Corporate Ethical Values Disclosure: Evidence from Malaysian and Indonesian Top Companies

ABSTRACT

Purpose: This paper aims to examine the extent of ethical values information disclosure on the top 100 Malaysian and Indonesian companies' annual reports using coercive isomorphism under the institutional theory.

Methodology: Using the content analysis, the presence or exclusion of ethical values information disclosed on 100 Malaysian and Indonesian companies' annual reports using a newly developed Ethical Values Disclosure Index is carried out.

Findings: The results of the analysis found that Indonesian companies on average disclosed 31 items under study compared to 27 items disclosed by the companies in Malaysia. The results suggest that Indonesian companies are more vigilant in the Code of Ethics, Companies Policy on Ethical Issues, Monitoring Program and Accountability, Ethical Performance, Ethical Infrastructure, and Organizational Responsibility aspects, whilst their Malaysian counterparts are better in reporting Governance and Integrity Committee or Board of Directors.

Research limitation implication: The findings may not be applicable to other countries in the same region, nevertheless, revealed the importance of adequate ethical values disclosure in determining the level of ethical behaviour.

Practical implication: Companies in Indonesia are coercively pressed by various influential stakeholder groups to address ethical issues. The less disclosure regarding corporate ethical behaviour may indicate that unethical practices continue to be a problem in the Malaysian corporate sector.

Originality: This paper adds to the literature by examining the elements of ethical values adapted mainly from the professional bodies that regulate the accounting profession and other organisations using the institutional theory, particularly in two countries.

Keywords: institutional theory, ethical values, disclosure

1. Introduction

There is a growing number of institutional reforms relating to business ethical conduct across the globe. These reforms are initiated by national governments collectively and individually (Knudsen and Moon, 2017). The United Nations Convention Against Corruption 2003 is one example of collective initiative. This convention is considered the only legally binding universal anti-corruption instrument which aims to reduce corruption in the private sector (United Nations, 2020). An example of individual initiative is the enactment of the Dodd-Frank Act (Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010) in the US which requires companies to trace conflict minerals such as gold in their supply chains (Islam and van Staden, 2018). Conflict minerals are “raw materials associated with conflicts and human rights violations in conflict zones around the world” (Islam and van Staden, 2018, p. 1).

As with other countries, countries in the Association of Southeast Asian Nations (ASEAN) region, one of the most corrupt regions in the world (Sari *et. al.*, 2021), have also initiated institutional reforms through a number of regulations. In particular, two leading ASEAN countries namely

Indonesia and Malaysia are considered as having many ethical-conduct-related regulations such as the Anti-Corruption Act 1997 in Malaysia and Law No. 8 Year 2010 concerning Prevention and Eradication of Criminal Acts of Money Laundering in Indonesia (Joseph *et. al.*, 2016; Kapeli and Mohamed, 2019). However, ironically, these two countries are still facing complex unethical practices conducted by various organizations, including corporations. One of the major unethical practices happening in these countries is fraud (Nasir *et. al.*, 2019; Hidajat, 2020). Such an unethical practice should not be ignored because the conduct of this practice may result in the collapse of a company (e.g. Enron case). The collapse of the company also potentially has negative global impacts, particularly if the company has a global supply chain and foreign investors (see Brody et al. 2021). A major overseas supplier, for instance, must reduce its employee number because it no longer supplies products to the company).

In Malaysia, major corporations such as Gula Perak, Golden Land, and MEMS Technology were convicted for financial statement fraud (Nasir *et. al.*, 2019). According to Ghafoor *et al.* (2019), there were 76 companies that committed financial reporting fraud from 1996 to 2016. Similarly, in Indonesia, Jiwasraya, a state-owned enterprise operating in the insurance industry, was recently convicted of fraud. It is also identified that many fraud cases had been committed by directors, supervisors, and owners of rural banks (*Bank Perkreditan Rakyat*) in Indonesia from 2006 to 2018 (Hidajat, 2020).

