

Impact of Integrity on Corruption in Public Agencies: Mediating Role of Employee Compensation

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Abstract

Purpose: This research aims to examine the mediating role of employee compensation on the relationship between integrity and corruption in public agencies.

Design/methodology/approach: The study involved 204 respondents from 10 different organisations: federal government, state government, and statutory bodies based on the Malaysian Anti-Corruption Commission (MACC) statistics. The respondents who participated in this study are those who have authority in deciding for the organisation.

Findings: The results show that leadership, employee compensation, and employee age statistically affect corruption. The results also present the significant effect between integrity and corruption. The mediating effect of employee compensation towards the relationship between leadership and corruption is statistically significant.

Research limitations/implications: The findings from this study are limited to the government agencies only. Hence, it is essential to enlarge the population and sample to other private organisations.

Practical implications: Based on the research finding, the government needs to review the compensation package, especially for the agencies that deal with the customer. This finding also helps the government to review the policies and enhance integrity implementation.

Originality/value: This study presents the importance of employee compensation in mitigating corruption risk.

Paper type: Research paper

Keywords: Integrity, Corruption risk, Employee compensation, Mediation, Partial least square (PLS)

Introduction

In the context of globalisation, a few analyses and perceptive debates and topics such as public integrity and corruption have been brought to the table (Ewoh, Matei, & Matei, 2013). It is important to define corruption to design an effective anti-corruption programme that establishes a clear standard and target. Based on Mohamad et al. (2014), spiritual, cultural, and

intellectual elements significantly improve employee integrity. Integrity will assist the employees in forming a bond of trust with coworkers, management, suppliers, and stakeholders. Individual integrity at the business level is critical for creating a culture of understanding, concern, transparency, truthfulness, and moral behaviour (Duggar, 2011). Employee remuneration, on the other hand, is critical in reducing the danger of corruption. The remuneration package provided by the organisations operates as a main factor on employees through the fraud triangle. Remuneration is a broad phrase that refers to the financial system, payment system, reward system, and the pay for employees inside an organisation (Muttreja, 2012). One way to measure the dependency between remuneration and corruption is by applying the effectiveness of the remuneration framework (Gong & Wu, 2012).

The reinforcement of values and integrity as a major impediment must be regarded to this goal. The administrative system's improvement and social and profound factors are critical in Malaysia's Vision 2020 planning (The Malaysian Digest, 2014). The government sector is required to promote employees' ethical character, honesty, visibility, accountability, and professional competence, and thus, public resources and execution must be safeguarded. It is crucial to evaluate the relationship between integrity and corruption from the perspective of globalisation. Based on Ewoh et al. (2013), the relationship depicts a major influence on developing public integrity initiatives and the overall structure of national integrity systems. The Malaysian government has made constant efforts and built a comprehensive set of techniques and institutions to combat corruption and promote societal integrity (Siddiquee, 2010). Organisational integrity culture encourages ethical behaviour in accordance with the goal, vision, structure, and strategy of the organisation (Atan, Alam, & Said, 2017). Religion, technology, and society have an impact on the evolving ethical norms that affect corruption. Even if different cultures and social lives have varied levels of ethics, the ethical standard in daily activities remains unchanged (Zekos, 2004). Certainly, ethics is a crucial component since it governs human behaviour, whether good or bad and can influence human capabilities.

The organisation must improve the level of integrity of each employee to improve their efficiency and discipline in handling management activities in public services because government employees have strategic responsibilities and are the community's hope for high-quality services based on honesty, justice, transparency, and accountability (Rosmi, & Syamsir, 2020). Enterprises must give anti-corruption disclosure in their annual reports to persuade their stakeholders, including creditors, directors, employees, government, shareholders, suppliers, unions, and the community from which the firms draw their resources to ensure their long-term viability (Norziaton & Zulkifli, 2017). Improving public service integrity is a critical component of reducing corruption and increasing the competency of public employees. To boost employee productivity, the company's remuneration policies must be held to a higher standard (Samnani & Singh, 2014). Employee remuneration is the main variable that researchers used to investigate the economic motivation for corrupt behaviour to combat corruption.

