

The Global Study: Tackle Corruption through Good Government Governance

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Abstract: Corruption is a worldwide issue and to find effective ways to reduce corruption, this research uses Good Government Governance indicators as independent variables and Corruption as a dependent variable. This research uses 75 countries that are divided into developed and developing countries as its sample. The research effects show that the variable voice and accountability has positive impact on lowering corruption in developed and developing countries, political stability has a positive impact on lowering corruption in developed countries, government effectiveness has a positive effect on lowering corruption in developed and developing countries, control of corruption has a positive impact on lowering corruption in developed countries, Regulatory quality and rule of law variables towards corruption have no effect in developed countries and developing countries.

Introduction

One of the governance failures is that corruption has been spotted every year and is a concern that needs to be tackled. The higher corruption occurrence, the bigger anti-corruption scheme need to be enforced on the attributes of the governance environment that permit corruption to grow (Huther & Shah, 2000; Schacter & Shah, 2001; Shah & Schacter, 2004). Since corruption is critical in

governance, the quest for effective strategies to tackle corruption had been highly elevated (Hellman et al., 2000). Suppressing corruption needs the good governance so that a country might be able to attain sustainability. Therefore, improving good governance should be considered as the main strategy to eradicate corruption. Good Government Governance indicators according to the World Bank

are 1. Voice and Accountability (VA), 2. Political Stability (PS), 3. Rule of Law (RL), 4. Government Effectiveness (GE), 5. Regulatory Quality (RQ), and 6. Control of Corruption (CC). Research by Churchill et al. (2013) who examined 133 countries in 1995, 1996, 1998, 2000, and 2004 regarding what factors cause corruption with the result that factors that affect the reduction of corruption in a country are economic openness, political stability, and ethnic diversity. Meanwhile, democracy and the quality of regulation have no significant effect. Opposed with Brewer et al. (2018) this study has the results that accountability and control of corruption are significantly correlated with government effectiveness and corruption control has a corrosive effect on Government Effectiveness. This research includes examining the governance capacities of all countries around the world to identify some of the key variables that are likely to influence governance outcomes (Transparency.org). In this study, we will present how 1. Voice and Accountability (VA), 2. Political Stability

(PS), 3. Rule of Law (RL), 4. Government Effectiveness (GE), 5. Regulatory Quality (RQ), and 6. Control of Corruption (CC) will be able to tackle and reduce corruption.

Purpose of the Study

The results of this research are expected to contribute to government policies in preventing, controlling, and overcoming corruption.

Research Questions

Do voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption impact in tackling corruption?

Method

There are 75 countries that meet the research criteria. Corruption will be used as dependent variable and Good Government Governance will be used as independent variable. Corruption on this research measured by Corruption Perception Index (CPI) while Good Government Governance measured based on World Governance Indicators released by World Bank. This World Governance Indicators (WGI) covers 1.

Voice and Accountability (VA), 2. Political Stability (PS), 3. Rule of Law (RL), 4. Government Effectiveness (GE), 5. Regulatory Quality (RQ), and 6. Control of Corruption (CC), each indicator was originally calculated on a scale of -2.5- 2.5. This research used econometric models as follows:

i = Country
 t = Time
 ε = error term

$$Cit = \alpha_i + X1it + X2it + X3it +$$

$$X4it + X5it + X6it + \varepsilon_{it}$$

Description:

- C = Corruption Perception Index
- X1 = *Voice and Accountability*
- X2 = Political Stability
- X3 = Government Effectiveness
- X4 = Regulatory Quality
- X5 = Rules of Law
- X6 = Control of Corruption

Results and Discussion

Before conducting a panel data regression analysis for the influence of the quality of good government governance towards corruption on developed and developing countries, a model selection test was conducted whether the regression was carried out using the common effect, fixed effect, or random effect method. By using the Eviews 6 software, the results of the Chow test for the two panel data regression models are as follows:

