Public Governance in the Public Sector: Literature review

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Received September, 2020; Accepted December, 2020

Abstract. The study aimed to investigate the impact of public governance on the implementation of National Audit Office’s recommendations in Kingdom of Bahrain. It measures the impact of public governance on reducing the total violation of government entities. The study finds that there is significant impact of stewardship and rule of law principle on reducing the total violations. The study came out with important recommendations to the executive bodies concerned with addressing the deficiencies in the governmental system and raising the level of public governance to assist implementing the auditors’ recommendations and avoid violations.

Keywords: Public Governance; Public Sector; Bahrain.

DOI: 10.51325/ijbeg.v3i3.47

1. Introduction

The concept of governance has become capture the interest of a vast number of stakeholders, the end user, and the professionals. The rise needs for high transparency and the collective agreement to tackle corruption; this concept gave great impetus to the business environment as well as the public environment. In highlighting the importance of governance, McCollum (2006) asserted that the demand for regulatory compliance, corporate sustainability and an improvement in corporate performance all of these need the existence of corporate governance. Likewise, the increasing of corporate scandals has led most of the governments throughout the world to rethink their strategies related to governance reforms and greater disclosure about how organizations are operating.

Relatedly, the importance of governance has emerged because of the economic conditions experienced by developed and developing countries. Since the financial crises that hit South-East Asia in 1997, many companies went through a financial distress that required rules of governance to regulate work. Besides this, many countries have turned to capitalist economic systems that rely heavily on private companies to achieve high and sustained rates of economic growth. Indeed, as stated by Todorovic (2013) and Wolfensohn (1998), that the importance of corporate governance in the global economy has become as important as the government in the country. Therefore, and following the meeting and discussion with the 34 members’ states and the non-members of the Organization for Economic Co-operation and Development (OECD), OECD in 1999 has published the principles of corporate governance that enhance the commitment of companies to implement governance requirements, Todorovic (2012); Alareeni (2018).

Governance means consistent management, coherent policies, directions, and process. Kulshreshtha (2008) and the World Bank (1992) defined the governance as “the manner in which power is exercised in the management of a country’s economic and social
resources for development.” Lynn (1999) indicated that the term governance denotes a configuration of separable but interrelated elements laws, policy mandates, administrative rules and guidelines, organizational, financial and programmatic, structures, which in combination establish the governmental activity.

Similarly, in a study that examines the role of governance for the public sector conducted by Dumitrescu (2014), defined corporate governance as a governance for the private sector and it is a set of principles, norms, rules, and mechanisms for the proper guiding and controlling of the corporation. Also, it aims to enhance business prosperity and corporate accountability with the objective of maximizing stakeholders value, MCCG (2000). Additionally, OECD defines corporate governance as a network of relationship between companies’ management and different stakeholders its board, its employees, its shareholders, OECD (2004). However, Kaur (2011) confirmed that the corporate governance framework does not include only the right and responsibility of all stakeholders but also the rules and procedures for decision making to ensure enforceability and accountability. From the previous definitions, it is clear that governance is one of the most important topics in the economies of countries, which is an important element in promoting success and economic and administrative reform.

As stated by Almquist; Grossi; Van Helden and Reichard (2013), public governance pertains accountability tasks about the impact of the policies on society not only the task of providing the service as to be appeared in corporate governance. In fact, the notion of public governance does not differ entirely from corporate governance. Regarding similarities between public & private governance, Armstrong (2005) agreed that public governance is not new but is at least old as corporate governance in private sector. Unlike Hussaina & Bandara (2011), who asserted that public sector governance has been found in ancient civilizations but limited to the principle of accountability. However, Wettenhall (2004) argued that many of the norm applied in the private sector are unsuitable for the public sector and suggested that governance experience in the public sector is long established. On other hand, Proven and Milward (2001) acknowledged that network performance in public sector is more complicated than in private sector because of the diversity of user needs and at the same time are politicized. Rowley (2011) agreed that the public sector is more complex because of the number of stakeholders involved and this intrinsic complexity is translated into the e-government arena.