Literature Review

Integrity

Retaining a high-quality worker is crucial to a company since good employees' performance will lead to a high level of organisation performance (Rahim, Omar & Kamaruddin, 2020). Integrity Action has been teaching integrity for over ten years in various settings and to a variety of audiences, including high-ranking government officials, academic staff, and students (Saunders, 2015). Understanding the importance of personal and organisational integrity and trust is a benchmark for establishing the absolute standard of a wonderful workplace. The concept of integrity refers to how activities, attitudes, techniques, measures, principles,

expectations, and outcomes are regarded to be consistent (Ssonko, 2010). Integrity refers to a quality of a person's character when used as a virtue phrase. According to Jamiah et al. (2005), integrity is defined as "the consistent understanding, awareness, and firm grip of pure ideals, as well as a full dedication to those values in every spoken word and deed to attain individual and organisational excellence." According to Pattison and Edgar (2011), integrity is the utmost compliance to the values of the local community. On the other hand, integrity refers to the comprehensive positive value of employee (knowledge, awareness, trust, responsibility, accountability, transparency, communication, moral conduct) and a positive action (employee, employer, management, stakeholder) that leads the employee and organisation to become more sustainable, valuable, and competitive.

According to Schumm, Gade, and Bell (2003), who studied the expert estimations of a warrior, integrity alludes to "honesty" or "reliability" in the release of authority obligations, filling in as an absolute opposite to "corruption" or "the mishandle" of office. A few researchers have inspected the idea of integrity or any idea firmly identified with honesty, such as trust or morals, in confident settings. Hence, to reduce the corruption risk in the organisation, the organisation needs to work together between employers, employees, the human resource department, and policymakers to build up a good environment and culture. Integrity is crucial for employees in carrying out their duties, and it should be applied in providing services to the community (Rosmi, & Syamsir, 2020).

On the other hand, companies and governments must work together and interact effectively to reduce the risk of corruption in the workplace. The value of having such an all-encompassing integrity model in place must be distinguished from the financial crisis' self-indulgence, recklessness, and inadequate risk management (Transparency International, 2009). As a result, ethical conduct among employees, employers, and management is characterised by adherence to internationally recognised ethical standards, compliance with both the spirit and the letter of the law and regulations, and promotion of responsible core values when an organisation has a high integrity value. In conclusion, to avoid corruption risk, the organisation must devise a comprehensive integrity model or system.

Corruption Risk

Fraud is a sensitive topic for the World Bank, and it was almost regarded as a "taboo subject" when it was first brought up (Maldonado & World Bank, 2010). Corruption is one of the most major roadblocks to development. It is widely accepted that resources are squandered or mismanaged, development potential is unrealised, and investors are discouraged. As a result, economic and social progress delay, and poverty rises. According to Transparency International UK, every year, a loss of USD 20 to 40 billion is recorded as a result of corruption in developing and emerging nations. It means that corruption is a severe issue faced by most of the developing countries around the world. Thus, a comprehensive strategy to fight corruption is needed. According to Corruption Perceptions Index (CPI), rather than giving more attention to the advanced nations, it is better to give more attention to fight corruption. It is indicated that almost all developing countries suffer from the higher problem of corruption (International, 2014). Thus, the balanced development between nation and citizens are important in striving for a sustainable nation. Other than that, the failed development of citizens will lead to social problems for the country. Corruption risks are present in varying degrees of activities in all government and non-government organisations (Kumar Sharma, Chandra Panja, Sengupta, & Nandi, 2016).