Table 1.1 Comparison Table Result of Chow Model Regression Data Panel on the Effect of Good Government Governance towards Corruption in Developed and Developing Countries

| Redundant Fixed Effects Tests | |
|----------------------------------|-------------|
| Equation: Untitled | |
| Test cross-section fixed effects | - Developed |

| Countries | | | |
|--|-------------|------------|--------|
| Effects Test | Statistics | df | Prob. |
| Cross-section F | 4,055.864 | -32.6 | 0.0000 |
| Cross-section Chi-square | 114.004.564 | 32 | 0.0000 |
| Test cross-section fixed effects - Developing Countries | | | |
| Effects Test | Statistics | df | Prob. |
| Cross-section F | 144,973,469 | - 41.78 | 0.0000 |
| Cross-section Chi-square | 547,652,865 | 41 | 0.0000 |

Based on the chow test results that the probability value (Prob.) of the Chi-square cross-section in the two panel data regression models is less than 5 percent (p-value = 0.000 <

0.05 =), the recommended model and the better model between the common effect and the fixed effect for the two panel data regression models is the Fixed Effect model.

Table 1.2 Comparison Table Result of Hausman Model Data Panel onthe Effect of Good Government Governance towards Corruptionin Developed and Developing Countries

| Correlated Random Effects - Hausman Test | | | |
|--|---------|------|-------|
| Equation: Untitled | | | |
| Test cross-section random effects - Developed Countries | | | |
| Effects Test | Chi-Sq. | Chi- | Prob. |
| | | | |

| | | | |
|--|-----------------------|---------------|--------|
| | Statistics | Sq. df | |
| Random cross-section | 12,924,083 | 6 | 0.0443 |
| Test cross-section random effects- Developing Countries | | | |
| Effects Test | Chi-Sq. Statistics | Chi-Sq. df | Prob. |
| Random cross-section | 32,254,638 | 6 | 0.0000 |

The Hausman test shows that the probability value (Prob.) of a random cross-section or p-value less than 0.050 (for panel data regression models it is 0.0443 and in developing countries it is 0.000), then the best method is for both panel data regression models is fixed effect.

The Effect Results Analysis

Based on the estimation results of the Fixed Effect panel model in Table 1.3, the equation for the function of the level of corruption based on the CPI is calculated as follows:

$$C_{it} = 53.62 + 3.984X1_{it} + 0.862X2_{it} + 0.973X3_{it} + 0.287X4_{it} + 2.2815X5_{it} + 6.824 X6_{it} + \varepsilon_{it}$$

Table 1.3 Estimation Results of Fixed Effect Panel Model Equation of Corruption Function Based on CPI di Developed countries

| Variable | Coefficient | Std. Error | t- Statistics | Prob, |
|----------|-------------|---------------|------------------|----------|
| constant | 53,620 | 5.453 | 9,834 | 0.000*** |
| X1 | 3.984 | 1,921 | 2,074 | 0.042** |

| Variable | Coefficient | Std. Error | t-Statistics | Prob, |
|--------------------|-------------|------------|--------------|-----------|
| X2 | 0.862 | 0.498 | 1,732 | 0.088* |
| X3 | 0.973 | 0.146 | 6.680 | 0.000*** |
| X4 | 0.287 | 1.341 | 0.214 | 0.831 |
| X5 | 2.282 | 2.403 | 0.949 | 0.346 |
| X6 | 6,824 | 2,552 | 2,674 | 0.0096*** |
| R-squared | 0.993 | | | |
| Adjusted R-squared | 0.989 | | | |

Note: *** (Significant at 99% significance level)

** (Significant at 95% level of significance)

* (Significant at 90% significance level)

Based on the estimation results as presented on the table, it is found that there are 4 variables Good Government Governance that have a significant effect on the Corruption (C) on developed countries, namely the variable voice and accountability (X1), political stability (X2), government effectiveness (X3), and control of corruption (X6). Meanwhile, 2 other variables Good Government Governance namely regulatory quality (X4) and rule of law (X5) on developed countries have no

significant effect on the Corruption (C) on developed countries.

At the 95% confidence level, the variable voice and accountability (X1) has a positive effect on the Corruption Perception Index (C) in developed countries. In other words, the better the voice and accountability, the lower the level of corruption in developed countries. Based on the regression coefficient value, an increase in voice and accountability (X1) in developed countries by 1 unit will increase the

Corruption Perception Index (C) of these countries by 3,984 units.