The above overview highlights those institutional reforms relating to business ethical conduct may not be effective if they are not supported by intensive monitoring and enforcement from the governments, and even internally from the organizations or companies themselves. It is also important to note that corporate fraud cases that have happened to this point may negatively influence stakeholders' trust in companies i.e. legitimacy problem. Thus, companies need to respond to any institutional pressures by communicating their ethical value commitment. According to Akbar and Deegan (2021), corporate social reporting can be used by companies to legitimize their practices from the perspective of their constituents, particularly as a response to pressures from social, economic, and political factors. This view is arguably applicable to the context of corporate ethical values communication. Disclosing ethical values information could be used as an indicator to measure ethical behavior in organization i.e. compliance with international and national guidelines related to ethical conduct developed by professional accounting bodies. Joseph *et al.* (2023) have developed a specific disclosure index to measure the extent of corporate ethical values information in Malaysia based on the isomorphism conception. Thus, the purpose of this paper is to examine the extent of ethical values information disclosure in Malaysian and Indonesian companies' annual reports from the lens of institutional theory, specifically from the coercive isomorphism perspective, using the index developed by Joseph *et al.* (2023). This paper put forward that using a specific disclosure index that is developed based on an established theory is important to measure the actual ethical values information disclosed in companies' annual reports which are uncommon in other disclosure studies (see Sari *et al.*, 2021; Abidin *et al.*, 2020).

This paper contributes to the literature in two ways. Firstly, it examines the ethical disclosure practices of top companies, regardless of whether their business philosophy is closely tied to Islam or not. Most prior ethical disclosure studies are focused on Islamic banks (e.g. Belal *et al.*, 2015; Sencal and Austay, 2021). In fact, under the current institutional reforms worldwide, companies other than Islamic banks are also expected to act ethically and disclose their ethical practices (see

Islam and van Staden, 2018; Waweru, 2020). These highlight the importance of examining the ethical disclosure practices of non-Islamic firms. Secondly, this study adopts a newly ethical disclosure index developed by Joseph *et al*. (2023) whose disclosure items arguably best represent ethical values in the contexts of the current study, which are Malaysia and Indonesia. The disclosure index includes several new issues/aspects such as *Corporate Integrity System Management* and *Anti-Bribery Management System Certification*. The disclosure items of the index, however, have not been used in prior studies to assess companies' ethical value disclosures in relevant countries. It is therefore considered important and timely to use Joseph *et al*. (2023) index for empirically examining ethical value disclosure in Malaysia and Indonesia. The explanation of the index and the details of the items are presented in the methodology section of this paper.

2. Literature Review

Growing research around the topic of ethics globally shows that ethical practices make a difference in supporting the long-term success of companies. In the specific literature of ethical reporting, however, most prior researchers examine the disclosure practices of Islamic banks (e.g. Haniffa and Hudaib, 2007; Belal *et al*., 2015; Sencal and Asutay, 2021; Gadhoum *et al*., 2022) or companies included in the Shariah[1] Securities List on a capital market (e.g. Nugraheni *et al*., 2022). This is because the basis of those companies' business philosophy is closely tied to Islam and they must comply with Shariah requirements which are regarded as the legal and ethical rules for Muslims (see Haniffa and Hudaib, 2007; Abdullah *et al*., 2013). Haniffa and Hudaib (2007), for instance, investigate the ethical disclosure practices of Islamic banks in the Arabian Gulf region.

[1] Shariah is Islamic law derived from Qur'an and Hadith (the practices, approvals and sayings of Prophet Muhammad) and governs every aspect of a Muslim's life (Haniffa and Hudaib, 2007).

Belal *et al*. (2015) critically examine ethical reporting in Islami Bank Bangladesh Limited's annual reports.

Interestingly, in prior studies examining ethical disclosure practices worldwide, Indonesia and Malaysia were usually included in the analysis. Sencal and Asutay (2021), for example, analyze the ethical reporting of Islamic banks from 15 different nations, including Indonesia and Malaysia. Gadhoum *et al*. (2022) examine Islamic banks' ethical disclosure practices in 18 countries, including Indonesia and Malaysia. According to Abdullah *et al*. (2013, p. 101), Indonesia and Malaysia "represent the majority of Islamic banks" in ASEAN and "are among the most progressive in the development of Islamic finance". Thus, it is reasonable to include these two countries in Islamic banks' ethical disclosure studies. Abdullah *et al*. (2013) themselves specifically investigate Shariah reporting in Indonesian and Malaysian Islamic banks' annual reports.