According to Malaysia Anti-Corruption Commission (2015), corruption risks are ranked in the high, significant, moderate, and low corruption ratings. The higher ranking of corruption for that country shows that the risk of corruption is also high. In general, corruption risk refers to

the ranking and reported corruption cases, whether at the organisation or country level. This sign means that corruption risk will rise when the ranking and reported cases of corruption increase. It is important to ensure that corruption risks within the organisations are addressed, and actions are taken to stop and prevent it from happening. Many firms continue to be perplexed by the threat of corruption, and as compliance officers and governance experts struggle to keep up with regulatory changes, one thing is certain: corporations feel they will face an increased risk of corruption this year as a result of worldwide expansion (Maharaj, 2016). The rising corruption risk in the organisation needs to give serious attention by the organisations, policymakers, non-government organisations, and corruption commission. According to Button (2012), The threat of fraud or corruption exists at all times, and technologies are being developed to assess its scope. As a result, they may incur reputational concerns, jeopardising their chances of securing future business (Narainen, 2017). Hence, an organisation needs to proactively fight corruption risks for sustaining their business in the future.

Employee Compensation

Compensation is referred to as the general term that consists of payroll system, payment system, and reward system implied as to the compensation for employees within the organisation (Thesis & Carolina, 2012). Employee wellbeing cannot be overlooked. Some companies provide compensation and perks to their employees in remuneration, allowances, promotions, and incentive programmes (Kadir, AlHosani, & Fadillah Ismail, 2019). It is one of the basic reasons for employment and is the centre of attention of employment contracts as people expected to get compensated due to their service and efforts in their work (Harrison & Liska, 2008). It is usually taken as direct and indirect monetary and non-monetary rewards awarded to the employees based on their job, personal contributions, and performance (Wekesa, 2013).

When service expectations are high, but incomes remain low, the basic statement regarding the link between employee compensation and corruption is true. Government officials may connect to a network that is not technically authorised, resulting in an increase in corruption (Gong & Wu, 2012). The effects of low compensation level in the corruption can be more intense on the public sector than that of the private sector (Mahmood, 2005; Wei, 1999; Wu, 2008). When the salaries of public servants are too low, they are expected to use their positions to collect bribes, especially if the possibility of being caught and punished is low (Passas, 1997). It means that the low salary is creating an opportunity to involve in bribes and increase the corruption risk in the organisation. In China, due to the low compensation level, the government increased the civil servants' pays for anti-corruption purposes (Takung, 2000). However, salary increments can be extremely expensive combined with other corruption-fighting measures (Muchie, 2015).

In organisations, incentive mechanisms are fundamental. Financial compensation accounts are the greatest single cost for the average company (Gerhart et al. 2009), and pay is closely related to the firm's strategy and success (Nickerson & Zenger 2008; Larkin et al. 2012). Compensation will have a similar influence on behaviour, productivity and misconduct (Larkin & Pierce, 2015). The systems that improve productive behaviour often increase malfeasance, even by the same individual at times. Because compensation is regarded as critical for two reasons: compensation is a motivator for employees, and operational costs are a cost to the company, there is a need to make the rewarding process very effective and efficient in order to satisfy both employees and shareholders (Berber, Pasula, Radosevic, Ikonov, & Kocic Vugdelija, 2012). Furthermore, various frauds, hazards, and problems involving executive

compensation have occurred in the past, necessitating the proper administration and monitoring of this process.

Based on the discussion previously, this study formulated four hypotheses that should be tested to achieve the objectives and satisfy the study's purposes, which are as follows:

H1: There is a significant effect of employee compensation towards corruption risk in Malaysia Public Sector

H2: There is a significant effect of integrity toward corruption risk in Malaysia Public Sector

H3: There is a significant effect of integrity toward employee compensation in the Malaysia Public Sector

H4: Employee compensation mediates the effect of integrity toward corruption risk in Malaysia Public Sector

Methods

The stratified random sampling strategy was utilised to choose samples for this study. This study will be conducted in a sample collected from one of the east coast states in Malaysia. This state was chosen because of the high volume of transactions and government contracts, and procurement activities that could be prone to corruption. There are 204 respondents from 10 different government agencies with 11 different districts who participated in this study as the respondents are defined to be among the top officers who have the decision-making authority. The federal government, state governments, and statutory bodies are the three primary categories of organisations. The respondents in this survey are in charge of making organisational decisions, starting with the supervisor and ending with the organisation's management staff. There are three components to the questionnaire that has been disseminated. The first half of the questions focus on the demographic profile, the second on the threat of integrity and corruption risk items, and the third on employee remuneration items as a mediating element. The primary variables for this study are integrity (10 items), employee remuneration (10 items), and corruption risk (10 things) (10 items). The measurement item was adapted from the previous study conducted by Zulkefli, Salina and Taufik (2016), OECD & U4 Anti-Corruption Resource Centre (2015), Van Herpen et al. (2005).