Aras & Crowther (2008) in their study underlined that corporate governance is an environment of ethics, moral values, trust, and confidence. Hence it is a cooperative effort of all society members including government, private sector and other general public such as service provider. Carino (2004); Plattner (2013); Alareeni and Branson (2013); Alareeni, B.A. (2019) acknowledged that there were different players who are involved in serving the public society such as non -government organizations and private sector. However, the State facilitates the participation of all parties in society and works to build partnerships between the public and private sectors. Subramamiam et al., (2013) confirmed that public governance remains the enduring responsibility of all governments who play a significant role in serving the public interest.

In comparing the types of governance in private and public sector, as indicated by Dumitrescu there are two main types of corporate governance, one is the European and the other is Anglo Saxon both based on the discrepancy between the shareholders and stakeholders value. The Anglo Saxon is typically interested in enriching the value of
shareholders by increasing profits and share values. Nevertheless, the European model is focused in protecting the right of all stakeholders (managers, employees, shareholders, business partners), Dumitrescu (2014). In contrast, Subramamiam et al., (2013) and Tucker (2010) argued that public governance demonstrated itself through the interaction of the two forms of governance the formal and informal. Whereas the formal component consists of structures and process and the informal component comprised the rational aspect which related to employee behavior and organizational culture. As noted by Tucker these forms infused the interactions within and across different levels of governments.

The following section review the relevant literature on public governance and the independent public audit, aiming to build a solid knowledge base on research subject and to develop testable hypotheses to predict the impact of public governance on the implementation of National Audit Office’s recommendations and to find out the factors that retrained the public entities from implementing the audit recommendation.

Nonetheless, it is important to highlight that the number of researches and studies conducted in public governance are rare internationally and in the middle east countries and its relationship with the implementation of audit recommendation.

2. Public Governance

The philosophy behind the emergence of governance concept is as a result of the change in the role of government, because of certain factors such as the evolution of information and the importance for redistribution of roles among all stakeholders. Besides that, the transformation of central systems to decentralized systems and the transition from representative democratic systems to participating democratic systems. Thus, turn the country into a developed country in which the private sector plays the largest role. Public Governance has become a tool to deliver a new agenda for development after it has ensured that financial and technical assistance will achieve its objectives only through the application of governance principles such as transparency, accountability, and integrity. As stated by Australian national audit office “ANAO” (2014), the nature of public sector as being diverse and dynamic requires government agencies to use proven management practices, provide reliable services and flexibility to achieve maximum efficiency as well as innovation to provide new and different services.

Ace (2014) acknowledged that there are deficiencies in the application of governance in the public sector compared to the private sector, which requires the preparation of clear governance standards for the public sector and ensures the proper application of its principles throughout particular action and guidelines. According to KPMG (2010) public government in 2009 have assumed centre stage and have been thrust into the role of actively governing tainted corporation and this was after the financial crisis.

The Institute of Internal Auditor (IIA) (2012) defined public governance as “the combination of process and structures implemented by the board to direct an organization’s activities to provide reasonable assurance that objectives are met, and the operations are carried out in an ethical and accountable manner.” Carlie, Marra & Pozzi (2012); Massey and Johnston-Miller (2016) defined public governance as a group of united public actors that are taking charge in designing, executing and imposing a particular regulatory policy, with a capacity to supervise and coordinate numerous government entities.
3. Public governance practice

3.1. Applying good practices to public sector governance:
The reassessment of the role of government in their societies and the rising demand for accountability, transparency and integrity cause the emergence of public governance. IFAC (2001). Consequently, public sector governance has become one of the most important and current issues on the global and regional level. Therefore, different international institutes worked in developing frameworks for public governance including the guidelines and principles to be followed by public entities. Examples of existing frameworks are as follows:

a) framework developed by IFAC in 2001
b) “The good practice guide on public governance” (2011) developed in Singapore for the Asia-Pacific Economic Cooperation (APEC)
c) Supplemental guidance “The role of Auditing in public sector governance” published by the institute of Internal Auditors (IIA) in Jan 2012
d) “Public sector governance – the best practice guide” issued in June 2014 by ANAO.
e) “The international framework: Good governance in the public sector” issued in July 2014 by the IFAC and CIPFA.