From the brief literature review above, it can be noted that research on ethical disclosure is growing but it is still limited to Islamic banks. The literature further indicates that Indonesia and Malaysia are important research settings for an ethical disclosure study in Southeast Asia. Prior researchers, however, have not exclusively examined ethical disclosure practices in these two countries, particularly non-Islamic organizations/companies' ethical reporting. There is a study by Joseph *et al*. (2016) that examines and compares Malaysian and Indonesian corporate social responsibility (CSR) best practice companies' reporting. However, the scope of that study is too narrow, only looking at anti-corruption disclosure. Ethical disclosure itself encompasses a wider range of issues such as corruption, fraud, mismanagement, and bribery (see Joseph *et al*., 2023). To contribute to the literature, the current study attempts to examine ethical value disclosure practices of top companies in Indonesia and Malaysia, by investigating the extent of disclosure in each country and comparing the extent of disclosure in Indonesia with the extent of disclosure in Malaysia.

3. Ethical issues, practices, and communication

The conduct of business ethics is a part of governance practices that have come under scrutiny due to many issues including corruption, fraud, mismanagement, and others that happen in every industry (Sidhu, 2014) and in all professions (Rashid *et. al*., 2019). Debates in prior studies (Waweru, 2020; ElGammal *et al*., 2018) pointed out that the aforementioned issues are associated with a low level of business ethics. Correspondingly, Dindi *et al*. (2018) revealed that one of the reasons for unethical practices is due to corrupt practices at individual and institutional levels. The study then suggested that ethical practices could be a solution to unethical conduct. Despite continuous initiatives and efforts to improve governance practices, the dilemma remains unresolved today. This indicated the critical need for sound business ethics conduct, for instance, having a code of ethics in place, and educating companies and people on ethics (Ali *et al*., 2018) in tackling these issues.

Malaysia is experiencing similar issues that involve not only public officials but high-profile individuals, political figures (Palatino, 2015), and large companies which threaten its business landscape (Sidhu, 2014). Zam *et al*. (2014) and Wong (2018) highlighted those unethical conduct in Malaysian companies is commonly committed by senior and higher management. Several prior studies on ethics in the context of the Malaysian setting revealed that ethical practices are still low. In the context of Malaysian public listed companies, Abidin, Hashim, and Ariff (2020) indicate that corporate commitment towards ethical conduct is crucial to ensure the ethical practices of public listed companies are at the highest standards. Abidin, Hashim, and Ariff (2019) examined the disclosure of ethical practices of Malaysian public listed companies and found that the level of ethical practices disclosure is still low. Abidin, Hashim, and Ariff (2017) explored the role of ethics in the context of public listed companies and found a positive effect of management commitment toward ethics on wealth creation and sustainable performance. A study by Zam *et al*. (2014) highlighted that one of the factors that encourage fraud commission is weak ethical culture and poor corporate governance. An earlier study by Othman and Rahman (2010) through interviews with key players of corporate governance in Malaysia and companies revealed that several ethical dimensions such as ethical leadership, integration of ethical culture, and established corporate value stimulate corporate governance practices.

The fraud issue has gained the attention of many parties including regulators, policymakers, and top management of large companies (Salin and Ismail, 2015). In fact, the corporate governance practices and policies were strengthened through the execution of the Malaysian Code of Corporate Governance (MCCG) in 2000 by the Securities Commission Malaysia (SC), which became a significant tool for governance reform (Securities Commission, 2017). The MCCG has been reviewed in 2007, 2012, 2017, and recently in 2021 to ensure that the content remains relevant. In addition to MCCG, commencing in 2019, the SC annually publishes the Corporate Governance Monitor (CGM) to monitor and observe the adoption of the MCCG.