Different from variable X1, variable *political stability* (X2) positive effect on the Corruption Perception Index (C) in developed countries with a 90% confidence level. In other words if index *political stability* in developed countries stronger then The level of corruption in these countries will increase. Based on the value of the regression coefficient, the increase in *political stability* (X2) in developed countries by 1 unit will increase the Corruption Perception Index (C) of these countries by 0.862 units.

Then variable *government effectiveness* (X3) positive effect on the Corruption Perception Index (C) in countries Up with a 99% confidence level. In other words if *government effectiveness* in countries progress the better then the level of corruption in these countries will decrease. Based on the value of the regression coefficient, the increase in *government*

effectiveness (X3) in developed countries by 1 unit will increase the Corruption Perception Index (C) of these countries by 0.973 units.

Variable *control of corruption* (X6) has a positive effect on the Corruption Perception Index (C) in developed countries with a 99% confidence level. In other words, the better *control of corruption* done then the level of corruption in developed countries will decrease. Based on the value of the regression coefficient, the increase in *control of corruption* (X6) in developed countries by 1 unit will increase the Corruption Perception Index (C) of these countries by 6,824 units.

Meanwhile for developing countries, based on the estimation results of the Fixed Effect panel model in Table 4.7, the equation for the function of the level of corruption based on the CPI in countries development can be estimated with the following equation:

$$C_{it} = 39.75 + 7.393X1_{it} - 1.577X2_{it} + 0.411X3_{it} + 1.017X4_{it} - 4.658X5_{it} - 0.350X6_{it} + \varepsilon_{it}$$

Table 1.4 Estimation Results of Fixed Effect Panel Model Equation of Corruption Level Function Based on CPI di Developing Countries

| Variable | Coefficient | Std. Error | t-Statistics | Prob, |
|--------------------|-------------|------------|--------------|----------|
| constant | 39,750 | 0.831 | 47,814 | 0.000*** |
| X1 | 7.393 | 2,452 | 3.015 | 0.004*** |
| X2 | -1,577 | 1,211 | -1.303 | 0.197 |
| X3 | 0.411 | 0.151 | 2,719 | 0.008*** |
| X4 | 1.017 | 2,774 | 0.366 | 0.715 |
| X5 | -4.658 | 2.831 | -1.646 | 0.104 |
| X6 | -0.350 | 2.264 | -0.154 | 0.878 |
| R-squared | 0.993 | | | |
| Adjusted R-squared | 0.989 | | | |

Note: *** (Significant at 99% significance level)

** (Significant at 95% level of significance)

* (Significant at 90% significance level)

Based on the estimation results as presented in the table above, it is found that there are 2 variables of the quality of governance (Good Government Governance) that have a significant effect on the Corruption Perception Index (C) in developing countries, namely the variable voice and accountability (X1) and government effectiveness (X3).

Meanwhile, 4 other variables of the quality of governance (Good Government Governance), namely political stability (X2), regulatory quality (X4), rule of law (X5) and control of corruption (X6) in developing countries have no significant effect. on the Corruption Perception Index (C) in these developing countries.

At the 99% confidence level, the variable voice and accountability (X1) has a positive effect on the Corruption Perception Index (C) in developing countries. In other words, the better the voice and accountability, the lower the level of corruption in developing countries. Based on the regression coefficient value, an increase in voice and accountability (X1) in developing countries by 1 unit will increase the Corruption Perception Index (C) of these developing countries by 7.393 units.

Then variable *government effectiveness* (X3) has a positive effect on the Corruption Perception Index (C) in developing countries with a

99% confidence level. In other words if *government effectiveness* in developing countries the better then the level of corruption in these countries will decrease. Based on the value of the regression coefficient, the increase in *government effectiveness* (X3) in developing countries by 1 unit will increase the Corruption Perception Index (C) of these developing countries by 0.411 units.

Analysis of the Effect of Each Independent Variable on the Dependent Variable

The following table 1.5 describes the final output of panel data regression using the Fixed Effect model.

