental role in promoting ethical conduct. The perspective advocated by Dubinsky and Richter (2015) aligns with the ideas put forth by Schein (2010), who characterises organisational culture as an intricate combination of commonly held beliefs, traditions, values, and practices. For example, organisations like Patagonia, renowned for their commitment to environmental values, integrate sustainability into their core goal, establishing a comprehensive ethical framework. This highlights the importance for organisations to clearly define and uphold ethical rules. Ethical standards, such as Google's well-known principle of "Don't be evil," serve as crucial mechanisms for directing and ensuring that the behaviours of members align with the ideals of the organisation (Mohamed et al., 2019).

The disciplinary and reward system functions as a symbol of an organisation's dedication to its ethical principles. The effectiveness of this method is exemplified by corporations such as Starbucks, which incentivises employees through prizes for engaging in community service. According to the Organisation for Economic Co-operation and Development (OECD, 2018), the inclusion of embedded procedures inside an integrity framework serves to enhance confidence. Kranacher (2006) asserts that it is crucial for these systems to be transparent and universally comprehensible to stakeholders, with the support of rigorous controls.

When transitioning to CSR, this dimension extends beyond the scope of conventional business operations. Unilever serves as a prominent illustration, showcasing the integration of societal value creation into company strategy through the implementation of the Sustainable Living Plan. Norazamina et al. (2018) emphasise the ethical facets of CSR, arguing for the careful assessment of stakeholders' interests. The relationship between CSR and organisational culture is apparent in scholarly investigations such as the one conducted by Hunjra et al. (2021). The impact of it on the financial well-being of companies can be observed in cases such as Ben & Jerry's, where a strong commitment to CSR has resulted in improved relationships with stakeholders and positive financial results (Yang & Baasandorj, 2017). Moreover, as emphasised by Said et al. (2016), the enhancement of public sector accountability relies heavily on the improvement of integrity systems.

The importance of ethical communication in fostering a comprehensive ethical culture should not be underestimated. The significance of this aspect has been emphasised by Norazamina et al. (2018), who highlight its crucial contribution to the ethical framework of the public sector in Malaysia. Organisations such as Johnson & Johnson, through their management of the Tylenol problem, provide as a prime illustration of the significance of transparent and ethical communication. Singh (2011) argues that effective communication plays a crucial role in fostering alignment between employees and an organisation's ethical vision. This viewpoint is supported by Simha and Cullen (2012), who advocate for the establishment of informed workplaces.

In conclusion, it is evident that organisations require more than a mere code of ethics when it comes to ethics training and education. By drawing comparisons to Lockheed Martin's extensive ethics training modules, it becomes apparent that training programs provide personnel with the necessary resources to effectively negotiate complex ethical challenges. The notion expressed in the statement aligns with the perspectives put forth by OECD (2018) and Sims and Brinkmann (2003), highlighting the essentiality of this form of instruction. The effectiveness of these programs is additionally emphasised by Valentine and Fleischman (2004) and Dell'Anno (2020), indicating their potential to mitigate unethical behaviours. Jetter and Parmeter (2018) emphasise the significant impact of education on the development of ethical frameworks, particularly in emerging economies.

### ***Ethical Risk Management***

The foundation of corporate integrity practices is in ethical risk management, which encompasses several aspects such as ethics risk assessment, conflict resolution procedures, and the integration of principles like confidentiality, transparency, and a strong stance against bribery and corruption.

Commencing with the ethics risk assessment, this pivotal element assists organisations in comprehending prospective ethical hazards. One illustrative instance may be derived from Unilever, a widely recognised company known for its steadfast dedication to sustainability and ethical business practices. The organisation has created stringent self-assessment procedures to maintain its position as a leader in ethical commerce. The commitment to engaging in self-assessment and self-correction is not devoid of its virtues. According to Kranacher (2006), the implementation of ethical policies has been found to positively impact the development of a flourishing organisational culture. However, the ramifications of disregarding this practice can be significant, as evidenced by the Boeing 737 Max catastrophe.

In this case, the presence of ethical oversights resulted in catastrophic outcomes and inflicted substantial harm upon the company's standing within the industry.