Findings

Respondent Profile

A complete 204 sets of the survey were delivered to the sample of this study, which are the employees who make decisions in the organisation. The respondents were chosen based on the recommendations of each organisation's human resource department. The selection technique is critical in ensuring that all responses have the authority to make decisions on behalf of the organisation. Based on the analysis, 36.3% of respondents work in federal department organisations and 61.3% work at state department organisations. The highest number of respondents involved in this study is female, with 144 respondents (55.9%), and the rest is male respondents. In terms of the position of respondents, the highest involvement is deputy head of unit/section/department which is 64 respondents (31.4%). Each respondent has a different work experience. Based on the analysis, 107 respondents (52.5%) have work experience below 10 years, and another 97 respondents have been working for more than 10 years. Results also represent that most of the respondents who participated in this study have a range of salary started from RM3,001.00 and above, which is 124 respondents (60.8%)

Construct Validity

Construct validity denotes and confirms the reliability of the results obtained, indicating that the measurement's application is compatible with the theories (Sekaran & Bougie, 2010). Convergent and discriminant validity are two types of analyses that can be used to measure construct validity. A loading and cross-loading study is required to determine whether any specific items are problematic. Each item assessing a certain construct has a high loading value compared to other constructs, as seen in Table 1. The cut-off value for factor loading is 0.5, which is considered significant (Hair, Black, Babin, & Anderson, 2010).

Table 1: Cross Loading

Construct	Item	Corruption Risk	Employee Compensation	Integrity
Integrity	Int_2	0.378	0.323	0.745
	Int_3	0.329	0.31	0.697
	Int_4	0.321	0.333	0.694
	Int_5	0.418	0.245	0.797
	Int_6	0.387	0.179	0.766
	Int_7	0.375	0.222	0.825
	Int_8	0.44	0.312	0.877
	Int_9	0.41	0.28	0.862
	Int_10	0.319	0.259	0.597
	Employee Compensation	Emp_Com1	0.531	0.672
Emp_Com2		0.378	0.685	0.201
Emp_Com3		0.514	0.689	0.243
Emp_Com4		0.471	0.701	0.218
Emp_Com 5		0.566	0.779	0.305
Emp_Com 6		0.296	0.541	0.068
Emp_Com 7		0.316	0.587	0.247
Emp_Com 8		0.226	0.509	0.103
Emp_Com 9		0.439	0.6	0.202
Emp_Com 10		0.537	0.708	0.242
Corruption Risk	Corr_Risk1	0.557	0.614	0.239
	Corr_Risk 2	0.783	0.408	0.455
	Corr_Risk 3	0.761	0.428	0.364
	Corr_Risk 4	0.779	0.559	0.329
	Corr_Risk 5	0.795	0.493	0.402
	Corr_Risk 6	0.751	0.446	0.399
	Corr_Risk 7	0.753	0.457	0.343
	Corr_Risk 8	0.656	0.552	0.315
	Corr_Risk 9	0.814	0.544	0.41
	Corr_Risk 10	0.81	0.567	0.421

Convergent Validity

As shown in Table 2, convergent validity evaluates the critical criterion of component loading and Average Variance Extracted (AVE). According to the guidelines, the factor loading for all commodities must be more than 0.5. (Hair et al., 2010). All of the items in this inquiry exceeded

the minimum specified cut-off level of 0.50. (Hair et al., 2014). For each construct, the desired AVE value must be larger than 0.50. (Barclay, Thompson, & Higgins, 1995). The AVEs for integrity and corruption risk in this study are 0.588 and 0.562, respectively. Employee compensation has an AVE of 0.425, which is less than 0.5. However, Fornell and Larcker (1981) state that if AVE is below 0.5, but composite reliability is greater than 0.6, the construct's convergent validity is still acceptable. As a result, all AVE values were accepted in this study.