Table 1.5 Summary of Model Process

| Variable | Research result | | |
|--------------------------------------|---------------------|-----------|---|
| | Country Type | Influence | Explanation |
| <i>Voice and Accountability (VA)</i> | Developed countries | Positive | Better <i>voice and accountability</i> it will reduce the level of corruption |
| | Developing country | Positive | Better <i>voice and accountability</i> it will reduce the level of corruption |

| | | | |
|--------------------------------------|---------------------|----------|---|
| <i>Political Stability (PS)</i> | Developed countries | Positive | Better <i>political stability</i> then it will decrease corruption level |
| | Developing country | - | No significant effect |
| <i>Government Effectiveness (GE)</i> | Developed countries | Positive | Better <i>government effectiveness</i> it will reduce the level of corruption |
| | Developing country | Positive | Better <i>government effectiveness</i> it will reduce the level of corruption |
| <i>Regulatory Quality (RQ)</i> | Developed countries | - | No significant effect |
| | Developing country | - | No significant effect |
| <i>Rule of Law (RL)</i> | Developed countries | - | No significant effect |
| | Developing country | - | No significant effect |
| <i>Control of Corruption (CC)</i> | Developed countries | Positive | Better <i>control of corruption</i> it will reduce the level of corruption |
| | Developing country | - | No significant effect |

1. Voice and Accountability

Voice and Accountability variables in developed and developing countries in this study have a positive impact towards corruption. When Voice and

Accountability increases, the corruption perception index to measure a country's corruption rises, which means the country is less corrupt.

The existence of this relationship can cause agency problems that originate from differences in interests between the principal and the agent, namely corruption committed by the agent. Agency problem in line with the statistical results of this study can be improved by implementing Good Government Governance. Agency theory says that conflicts between principals and agents can be reduced through supervisory mechanisms. According to Madiastuty and Machfoedz (2003), manipulation by the government due to conflicts of interest can be minimized through monitoring mechanisms designed to coordinate these different interests. This means that the better the freedom of expression, association, and choice in a country, the lower the level of corruption. In line with the research conducted by Brewet et al. (2007) where accountability can control corruption, which is further described by Voice and Accountability with accountability and transparency. Manipulation by the government due to conflicts of interest can be minimized through monitoring

mechanisms designed to coordinate these different interests. This means that the better the freedom of expression, association, and choice in a country, the lower the level of corruption. In line with the research conducted by Brewet et al. (2007) where accountability can control corruption, which is further described by Voice and Accountability with accountability and transparency. Manipulation by the government due to conflicts of interest can be minimized through monitoring mechanisms designed to coordinate these different interests. This means that the better the freedom of expression, association, and choice in a country, the lower the level of corruption. In line with the research conducted by Brewet et al. (2007) where accountability can control corruption, which is further described by Voice and Accountability with accountability and transparency.

For example, Japan is a developed country with a high corruption perception index so that the country is clean enough from corruption. Japan has its own way of implementing the

accountability and transparency of its country, namely every state administrator/civil servant is obliged to publish how much assets they have (Prasetya, 2013). In addition, in 2009 when Prime Minister Hatoyama took office, the government implemented an anti-corruption system. Prime Minister Hatoyama established a special agency to improve accountability and transparency used in Japan's budget known as the Jigyou Shiwake or Government Revitalization Unit. The agency is responsible for reviewing all government agencies in using the budget so that there are no activities to misuse the budget for personal gain (Prasetya, 2013). The entire process and results of the Jigyou Shiwake meeting can also be widely accessed by the public so that it will increase transparency and accountability in the use of the budget and close the gap in corruption. The creation of this agency has proven to be merciful in suppressing corruption in Japan, thus making Japan quite clean from corruption to date (Prasetya, 2013).

If the above case is compared with developing countries such as Indonesia with a low corruption perception index which means this country is not free from corruption, it will be seen that the mechanism for preventing corruption through accountability and transparency in Indonesia is still very lacking. Reported from www.bbc.com Indonesia itself already has bodies such as Jigyou Shiwake, namely the KPK and the LHKPN (State Organizers Wealth Report) mechanism which requires government administrators to report their personal assets. However, the LHKPN mechanism in Indonesia does not open access to the public so that Indonesian citizens cannot participate in monitoring and preventing corruption. Both of these things prove that accountability and transparency can reduce the occurrence of corruption.