It is important that the value of ethics and ethical expectations be clearly communicated within companies as part of good governance practices. Joseph *et. al*. (2019, p. 112) highlighted that ethics principles are “preached but may not be practiced sincerely by professionals and employees”. Therefore, the value of ethics should be embedded into the companies’ culture and embraced by the employees (Abidin *et al*., 2017). The culture can be embedded internally through employees and externally through the distribution of the companies’ code of ethics to the relevant party (Othman and Rahman, 2010). KPMG (2014) in its survey revealed that the most common factors that contributed to unethical behaviour are poor communication of the organisation’s values or code of ethics or code of conduct, poor examples shown by senior management, and poor ethical culture within the organisation, as supported by Abidin *et al*. (2020).

Recently, Indonesia has carried out numerous efforts to improve its corporate governance system. These initiatives involve the set-up of corporate governance institutes and the implementation of new regulations (or changes to the present laws) that aid the implementation of good corporate governance practices. These actions take into account the setting up of the National Committee on Corporate Governance in 1999. Indonesia’s first Code of Good Corporate Governance (“CG Code”) was released in 1999, and amended in 2001 and 2006. The Capital Markets and Financial Institutions Supervisory Agency merged with the Financial Services Authority in 2012 (Otoritas Jasa Keuangan or OJK), and OJK strives to push its monitoring framework to safeguard investors’ interests. In 2014, OJK released an Indonesia Corporate Governance Roadmap to support the nation’s regulatory framework and promote the internationalization of Indonesian governance practices in the Southeast Asian region. In addition, Regulation No. 21/POJK.04/2015 and Circular Letter No. 32/SEOJK.04/2015 on the Implementation of Corporate Governance Guidelines for Public Companies ("OJK CG Guidelines") are launched to enhance accountability and transparency.

Based on the Asia Pacific Fraud Survey (Ernst and Young, 2013), 36 percent of the Indonesian respondents agreed that it is unexceptional to bribe in order to secure contracts (Ernst and Young, 2013, p. 2). This study concluded that the bribery problems in Indonesia will not end quickly. Bribery was included in the Corruption Eradication Commission (KPK)'s database and classified as one of the five main schemes of corruption in Indonesia. These five main schemes consisted of procurement of goods and services, bribery, budget misappropriation, unauthorized collection, and licensing (Corruption Eradication Commission, 2012). It was further highlighted in the study that the most common corruption type in Indonesia is bribery.

Weak internal controls and deficiencies of ethical values are placed as the utmost possible explanations for why organizations are susceptible to illegal activities. A set of comprehensive ethical guiding principles and procedures is recognized as the greatest fraud risk management process (Siregar and Tenoyo, 2015). In Indonesia, specifically, corruption is an effect of a realistic decision-making process – people understand and evaluate their situations to decide the best course of action to achieve their objectives (Prabowo, 2014). Whistleblowing systems and fraud awareness could be potential prevention measures. By improving staff's fraud awareness, they not only identify fraud signs but also correspondingly help to develop concerns in honesty and on an acceptable basis (Shonhadji and Maulidi, 2021).

4. Theoretical framework

Several theories, such as legitimacy and stakeholder theories, have been used to explain CSR-related reporting. Among those theories, institutional theory seems relevant and helpful in this study. The proponents of institutional theory argue that this theory provides a richer analysis of corporate social reporting practices (Deegan, 2017). Such analysis is helpful for explaining organizations' complex practices such as CSR reporting and corporate ethical communication (Albu *et al*., 2021; Mahmood and Uddin, 2020). Therefore, the current study adopts institutional theory as the theoretical framework.

Institutional theory explains a situation in which an organization adapts to a particular practice in response to various institutional pressures. The purpose of the adaptation is to gain legitimacy. Suchman (1995, p. 574) defines legitimacy as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". To best survive and sustainably operate, a company must meet the public's desires, norms, values, beliefs, and expectations within a social system (Akbar and Deegan, 2021). As such, in this context of ethical disclosures, companies operating in Malaysia and Indonesia arguably need to adapt their reporting practices by disclosing their ethical commitments. This is because, under the two countries' institutional reforms, there are many ethical-conduct-related regulations companies need to address and obey (see again the introduction section). The overview outlined in the introduction part of this paper also shows trust crises from stakeholders present in Malaysia and Indonesia since many companies' top management members were involved in fraud cases, highlighting the existence of corporate legitimacy problems or gaps. Companies can thus use ethical reporting to gain (or regain) trust from the public, closing the legitimacy gaps.