Table 2: Measurement Model

Construct	Items	Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Integrity	Int_2	0.745	0.91	0.927	0.588
	Int_3	0.697			
	Int_4	0.694			
	Int_5	0.797			
	Int_6	0.766			
	Int_7	0.825			
	Int_8	0.877			
	Int_9	0.862			
	Int_10	0.597			
	Employee Compensation	Emp_Com1			
Emp_Com2		0.685			
Emp_Com3		0.689			
Emp_Com4		0.701			
Emp_Com 5		0.779			
Emp_Com 6		0.541			
Emp_Com 7		0.587			
Emp_Com 8		0.509			
Emp_Com 9		0.6			
Emp_Com 10		0.708			
Corruption Risk	Corr_Risk1	0.557	0.912	0.927	0.562
	Corr_Risk 2	0.783			
	Corr_Risk 3	0.761			
	Corr_Risk 4	0.779			
	Corr_Risk 5	0.795			
	Corr_Risk 6	0.751			
	Corr_Risk 7	0.753			
	Corr_Risk 8	0.656			
	Corr_Risk 9	0.814			
	Corr_Risk 10	0.81			

(Note: Int_1 was deleted due to low loading below 0.5)

Figure 1 depicts the integrity and corruption risk measuring model without a mediating construct, while Figure 2 depicts the measurement model with a mediating construct. All the factor loading, R2 value, and path coefficient values are shown in the diagram.

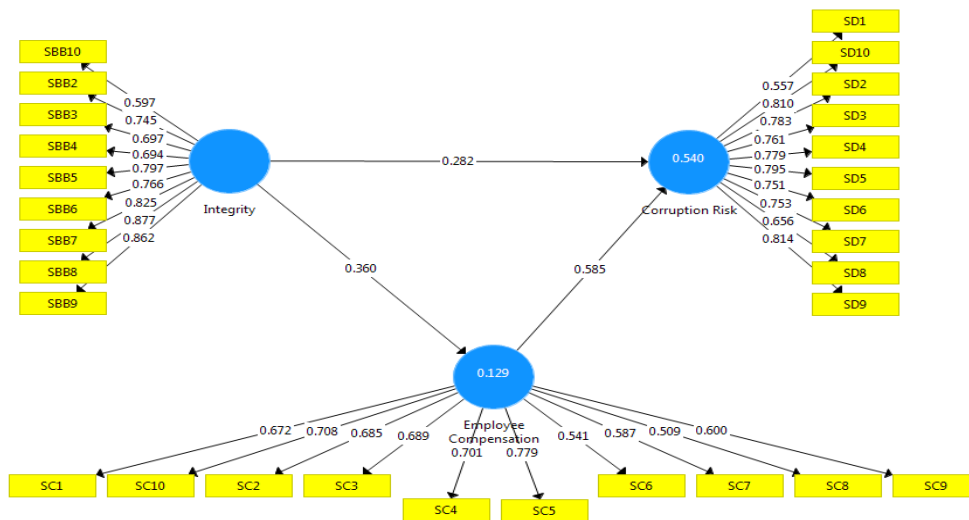


Figure 1: Measurement Model Analysis

Discriminant Validity

All constructs were evaluated for discriminant validity by examining the correlation between the constructs of possibly overlapping constructs. Each construct must be loaded more heavily on its construct (Compeau, Higgins, & Huff, 1999). The bold value is the square root of the AVEs, as seen in Table 3. As a result, all of the constructions' bold values are higher than the other values in their respective row and column, suggesting that discriminant validity has been established (Johnston, Probst, & Wolfe, 2013).