2. Political Stability

Aleksandra (2000) in his research found that political stability has a positive relationship to corruption. Political instability triggered by

economic and social transitions. This instability makes corruption the main choice for survival. This is in line with the results of research statistics where for developed countries political stability has a positive effect. That is, if political stability is high, the Corruption Perception Index will be greater, which means the level of corruption in a country is getting lower. Political stability is very important to enforce the law which is the main condition for the enforcement of corruption eradication. In line with agency theory that connected to this research, where conflicts or problems caused by agents and principals, namely corruption can be eased with good political stability. According to www.Indonesiabaik.id reducing agency problems in the form of corruption, the government of a country will usually strengthen democratic institutions and civil liberties.

Stable countries are less likely to experience regime change. Regimes usually abuse relatively short-lived politics to take personal gains such as corruption through their power (Chruchil et al., 2013). Regime change

conflicts due to power struggles can be controlled by implementing a transparent and fair democracy.

In addition to the relatively frequent regime changes, political stability can also be measured from political culture. The United States as a developed country is an adherent of a participant political culture. Quoted from Almond and Verba (2001) the characteristics of participant politics are that the community has a good understanding of the political system in general about the role of government in policy making and the community actively participates in the ongoing political process. The United States has a stable democracy where they uphold the sovereignty of the people which is a reflection of the implementation of the political culture of the participants. With this the United States can maintain its political stability, thereby reducing the level of corruption.

Political stability for developing countries in this study has no significant effect on the level of corruption. This can happen if the developing countries sampled during

2017-2019 are so unstable that they do not influence and cannot control corruption. Reported from www.usnews.com based on the Fragile States Index in 2017, Turkey is a country with a very unstable political situation. This is because Turkey has struggled for years against coup attempts and Kurdish separatism. The indicator of political stability here can be interpreted as state security so that it has nothing to do with abuse of authority such as corruption.

3. Government Effectiveness

In this study, the Government Effectiveness variable has a positive influence towards corruption in both developed and developing countries. This means that the better government effectiveness, corruption will decrease. The agency theory shows a conflict between the principal and the agent. One indicator of Government Effectiveness is independence. Agency theory says that in addition to supervision, independence can overcome agency problems caused (Midiastuty and Machfoedz, 2003). Therefore, by

increasing Government Effectiveness through independence as an indicator that builds Government Effectiveness variables, it can reduce corruption which is an agency problem.

This is in line with research by Turedi and Altiner (2016) which found that the existence of Government Effectiveness will overcome corruption, it can be interpreted that government spending to finance these activities will be more effective. Not a few government elements make the bureaucracy a realm of corruption. The power possessed in providing the service process provides the flexibility to take advantage illegally. The politicization of the bureaucracy has disrupted the professionalism of the bureaucracy. A good bureaucracy supports the effectiveness of good governance as well, this can be improved by strengthening the capacity and quality of human resources as well as monitoring and evaluating public service activities.

Reported from www.bbc.com Asian developed countries, namely Singapore and Japan, became the countries with the best bureaucracies.

With the effectiveness of the bureaucracy, Singapore and Japan have become countries with a high corruption perception index, which indicates that these countries are quite clean from corruption. On the other hand, developing countries such as Indonesia and Bolivia with a low corruption percentage index which indicates that these countries have a high corruption also have complicated state bureaucracies. Judging from The Global Business Complexity Index in 2019, Indonesia is in 2nd position as a complicated country to do business, followed by Bolivia in 5th position. Indonesia and Bolivia are not very favored by foreign investors because of the difficulty in managing administration and licensing. These difficulties can usually only be solved by giving certain rewards.

4. Regulatory Quality and Rule of Law

The regulatory quality shows the ability of a country's government to make and apply policies in a good manner (Coglinanese, 2012). The quality of regulation determines the achievement

of the objectives of the regulation itself. The presence of legal regulations at the same time strengthens the compliance of public officials not to abuse their authority. The quality of regulation and the rule of law is a good combination to tackle corruption. This is in line with research conducted by Handoyo and Fitriyah (2018). However, in practice, good quality regulations and enforcement of legal regulations are still difficult to implement. There is very little awareness from the public and government officials about this. Weak sanctions that apply often provide a loophole for anyone to commit criminal acts of corruption. In this study, the regulatory quality and rule of law does not have a significant effect in developed and developing countries. This can be caused by external factors of each country. The time span of this research is 2017-2019 where there is a high possibility that the countries that are in the research sample will experience an economic recession or natural disaster so that these two factors experience functional slack and