Whistleblowing and the accompanying investigations occupy a significant position within this context. The Volkswagen emissions crisis serves as a poignant reminder of the crucial role played by whistleblowers in upholding organisational integrity. The Whistle-blower Protection Act 2010, enacted on Malaysian borders, signifies the recognition by the nation of the significance of whistleblowing. According to Rustiarini and Merawati (2020), it is argued that protection is a reciprocal process, wherein the existence of safeguards against retribution is crucial for the successful establishment of a conducive environment for whistleblowing. Conflicts of interest present an additional noteworthy obstacle. The data controversy involving Cambridge Analytica and Facebook serves as a paradigmatic illustration of potential conflicts of interest that ultimately result in far-reaching consequences. According to Rossouw (2005) and the OECD (2018), it is argued that upholding an ethical equilibrium is of utmost importance, particularly within public sector organisations, in order to avoid such instances of misconduct.

Exploring the concepts of secrecy and transparency, it is evident that numerous corporations willingly adopt transparency practices, even in situations where obligatory disclosures may not be strictly enforced. Tesla, as an example, often provides updates to its investors and the public regarding its objectives and issues, as evidenced by its consistent publication of quarterly safety reports. Kranacher (2006) advocates for this cause, emphasising the importance of well-defined policies and open communication channels. Bribery and corruption, which are widely seen as formidable foes, require a joint approach. The Siemens bribery scandal highlighted the significance of adopting such a position. According to Dubinsky and Richter (2015) and Vasconcellos et al. (2018), collaborative endeavours encompass the participation of both governmental entities and the public. An illustrative example of a collective method in action can be observed in Brazil's coordinated endeavours to address corruption, as demonstrated by the "Car Wash" operation. This operation specifically focuses on high-ranking government officials and prominent corporate figures.

In summary, the achievement of exemplary corporate integrity, as emphasised by Neumann (2005), is a complex and indispensable undertaking. The advantages of such methods, as exemplified by firms such as Starbucks with its implementation of fair-trade procedures and Patagonia with its dedication to sustainability, are numerous. The efforts undertaken by Malaysia, particularly within the public sector, serve as evidence of the worldwide trend towards a corporate climate that prioritises ethical considerations. The subsequent section provides a more comprehensive analysis of Malaysia's public sector actions in this field.

### **The Social Contract Theory**

The social contract theory has contributed significantly to moral, social and political philosophy (Byrne, 2002; Sacconi, 1999; Weale, 2020). A social contract engages two parties, whether individuals, social groups, or institutions (Gigerenzer & Hug, 1992) and explains the relationship between society and business (Shocker & Sethi, 1973). The theory frames every business activity where the organisation must be responsible to stakeholders affected by their business (Donaldson & Dunfee, 1999). It also emphasises the significance of value principles (Zhang, 2024). Additionally, social contract theory revolves around moral recognition with government structure and positive distribution from the government. Social contract theory is a framework for corporate morality (Mahoney et al., 1994; Wempe, 2005).



The contract plays as an underpinning adaptation to the organisation of the moral obligations of the firm and self-binding commitment to comply with its ethical code (Sacconi, 1999), which represents the constitutional contract of the organisation (Francés-Gómez, 2003). Therefore, corporate integrity practices need to be upheld to signify that organisations such as public organisations also have moral commitments to serving citizens. Donaldson and Dunfee (1999) further urged that organisations produce good quality services with high moral and ethical expectations through the social contract theory. Hence corporate integrity practices are essential to be upheld.

### **Corporate Integrity Practices in Malaysian Public Sector**

The issue of public perception of corruption, particularly within the public sector, has emerged as a prominent concern in numerous countries. According to Zafarullah and Siddiquee (2001), a significant portion of the Malaysian population maintains the belief that public sector workers are vulnerable to bribery. According to Transparency International's research in 2013, a significant proportion of respondents, namely 46%, held the perception that civil personnel were involved in corrupt practices. Additionally, an alarming 76% of respondents expressed the belief that the police force exhibited corruption or a high degree of corruption. The attitude expressed was additionally substantiated by a study conducted by Zahari and Said (2019), wherein the researchers observed instances of engagement and even admissions of misconduct by government officials at both the federal and state levels, acknowledging violations of ethical conduct within their professional responsibilities. In their study, Mohamed et al. (2017) also identified a comparable deficiency in ethical conduct exhibited by officials inside municipal authorities. The facts and observations highlight the growing apprehensions over integrity breaches inside the public sector, hence negatively impacting the government's overall reputation. The reputation of civil servants has been negatively impacted by a variety of occurrences, including instances of traffic police receiving bribes and customs and immigration officials engaging in rule bending (Zafarullah & Siddiquee, 2001). For example, the recent occurrence of prominent instances where customs officials have been implicated in smuggling operations has intensified the existing lack of confidence among the general population.

