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The Power of Outside Monitors and Owners on Disclosure of Business Ethics: An Empirical Study

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Abstract. This study aims to determine the understanding of the effect of the characteristics of corporate governance and business ethics disclosure. In addition, this study can provide a broad overview of business ethics disclosure in manufacturing companies in Indonesia. The object of this research is manufacturing sector companies listed on the Indonesia Stock Exchange for 2017–2019. This research used a positivism paradigm with a causal study because it aims to explain the effect of corporate governance on the disclosure of business ethics. Hypothesis testing in this study used Generalized Least Square analysis with the REM method. The results of statistical tests using the REM method show that the characteristics of governance on disclosure of business ethics, namely the concentration of ownership and government ownership, have a positive and significant effect on the extent of disclosure of business ethics in the company. Meanwhile, board gender diversity and board independence have no effect on the disclosure of business ethics, and managerial ownership has a statistically negative and significant effect on the extent of disclosure of business ethics.

Keywords: Business Ethics Disclosure · Ownership Concentration · Board Independence · Government Ownership · Board Gender Diversity · Directors Managerial

1 Introduction

Various company disclosures can influence stakeholder perceptions of the company, including anti-corruption disclosure [1], environmental disclosure [2], the whistleblower [3], business ethics [4]. Information related to this disclosure is usually obtained in the annual report published by the company to the public. In addition to financial information in the annual report, there is also non-financial information, one of which is disclosure related to business ethics (Business Ethics Disclosure) applied by the company. Business ethics can clarify moral values for employees or all organization members to assist managers in making companies more accountable and transparent [5]. Business ethics will help decision-makers build and maintain an ethical workplace [6]. The Republic of Indonesia is also committed to developing the implementation of governance in Indonesia by establishing the Indonesian KNKG (National Committee on Governance Policy).

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Concerning business ethics, the KNKG has also issued guidelines on company business ethics. The guideline explains that the guideline is not a rigid standard, but still opens up a unique space in each company's governance.

Corporate governance grows earlier in developed countries. They come from different groups, and independent commissioners have the potential to reduce agency problems and increase legitimacy [7]. H1: Board independence has a positive effect on the BED level. Social roles theory holds that there are characteristic differences between women and men. Until the 20th century, the stereotypes of women were still consistent, namely they were still very communal [8]. Communal behavior is behavior that is friendly, empathetic, unselfish, has concern for others, and shows an expressive attitude [9]. Not only that, the involvement of women on the board of commissioners will also encourage compliance with governance and disclosure rules [10–12]. For this reason, the researchers hypothesize: H2: Board gender diversity has a positive effect on the BED level. Ownership structure has a large share in the control and governance of the company [13].

The size or portion of large ownership can affect corporate governance because a largely concentrated vote allows single large shareholders (blockholders) to choose different strategic policies from dispersed shareholders [14]. In addition, blockholders have considerable power in governance through direct intervention in company operations [15]. Regarding the dissemination of information, blockholders tend to prevent other shareholders from obtaining more information from the company [16]. Then the researchers make a hypothesis: H3: Ownership concentration has a negative effect on the BED level. There by encouraging the disclosure of good governance by disclosing more information in the annual report. So the hypothesis is made as follows: H4: Government ownership has a positive effect on the BED level. The legitimacy perspective views companies with high managerial ownership as having limited pressure to demonstrate accountability and transparency to outsiders. This is because disclosure tends to decrease as managers allocate more resources to their interests and hide this information from outside stakeholders [17]. Conversely, that higher ownership by managers may not always result in the alignment of management and shareholder interests and the opportunistic nature of managers [18]. To that end, researchers formulate a hypothesis: H5: Managerial ownership has a negative effect on the BED level.

2 Research Method

This study analyzed business entities in the manufacturing industry sector listed on the Indonesia Stock Exchange (IDX) in 2017–2019. It has complete data related to the variables used in the research. Variables in the study consist of dependent, independent, and control variables. The dependent variable in this study is BEDS (Business Ethics Disclosure Score). The BED score refers to Choi T [19]. The independent variables used in this study are ownership concentration (BLKOWN), government ownership (GOVOWN), board independence (BIND), board gender diversity (BGD), and managerial ownership (DOWN).