As stated by APEC (2011) there is no standard framework for public governance among public entities, however particular principles of good public governance apply to them. The most common principles that should be included in the framework are:

a) Rule of law: related to the existing of regulation, legal frameworks, independent judiciary. It means that the law is fairly applied to everyone ignoring his position
b) Transparency and openness: refer to the right of public citizens to access to all information about the process of public entities and its performance
c) Accountability: refer to the process that all stakeholder in public entity are responsible to their actions and decision and to the role of law to imposed sanctions for violators of good management practices.
d) Public sector ethics and probity: refer to the adherence to moral principles and to act with honesty and integrity
e) Stewardship: refer to the management of resources in the benefit of public interest.
f) Leadership: refer to the role of leaders in public entity in supporting the principle of good public governance

In the following section, I will talk about some important elements of public governance which related to the study which are accountability, planning & performance monitoring and information & decision making. Additionally, analysis about stakeholders in public entities will be given.

3.2. Standards compliance and accountability

Accountability is the process in which public entity and their individuals are responsible for their decisions and actions fall under their responsibility. Accountability is linked directly with the rule of law because it involves the imposition of sanctions and penalties on those who misuse resources for purposes other than intended purposes, and accountability cannot be enforced without transparency and the rule of law. Nevertheless, Symth (2012) insisted on the formal concept of responsibility as referred to sanction and
reward. Hence it is a tool for control and demanding proper conduct. Koliba, Zia and M.Mills (2011) indicates that responsibility takes many forms legal, representative, consumer, bureaucratic and shareholder accountability. Likewise, the collaborative, professional and citizen responsibility.

In his outline of the contribution of external auditing to accountability in the local government authorities (LGAs) in Tanzania, Mzenzi & Gaspar (2015) draw attention to “Stewart’s ladder” that identify five forms of accountability which are accounting for probity and legality, process accountability, performance accountability, programme accountability, and policy accountability. Probit and legality accountability is concerned whether funds are used in a proper and specified manner. Process accountability related to the manner in which the activities are carried out and for which the funds are allocated, whereas performance accountability pertains the outcomes from activities if they are as planned for. The last two form of accountability program and policy are related to the achievement of goals and the suitability of policies. Stewart (1984) argued that to activate the accountability, the official must have full authority to hold employee accountable and the forms of accountability should be specified and clear for all parties.

Public sector governance pertains accountability tasks in respect to achieve specific goals which are not limited to service delivery but the impact of the policies on the community at large. According to Ronald, accountability in the public sector is described as multi-faceted concept comprises several dimensions depend on the extent of the relationship of the public entity, which incorporates relationships with internal and external parties. Almquist et al., (2013). Relatedly, APEC in 2011 indicated that there is particular mechanism public entity should apply to ensure accountability & compliance in external level such as annual reporting according to the standards & principles, an audit on the financial statement. On the other hand, the public entity should employ internal auditors and appoint an audit committee to ensure the internal compliance and accountability. IFAC (2001) prompted governing bodies of the public sector to have this kind of independent committee to review the framework of control and external audit process.

Regarding accountability from the trustworthiness perspectives, it should be necessary to highlight the importance of activating the role of laws without discrimination in prosecuting anyone who violates or infringes the rights of others. Consequently, the most important indicators that can govern the principle of accountability are the size of the individual's responsibility consistent with the authority granted to him and the existence of mechanisms to reward and punish people. Moreover, it is important that the penalties imposed on violators shall be equivalent to the extent of the violation.

However, one of the great failures of government in applying the accountability standard was in the United states of America after the disaster resulting from the landfall of Hurricane Katrina in 2005. After the investigation conducted by the committee elected by the white house to study the process and procedures, they found many problems in accountability across all types. The lack of coordination, information, inadequate training and delays in providing the medical care, Koliba, Zia and M.Mills (2011) Besides this, the lack of public and private collaboration and lack of planning play a major role in the failure of the government networks.
3.3. Planning & performance monitoring

Strategic planning is one of the pillars of institutional success and is an integral part of governance. It is highly important that government bodies give planning stage more attention where government bodies mostly are service providers and require provide a high level of services to public. Hence, the importance of planning lies in the speed of decision making in a timely manner in order to manage the limited resources of the institution and achieve greater satisfaction from citizens and customers. While applying good governance, officials in public entity should understand each stage of the process from the day of setting the strategies to performance evaluation. In the Planning stage, the internal & external stakeholders should participate to bring the ideal way to provide services or to develop laws and regulations, IFAC & CIPFA (2014). According to ANAO (2014), governing body need to understand the environment surrounding their entity by gathering high-quality information when applying techniques such as scenario planning and trend analysis. This will contribute to understand the internal and external environment of the entity by taking the greatest advantage of opportunities and identify and manage risk and therefore it will enhance the planning process.