Nevertheless, it would be unwise to generalise the entire public sector without considering specific nuances and variations. In contrast to the popular perceptions, several research present a more positive depiction of the landscape of integrity. A study examining the performance of different federal ministries in Malaysia found that a majority of departments obtained integrity scores that exceeded the average, except for the accounting department (Alam et al., 2018; Rosli et al., 2015). In addition, a detailed study was undertaken by Sajari et al. (2019) on federal government officers, revealing a noteworthy average integrity score of 79.3%. Zainal et al. (2019) reported comparable results, indicating that the integrity score of public sector officers exceeded 50%. Within the domain of accountability, it has been observed that auditors in the public sector exhibit a commendable adherence to ethical principles (Loke, 2019). The ethical commitment demonstrated in the practice of auditing plays a crucial role in instilling confidence among the public and governmental entities regarding the level of financial transparency. Furthermore, Ismail and Yuhanis (2019) reported the presence of a robust ethical culture among the respective departments. The integrity scores of the Malaysian police force, which has frequently been subject to examination, were found to be above average in many studies conducted by Ismail et al. (2017) and Mustaffa Bakri et al. (2015). Nevertheless, the research also suggests the existence of extrinsic factors, such as various life obstacles and the influence of peers, which may potentially undermine the adherence to ethical standards.

The presence of a significant number of officers and departments exhibiting high levels of integrity indicates a clear commitment among many individuals within the Malaysian public sector to uphold and improve ethical standards. It might be contended that such improvements arise from a growing consciousness and deliberate endeavours to enhance integrity. Within the above framework, Zainal et al. (2020) undertook a comparative examination of ethical and integrity practices within the public and commercial sectors of Malaysia. The researchers' findings demonstrated varying levels of integrity among different entities. It is noteworthy that public sector organisations demonstrated higher integrity scores, which can be attributed to the presence of solid frameworks that effectively incorporate ethics and integrity. On the other hand, despite certain private companies exhibiting lower levels of integrity, their progress in implementing ethical practices remained favourable, indicating a continuous dedication to improving corporate integrity.

The notion of handling operations without corruption is not a new idea, and numerous governments in developing countries strongly advocate for this principle (Zafarullah & Siddiquee, 2001). Upon further examination of the situation in Malaysia, a significant issue that has emerged is the inconsistent and sometimes lenient implementation of ethical norms, resulting in perceived deficiencies in the seriousness of enforcement (Gupta & Sulaiman, 1996). This phenomenon has been ascribed to a multitude of variables by numerous industry insiders and analysts. One perspective posits that the perceived apathy of Malaysian managers towards employee behaviour can be attributed to a limited understanding of the severity of unethical actions and the importance of ethical guidelines. Furthermore, a considerable number of individuals exhibit reluctance or incapacity in implementing comprehensive procedures for ensuring adherence or formulating suitable frameworks for incentivising and penalising behaviors (Karande et al., 2000). Malaysia has a notable history of effectively addressing corruption, resulting in the implementation of many policies, particularly in the period following its independence. The implementation of these policies, which are designed to cultivate a climate of corporate integrity, has significantly contributed to enhancing investor trust on both domestic and global scales. The primary focus has been on promoting openness, equity, and competitiveness in the conduct of corporate activities, which demonstrates a commitment to the ideals of responsibility and integrity (Mintrop, 2012).

The establishment of a culture characterised by integrity holds significant importance in Malaysia's continuous socioeconomic progress (Mohamed & Yusoff, 2020). In light of this observation, the government has exhibited unwavering determination in its efforts to enhance legislative structures and implement initiatives aimed at fostering ethical conduct. The government has implemented many programs, such as the Malaysian Anti-Corruption Commission (MACC), the Public Complaints Bureau, and Integrity (Ismail et al., 2011; Joseph et al., 2019; Rosli et al., 2015; Said & Omar, 2014). Simultaneously, key institutions such as the Auditor General's Office, Attorney General's Chamber, the Judiciary, and the Public Accounts Committee have assumed crucial responsibilities in this undertaking. Civil organisations, such as the Malaysian Voice (SUARAM), and professional entities, like Transparency International Malaysia, have actively engaged in endeavours aimed at combating corruption and fostering principles of honesty.