Table 3: Fornell and Larcker Criteria

Construct	CR	EC	Integrity
CR	0.75		
EC	0.686	0.652	
Integrity	0.492	0.36	0.767

Note: CR: Corruption Risk; EC: Employee Compensation

Note: Values on the diagonal (bolded) are the square root of the AVE, while the off diagonals are correlations

Reliability

In terms of dependability, all reflective constructions' composite reliability and Cronbach Alpha values were greater than 0.70. (Hair et al., 2010; Nunnally, 1978). Table 4 shows a reliability assessment of the construct. In order to analyse the internal consistency of measurement for this study, Cronbach's alpha coefficient was utilised. Fornell and Larcker (1981) suggested that composite dependability of 0.70 or higher is regarded as satisfactory. As a result, the measures are regarded as trustworthy.

Table 4: Reliability Analysis

Construct	Cronbach's Alpha	Loading Range	No. of Items
Integrity	0.91	0.597 – 0.877	Nine
Employee Compensation	0.851	0.509 – 0.779	Ten
Corruption Risk	0.912	0.557 – 0.814	Ten

Bootstrapping Analysis

Table 5 indicates the results of the bootstrapping analysis. The result represents $R^2 = 0.540$, and it shows that the factor of integrity and employee compensation are considered moderate and positively correlated with the corruption risk. As a result, it has a mild impact on the dependent variable. Both factors account for 54% of the variance in corruption risk, indicating that the independent factors and corruption risk have convergent validity. As a result, other characteristics that are not addressed in this study account for 46% of the variability in corruption risk. The result also indicates the R^2 between integrity and employee compensation, which is 0.129, representing 12.9% of the variance, and it is considered a low contribution and positively correlated to employee compensation. Therefore, 87.1% of the variations in employee compensation are not investigated in this study.

Table 5: Bootstrapping Analysis

Construct	Original Sample	Standard Error	T-Value	P-Value	R2	Decision
EC -> CR	0.585	0.054	10.819**	0.000	0.540	supported
Integrity -> CR	0.282	0.066	4.290**	0.000		supported
Integrity -> EC	0.360	0.072	5.020**	0.000	0.129	supported
Integrity -> EC -> CR	0.21	0.046	4.577**	0.00		supported

Noted: EC: Employee Compensation; CR: Corruption Risk

Employee compensation appears to have a positive effect on corruption risk (= 0.585) at a 1% significant level, according to Figure 2 and Table 5. Second, the effect of integrity on the risk of corruption is positive, with (= 0.282, p 0.01) at a significant threshold of 1 per cent. It means that employee integrity is a critical aspect in lowering the possibility of corruption in the workplace. Third, at a 1% significance level, the effect of integrity and employee compensation (= 0.360) is likewise positively associated. Consequently, the three hypotheses (H1, H2, H3) are accepted for this study. The bootstrapping method was then used to test the indirect effect (Preacher & Hayes, 2004, 2008). With at-value of 4.577**, Table 5 demonstrates that the indirect impact = 0.21 (0.360*0.585) is significant. As a result, the mediation effect of employee compensation may be established as statistically significant, indicating that H4 is also supported.

Important Performance Matrix Analysis (IPMA)

The important values are generated from the indicators' total effects on the target construct, calculated by multiplying the rescaled outer weights of a preceding construct's indicators with the target construct's total unstandardised effect (Ringle & Sarstedt, 2016). The indicators' mean value of the rescaled data is used to calculate the performance values. As a result, the IPMA allows for the prioritisation of constructs in order to improve a certain target construct. Expanding the research to the indicators makes it easier to identify the most critical areas for specific actions (Ringle & Sarstedt, 2016).