3 Results and Discussion

Table 1 shows the pattern of corporate ethics disclosure. Of the total 99 annual reports used as samples in this study, 81% of companies in 2019 disclosed that they had a code of ethics. Although several companies did not have a written code of ethics, most companies, namely 91% in 2019, have made ethical behavior based on formal business philosophy in working at the company. This result is also in line with and supported by evidence that the majority (91% in 2019) of the company's top managers regularly emphasize the importance of business ethics in working or socializing in the work environment.

Table 2 shows the Panel Data Regression Results Using the Random Effect Method. The empirical results show that the independence of the board of commissioners (BIND) has no effect on the disclosure of business ethics. This phenomenon might occur because the function of the independent board is as a monitor, so it is not involved in the organization's daily activities [20]. The results also show that independent commissioners cannot become an element of governance capable of influencing management decisions [21]. Social desire influences more decision-making [22]. This finding cannot directly conclude that men and women have the same influence on the voluntary disclosure of business ethics. However, according to the Critical Mass Theory, the small number of women on the board of commissioners is not strong enough to influence decisions taken

Table 1. The business ethics disclosures for the 2017–2019 period

Indicator	Total Disclosure (%)		
	2017	2018	2019
The top managers of this company regularly emphasize the importance of business ethics	83%	89%	91%
Ethical behavior based on a formal business philosophy is the norm of this company	83%	89%	91%
This company has a disciplinary system where unethical behavior will be punished	65%	76%	78%
This company has a code of ethics	74%	78%	81%
Within this company, employees can report unethical behavior anonymously	46%	53%	57%
Within these companies, ethics education, training, or workshops are in place to improve employee business ethics	75%	78%	81%
The company regularly puts most of its profits towards philanthropy	100%	100%	100%
The company has an independent ethics department and officers	51%	57%	61%
Employees can get help regarding business ethics through the ethics hotline or open lines of communication within the company	43%	52%	59%
The company has an ethics committee	18%	18%	18%
This company has an ethical evaluation system that is measured by an independent party from outside the company.	0%	0%	0%

Table 2. The Results of Panel Data Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	−0.730089	0.123389	−5.916978	0
BLKOWN	0.040176	0.014852	2.705007	0.00720
GOVOWN	0.250045	0.020955	11.93261	0.00000
BIND	0.080444	0.04923	1.634059	0.10330
BGD	−0.064935	0.060829	−1.06749	0.28670
DOWN	−0.132411	0.021367	−6.196925	0.00000
AUDITOR_SIZE	0.060537	0.020135	3.006526	0.00290
ROA	0.012758	0.097015	0.131507	0.89550
GROWTH	−0.0021	0.003515	−0.597338	0.55080
FIRM_SIZE	0.043774	0.003807	11.49827	0.00000
LEVERAGE	0.036128	0.036155	0.999264	0.31850

within the team [23, 24]. Ownership concentration has a positive effect on the extent of disclosure of business ethics (BED. Furthermore, a concentrated structure can also increase the information asymmetry of controlling shareholders choosing to increase information disclosure to reduce information asymmetry between majority and minority shareholders [25]. Government ownership is proven capable of strengthening the breadth of disclosure of business ethics. This aligns with several previous studies [12, 26, 27]. The role of government is proven to be strong enough to influence management decisions related to business ethics. Meanwhile, managerial ownership has a negative and significant effect on the extent of disclosure of business ethics. This is possible because there is a tendency for managers to keep information to themselves [7, 28–30].

4 Conclusion

This study answers how ownership and governance elements influence management decisions in disclosing business ethics. It turns out that independence and diversity within the board of commissioners failed to influence ethical business disclosure within the company. Ownership turns out to be able to carry out its function as a monitor when viewed from the extent of ethical business disclosure. Government and centralized ownership have a positive relationship with the extent of disclosure of corporate ethics. However, management's increasing ownership reduces its willingness to share information with other stakeholders. This research cannot answer what is the role of elements of governance in the extent of ethical disclosure.

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