Integrity emerges as a prominent component within Malaysia's overarching framework aimed at enhancing national integrity, amidst a multitude of other programs. The major function of this entity is to address and mitigate instances of corruption, malfeasance, and abuses of power, with the goal of enhancing the overall quality and effectiveness of the public sector (Hasin et

al., 2020). Another noteworthy endeavour is the implementation of the Corporate Integrity Pledge in 2010, which was established through a partnership between INTEGRITI and Transparency International Malaysia. In this framework, enterprises willingly pledge to uphold ethical principles in their business operations. The primary objective of this effort is to augment corporate governance and imbue business ethics, thereby establishing a company climate that is characterised by transparency, fairness, and freedom from corruption (Transparency International Malaysia, 2021).

Furthermore, it is worth mentioning Malaysia's Integrity Pact. This institutional mechanism requires individuals involved in public sector procurement to adhere to the contractual provisions and promote ethical business practices by avoiding corruption. Integrity has been in the forefront of establishing accolades that recognise Integrity, Governance, and Anti-Corruption efforts, in partnership with the Pahang State Foundation. These awards commend both public and commercial sector organisations that demonstrate exemplary commitment to these principles (INTEGRITI, 2021). The Malaysian National Corporate Ethics Awards, which were established by the Malaysian International Chamber of Commerce and Industry, are specifically designed to recognise private sector organisations that demonstrate exemplary ethical practices, effective governance, and a commitment to combatting corruption.

Various efforts have been established, and it is crucial to ensure their efficient implementation. According to Sajari et al. (2019), the majority of Corporate Integrity Officers (CIO) in Malaysian public sector firms exhibit a high level of competence, often demonstrating exceptional performance. According to Yusoff et al. (2020), a competent CIO who possesses comprehensive knowledge of integrity management, legal frameworks, enforcement mechanisms, and monitoring initiatives could develop meticulous strategies aimed at enhancing integrity and addressing corruption inside their respective firms. According to Sajari et al. (2016), the use of proactive measures ensures the establishment of resilient governance and anti-corruption processes within public organisations, hence promoting ethical behaviour among civil workers.

Nevertheless, despite the abundance of programs and processes in place, instances of compromised integrity in public institutions continue to be reported by the Auditor General's Report and different news outlets. The existence of a discrepancy between policy formulation and its execution implies the necessity for ongoing attentiveness and stringent enforcement measures. It is imperative to conduct periodic evaluations of integrity programs to ascertain their continued pertinence and efficacy in effectively tackling present-day difficulties. The implementation of regular training and awareness initiatives for both law enforcement personnel and the public is crucial in maintaining and promoting standards of integrity.

As such, the pursuit of a Malaysian public sector that is free from corruption and characterised by integrity is an ongoing endeavour. Despite notable progress, it is evident that the struggle is still ongoing. It is imperative for the government, civil society, corporations, and the general populace to collaboratively defend and strengthen the fundamental values of accountability, transparency, and ethics. Malaysia's transformation into a symbol of honesty and good governance can only be achieved under the condition that certain prerequisites are met.

## ***Cases of Corporate Integrity in Malaysia***

### ***Port Klang Free Zone (PKFZ) Scandal (2009)***

The emergence of the Port Klang Free Zone (PKFZ) scandal served as a significant instance that assessed the integrity of Malaysia's public sector. PKFZ, situated in Port Klang, was conceptualised as a significant free trade zone with the aim of enhancing the shipping and logistics sectors of the nation. The preliminary projections indicated that the project expenditure was approximately RM1.1 billion. However, during that time, the prices experienced a significant jump, reaching an outlandish figure of RM12.5 billion, which has raised concerns regarding the abrupt and substantial increase.

The key concerns pertaining to integrity and governance revolved around the significant divergence from the original project cost estimates. The escalating expenses were not only concerning but also spurred a more extensive inquiry into possible misconduct. The escalating costs and inadequate financial governance have prompted concerns over potential collusion between corporate entities and political figures, non-transparent procedures for contract allocation, and insufficient supervision in the administration of public finances. Following the comprehensive investigations, a number of government officials and corporate directors were confronted with accusations pertaining to the PKFZ scam.