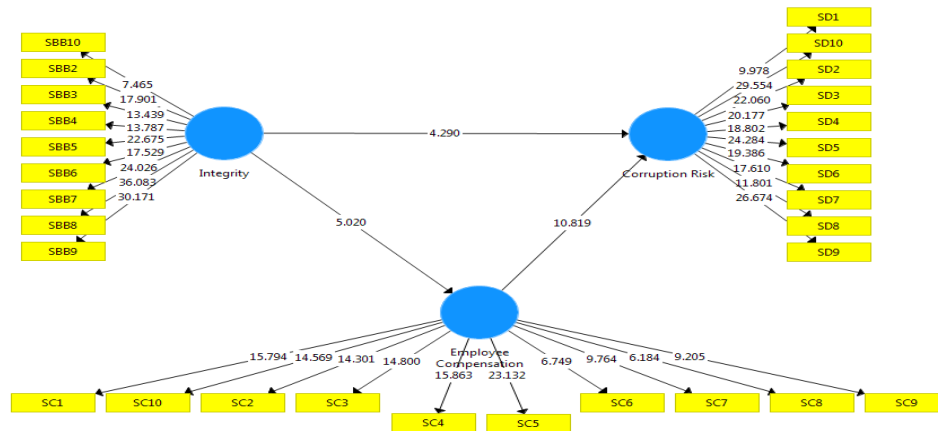


Figure 2: Structural Model Analysis

Table 6: Path Coefficient

Construct	Important	Performance
Integrity	0.443	67.204
Employee Compensation	0.673	69.663

Discussion and Conclusion

The organisation must take proactive actions to prevent detected fraud and corruption. Apart from that, recognising the necessary rules and procedures is the most important step in preventing and detecting fraud and corruption in the organisation. The other aspect that requires more attention is equipping employees with the knowledge of the spirit of fraud and corruption, how to report it, and the impact of corruption on individuals and organisations. To reduce the possibility of corruption in the workplace, proactive promotion of integrity and ethical culture is required. According to Vasconcelos (2015), expert judgment in employee evaluation and strategies to increase the quality of contributions such as high performance, integrity, and credit or reward allocation has gotten much attention. The crucial question is how an organisation can improve integrity performance. The organisation's integrity management system entails defining and consistently communicating the organisation's set of values and developing and operating the tools (rules, codes of conduct, ethical principles, mission statement) that promote or even enforce these values in everyday practice (Pulay, 2014). As a result, the government's focus and efforts should be directed towards adopting more effective and stricter anti-corruption policies that simplify business activities and boost new private firms' viability and economic importance (Nam, Nguyen, Nguyen, & Luu, 2020).

Integrity measures are not required by law, but they help reduce the danger of corruption in several ways. Apart from that, the salary of employees should be a top priority for management. According to the findings of this study, employee salary is one of the factors that has a significant impact on corruption risk and mediates the relationship between integrity and corruption risk. It means that employee salary is an essential criterion that the company should pay greater attention. According to Larkin and Pierce (2015), the reward system will always encourage unlawful, unethical, or unproductive behaviour. This viewpoint is supported by the fact that organisational wrongdoing is a natural and unavoidable by-product of the firm's necessary and crucial structural features (Palmer, 2012). According to Lindner (2013), the extent to which salary top-ups can be employed as an anti-corruption tool must be considered in the context of how salaries might diminish or raise corruption incentives. In this sense, the

evidence is mostly inconclusive. Based on the study conducted by Franklin (2016), employees are rewarded for exposing corruption activities within the company by reporting bribe demands from host government officials and corruption by rivals. However, there is a growing concern that increasing the salary alone may not be enough to decrease corruption in the absence of proper staff and resource management and controls. Incentives or rewards in terms of monetary or non-monetary are important to appreciate the employee in the organisation. The organisation should look into the employee compensation and the other factors that will lead to an increase in the corruption risk.

Limitations and Suggestions for Future Research

As a limitation, the data collection was collected to a single state that might cause possible responses bias. Since this study gives more attention to the government department, it is vital to conduct a survey on other private, government-linked, or even multinational companies. The comparison between organisations will be made through different samples, and a comprehensive conclusion can be more applicable and acceptable. This study would also suggest that future research apply the current variables and test other variables such as employee compensation as a mediation variable to human governance on corruption risk. Human governance is directly related to the internal value of an employee, which consists of the element to improve the quality of employee value, behaviour, ethical and moral conduct.

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