only little or no contribution to the control of corruption. As stated in the transparency international report, North Korea is a country that is very difficult to control corruption. In 2018 North Korea's score on regulatory quality was -2.34 points and its law enforcement was -1.71 points. This score indicates that the regulatory quality and rule of law in North Korea has a very poor function and cannot even have an impact on tackling corruption. Reporting from the bbc based on a UN report in 2019 North Korea was recorded as the country with the worst government. In practice, North Korea functions as an absolute monarchy, this makes all policies and law enforcement regulated and controlled by the ruling party, making it difficult to tackling corruption.

5. Control of Corruption

The Control of Corruption variable in developed countries on this study has a positive effect towards corruption. If the Control of Corruption is good, it will increase the Corruption Perception Index which means that the level of corruption will be lower. According to

the World Bank (2018) report, Control of Corruption can be controlled by supervising the implementation of public policies so that they are applied properly. Bergman and Lane (1990) state that the principal agent relationship framework is a very important approach for analyzing public policy commitments. With the increased accountability of local governments, the information received by the public becomes more balanced against local governments, which means that asymmetry information that occurs can be reduced and corruption is lower. *"Political Will"*, the ambition and determination of the leaders and people of developed countries that focus on tackling corruption is the basis for developed countries to be free from corruption (Lestari, 2017). Based on the corruption perception index, Denmark is the cleanest country from corruption. Denmark's control of corruption measures is to digitize all aspects. Digitalization is also a challenge for supervisory activities faced by auditors, both internal and external to minimize irregularities within an organization.

Based on Transparency International report (2020) another interesting supporting factor from Denmark is human resources and sense of trust in the administration of the government bureaucracy. Denmark's efforts to control their corruption have proven successful.

In this study, the Control of Corruption variable has no significant effect. This might happen because control of corruption is not carried out and even very small efforts to prevent corruption in developing countries which are used as the research sample. Reporting from a report released by Transparency International in 2019, the Sub-Saharan Africa region became the most corrupt country in the world, this is due to civil strife, an unresponsive political system resulting in meaningless efforts to tackle corruption which made control of corruption cannot be carried out properly.

Conclusion

1. Voice and Accountability (VA) in developed and developing countries has a positive and

significant effect, so the higher the Voice and Accountability (VA) will add the Corruption Perception Index (CPI) where the higher the CPI, the lower the level of corruption in the country.

2. *Political Stability* (PS) in developed countries has a negative and significant effect, the higher *Political Stability* (PS) will lower the Corruption Perception Index (CPI) where the lower the CPI, the higher the level of corruption in the country.

3. *Government Effectiveness* (GE) in developed and developing countries have a positive and significant effect, the higher *Government Effectiveness* (GE) will add the Corruption Perception Index (CPI) where the higher the CPI, the lower the level of corruption in the country.

4. *Government Effectiveness* (GE) in developed and developing countries have a positive and significant effect, the

higher *Government Effectiveness* (GE) will add the Corruption Perception Index (CPI) where the higher the CPI, the lower the level of corruption in the country.

5. *Control of Corruption* (CC) in developed countries has a positive and significant effect, the higher the *Control of Corruption* (CC) will add the Corruption Perception Index (CPI) where the higher the CPI, the lower the level of corruption in the country.
6. *Regulatory Quality* (RQ) and Rule of Law (RL) in developed countries are not significant to the level of corruption. While the variables of Political Stability (PS), Regulatory Quality (RQ), Rule of Law (RL), and Control of Corruption (CC) in developing countries are not significant to the level of corruption.

Recommendations

1. Indicators of good governance clearly affect the level of corruption in a country. The

governments of each country, both developed and developing, should be able to improve good governance so that the activities of criminal acts of corruption in their countries can be controlled.

2. Further research can re-explain the Regulatory Quality and Rule of Law variables on corruption by adding a time span or classifying countries based on Regions.
3. Further research can increase the accuracy of research results by extending the research time.
4. The time span of this research is 2017-2019. The next researcher can add a time span during the pandemic starting from March 2020 and show how corruption is during this pandemic.
5. Indicators such as culture and country character can be added for further research so that research results are more country-specific.

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