### ***1Malaysia Development Berhad (1MDB) Scandal (2015)***

1Malaysia Development Berhad (1MDB) was a state-owned strategic development organisation in Malaysia. The endeavour was characterised by its ambitious nature, with the primary objective of fostering strategic investments that would yield long-term advantages for Malaysia. However, in a relatively little period, 1MDB encountered significant challenges as its debts surpassed RM42 billion, raising concerns about financial mismanagement and probable wrongdoing inside its operations. The extent of the debt incurred was difficult to rationalise, particularly in the context of a government-owned organisation, prompting a widespread demand from the public for increased openness and responsibility.

The central focus of the 1MDB integrity matter pertained to accusations of significant financial misappropriation. There existed a belief that substantial amounts of money were diverted from 1MDB for unlawful purposes, encompassing the procurement of high-end properties, fine artworks, and even the funding of a prominent Hollywood production. The case revealed significant deficiencies in the governance, monitoring, and responsible administration of public funds. Following the scandal, legal proceedings were commenced both within the country and on an international scale. The repercussions of the scandal were substantial, resulting in the conviction of the former Prime Minister Najib Razak on corruption charges associated with 1MDB.

### ***The National Feedlot Corporation (NFC) Scandal of 2011***

The National Feedlot Corporation (NFC) was established with the objective of enhancing the domestic beef sector in Malaysia. The National Feedlot Corporation (NFC) sought to improve domestic beef production by utilising a government-provided soft loan amounting to RM250 million. Nevertheless, the organisation swiftly became embroiled in a substantial controversy, as accusations of financial misappropriation began to eclipse its day-to-day activities. The purported utilisation of these funds for expenditures unrelated to agriculture, such as the procurement of opulent residences, was notably disconcerting.



***Sabah Water Department Scandal (2016)***

The occurrence of the Sabah Water Department Scandal in 2016 serves as a poignant illustration of the difficulties encountered by the public sector in Malaysia when it comes to maintaining and sustaining principles of integrity. The focal point of this controversy pertained to extensive misappropriation of funds within the Water Department of the Sabah state. It is widely thought that government officials have misappropriated an estimated amount of RM153 million from federal funds allocated for rural water delivery projects in the state.

The claims pertained not solely to money misappropriation. The unveiling of a network of corruption through raids and investigations conducted by the Malaysian Anti-Corruption Commission (MACC) implicated high-ranking officials across various departments, as well as their family members and associates. Numerous opulent possessions, such as a substantial sum of money in the millions, were confiscated. The aforementioned issue was of significant concern due to its direct implications on the welfare of rural people in the Sabah state. This is attributed to the diversion of monies originally intended for their necessary services. The Sabah Water Department Scandal underscored the imperative of enhancing internal control mechanisms and implementing rigorous accountability standards within the public sector. The comprehensive inquiry conducted by the Malaysian Anti-Corruption Commission (MACC) has shown the need for autonomous entities to ensure accountability among government agencies.

***FELDA Land Scandal (2018)***

The Federal Land Development Authority (FELDA) is an institution of the Malaysian government that was founded with the purpose of facilitating the relocation of impoverished rural communities to newly developed regions, as well as coordinating the cultivation of cash crops on smallholder farms. The year 2018 witnessed FELDA's involvement in a land scam, which gave rise to significant apprehensions over the integrity and administration of public organisations. Central to the incident was a questionable land transaction in which FELDA purportedly relinquished possession of a valuable parcel of land located in Jalan Semarak, Kuala Lumpur, with an estimated worth of approximately RM270 million, as a result of an unscrupulous transfer agreement. The dispute emerged subsequent to the disclosure that the transfer of ownership had transpired without the board's awareness or consent.

The land crisis encompassed more than just the potential depletion of public assets; it brought forth substantial inquiries regarding the oversight systems present in FELDA and the wider public sector. The consequences encompassed both political and societal dimensions, prompting demands for increased transparency and improved governance procedures. In response to the contentious nature of the situation, legal proceedings and internal examinations were launched with the objective of conducting a thorough investigation, holding those responsible accountable, and implementing measures to prevent such oversights from occurring again.

The misallocation of public monies observed in this instance was not solely indicative of poor financial oversight but rather served as a prominent manifestation of the difficulties encountered in upholding transparency and accountability within public initiatives. The NFC controversy prompted significant inquiries into the utilisation of public monies, particularly those designated for specific purposes. Furthermore, it brought attention to possible deficiencies in the existing supervision procedures. In light of the widespread public outcry and consequential political implications stemming from the scandal, judicial proceedings were

instigated against the implicated parties, thereby inciting a robust discourse surrounding the concept of integrity within the realm of public administration. Table 1 below summarises the key information related to the scandal above.