Moreover, the International framework of good governance in public management developed by IFAC & CIPFA in 2014 focused on the importance of clarification given in planning stage to the key performance drivers and how it will be defined, how it will be measured. Besides this, the Key Performance Indicators (KPIs) should be established to regularly review the quality of service provided. In addition, governing body should make sure that their processes and systems are in parallel with the goals an objectives and this can be handled by using mechanisms such as strategic planning and performance budgeting and value chain analysis.

According to Stevic et al., (2016) and Sharma (2007) most of the econometric analysis shows a strong correlation between a long-term economic performance and good governance. Accordingly, it is important to maintain effective performance through performance measurement and control. Thus, the annual report of University of Melbourne 2009 and Subramamiam et al., (2013) draw attention to the point that performance monitoring and reporting is essential to ensure accountabilities properly, and monitoring of past performance has its result in current business planning. With regard to the same context, IFAC & CIPFA (2014) stated that managers at all level should be provided opportunely with financial analysis which is reliable, objective, accurate that will help to point out any financial implication and any actual risk. Hence, public entities should manage their performance by continuously monitor and review the following:

- If there is need to adjust goals and objectives
- If the service delivery still achieves the intended outcome in effective & efficient way
- If there is any change in the internal and external environment that should be managed.

In my point of view, weak governance in the public sector is due to weak planning and performance monitoring mainly. I agree with the researchers that all parties must be involved in the planning process so that everyone feels responsible for implementing plans and raising performance.
3.4. Information and decision support

Information and decision support is one of the key organizational and process elements that public entities should have in place in order to effectively apply good public sector governance. According to IFAC & CIPFA (2014), the governing bodies in the public sector should be provided promptly with all information needs to help in formulating their strategies and make well-informed and defensible decisions. Therefore, analysis and interpretation of financial & non-financial information beside reviewing of internal operation are important sources of information that will help management to report to their officials to help them to fulfil their duties. Moreover, ANAO (2014) indicated that information could be obtained from official’s statistics, parliamentary scrutiny, audit and review and public opinion and feedback.

Nonetheless et al., (2014) described the effect of transparency on users and service provider. The authors stated that when the information is accessible and obvious for the group of users, it might change their decisions and actions which may affect the service provider. Thus, provider responds constructively and modify the plans and do the necessary modifications. Consequently, it is important to maintain the continuity of information flow to decision makers in order to detect performance imbalances and address deviations that exist. As stated by APEC (2011) public entities should maintain a robust record keeping and use technologies such as file management system to help strengthen information management. Subsequently, to facilitate communication with managers, we must provide a database that ensures access to information quickly and accurately helps executives to pursue their roles and responsibilities and to enable discharging of duties.

Nevertheless, a strong understanding of available sources of information and the quality of that information can also shape the policy toward interested parties and the interactions with them. As stated by Naicker and Jairam Owther (2017) information quality is critical and should be part of executive decision support framework.

Additionally, in a study that examines the relationship between decision-making process and public governance, it emphasized that communicating with the appropriate people for decision-making process is one of the key factors for proper governance structures, Subramamiam et al., (2013). According to APEC (2011), it is useful to get independent view from external consultants, experts, and auditors to make sure that the received information is unbiased. It concluded that, for better applying public governance, public entities should enhance transparency and accountability through maintaining flow of information to its officials and stakeholders and to the public, taking into consideration the quality of information that will affect the decision making.

4. Conclusions

The concept of governance has become capture the interest of a large number of stakeholders, the end user and the professionals. The rise needs for high transparency and the collective agreement to tackle corruption; this concept gave great impetus in business environment as well as public environment. Ace (2014) acknowledged that there are deficiencies in the application of governance in the public sector compared to the private sector, which requires the preparation of a clear governance standards for the public sector and ensure the properly application of its principles throughout certain action and guidelines. Despite the fact that in 2009 as KPMG (2010) underlined that government
have assumed center stage and have been thrust into the role of actively governing tainted corporation and this was after the financial crisis.

While public governance contributes to strengthening the confidence and raise the quality of service and maintain the integrity of economic systems, it is playing also an important role in strengthen the supervisory and regulatory process in government institutions and the fulfilment of its responsibilities and improve its performance through its regulatory and ability to hold them accountable.

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