**Table 1: Summary of Key Information**

Case	Cause	Effect	Recommendations
Port Klang Free Zone (PKFZ) Scandal (2009)	Lack of transparency and accountability in public procurement procedures	Loss of public trust in the government and the private sector	Strengthen public procurement procedures and increase transparency and accountability in government.
1Malaysia Development Berhad (IMDB) Scandal (2015)	Weak corporate governance and financial mismanagement	Economic losses and damage to Malaysia's reputation	Strengthen corporate governance and financial management in state-owned enterprises.
National Feedlot Corporation (NFC) Scandal of 2011	Financial misappropriation	Loss of public funds and damage to public trust	Strengthen internal control mechanisms and implement rigorous accountability standards in public organisations.
Sabah Water Department Scandal (2016)	Extensive misappropriation of funds and corruption	Diversion of monies intended for rural water delivery projects, affecting the welfare of rural people	Enhance internal control mechanisms and implement rigorous accountability standards within the public sector. Establish autonomous entities to ensure accountability among government agencies.
FELDA Land Scandal (2018)	Questionable land transaction, potential depletion of public assets, and inadequate oversight systems	Loss of public trust and demands for increased transparency and improved governance procedures	Implement reforms to improve transparency and accountability in FELDA's governance. This could include making FELDA's board more independent, increasing the involvement of FELDA settlers in decision-making, and requiring FELDA to disclose more information about its activities and finances.

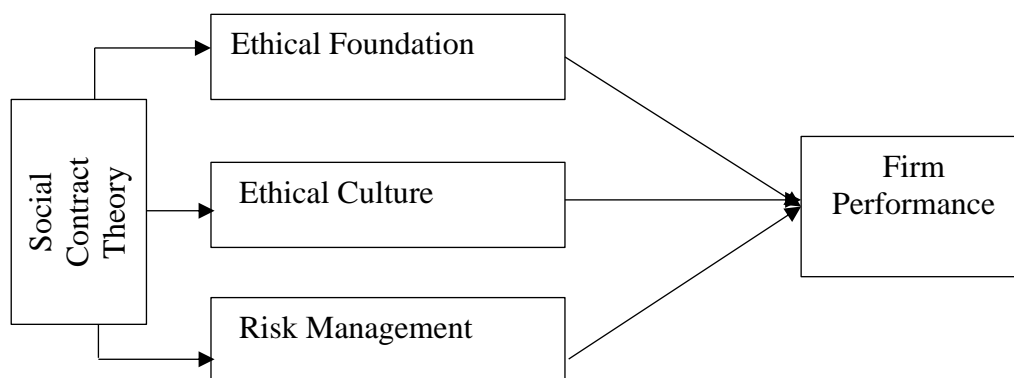
Source: Develop for study

### Conclusion and Recommendation Future Studies

The above discussion of corporate integrity practices has enlightened a proper structure of corporate integrity. Previously, no such dimension of corporate integrity had been identified by scholars like Dubinsky and Richter (2015). Thus, with clarification from the study, future studies that apply quantitative studies could apply this concept to examine the corporate integrity practices of organisations. A 7-point Likert scale could be applied to assess the level of corporate integrity agreement.

Therefore, since the dimensions form corporate integrity practices, it is strongly recommended that corporate integrity practices be measured in a second-generation structural equation modelling (SEM) analysis as a formative measurement instead of a reflective measurement. It could avoid the disaggregation model and give an accurate picture and value of corporate integrity. If the formative measurement is adopted, an additional question on a single global item must be included for each dimension.

On top of that, apart from the dimensions being formatively measured, the overall structure of the corporate integrity practices model is also recommended to be modelled as a higher-order construct. An example of a study that models corporate integrity practices as such is Yahya (2022), where corporate integrity practices are modelled as a higher-order construct, and the dimensions were formatively measured using Type II Reflective-Formative. However, it is just a small study. More extensive and in-depth studies on corporate integrity are proposed to adopt a more appropriate model like Type IV Formative-Formative. This is because, for all three dimensions of corporate integrity, more elements are included, and they are distinguished from each other. Hence, a more robust and comprehensive analysis could be embraced for future studies. Future studies may consider the following proposed research framework, Figure 1.



**Figure 1: Proposed Corporate Integrity Framework**

Source: Developed by authors.

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