In the context of institutional theory, pressures on companies to adapt to disclosure practices can come from three different isomorphic sources. These sources are coercive, mimetic, and normative pressures (DiMaggio and Powell, 1983). Coercive isomorphism occurs when an organization is pressured by its influential stakeholders to disclose particular information, such as ethical disclosures (DiMaggio and Powell, 1983). Mimetic isomorphism explains a situation in which an organization adapts particular practices, such as ethical reporting done by other organizations (usually organizations that operate in the same industry (DiMaggio and Powell, 1983). Normative isomorphism occurs when an organization is pressured by a group of norms to undertake a particular practice because this group believes that that practice is a good 'deed' (DiMaggio and Powell, 1983). For this paper, coercive isomorphism is adopted because there are arguably coercive pressures from influential stakeholders on companies operating in Malaysia and Indonesia to disclose ethical information. This is evidenced by, for instance, several reforms initiated by the governments of these countries (e.g., through enacting various acts and regulations).

Coercive isomorphism is divided into formal and informal pressures (DiMaggio and Powell, 1983; Martínez-Ferrero and García-Sánchez, 2017). Formal pressures reflect pressures from regulators such as governments in which some regulations need to be obeyed and enforced (DiMaggio and Powell, 1983; Ben-Amar et al., 2023). An example of a key stakeholder group that has the power to regulate, enforce, and penalize is the government. Informal pressures, on the other hand, can be given by stakeholder groups who do not have regulatory power but have some influence on organizations (DiMaggio and Powell, 1983; Ben-Amar *et al*., 2023). This can be because the organizations need resources from them. Shareholders and creditors are the examples. All these pressures are potentially present in the contexts of corporate ethical practices and disclosures in Malaysia and Indonesia. As documented in several prior studies (e.g. Amran and Haniffa, 2011; Cahaya *et al*., 2012), coercive pressures on corporate reporting do exist in these countries. Amran and Haniffa (2011), for instance, found that Malaysian companies having high dependence on government contract were coercively pressured to disclose more sustainability information. Cahaya *et al*. (2012) found that Indonesian listed state-owned enterprises were coercively pressured to disclose labour-related CSR information. Thus, the use of coercive isomorphism in this study is considered appropriate. In addition, Joseph *et al*. (2023) maintained that isomorphism pressures exist in promoting ethical values to curb or reduce corruption and bribery.

Coercive isomorphism is arguably a key concept in institutional theory which provides a critical perspective for analyzing disclosures of corporate ethical values in listed companies, including top-tier firms in Malaysia and Indonesia. As noted in Wicaksono *et al*. (2023), listed companies are encouraged to disclose information about particular activities (e.g. CSR performance) to show their compliance with regulations regulating those activities (e.g. CSR-related regulations). This is where coercive pressures come into play (Amran and Haniffa, 2011; Wicaksono *et al*., 2023). Regulatory pressures such as the Companies Act in Malaysia and Company Law in Indonesia mandate corporations to adhere to transparency and disclosure guidelines, creating coercive isomorphism (see Cahaya *et al*., 2012; Cubilla-Montilla *et al*., 2020; Joseph *et al*., 2023). These legal imperatives serve as coercive forces that standardize the nature and extent of ethical disclosures among firms (Issa and Alleyne, 2018).

The literature, however, presents gaps, particularly concerning coercive isomorphism in non-Western contexts. In Cubilla-Montilla *et al.* (2020), for example, most sample companies examined within the framework of institutional theory, which includes coercive isomorphism, are from Western countries such as Australia, Canada, and Germany. While much of the current scholarship has examined how Western legal and economic systems shape corporate disclosures, less attention has also been paid to how these dynamics manifest in emerging economies like Malaysia and Indonesia. Furthermore, coercive isomorphism on corporate ethical value disclosure still needs to be explored. Such an exploration offers evidence from Malaysia and Indonesia's top companies, which can reveal how coercive pressures evolve. Scholars can contribute new insights into the institutional factors shaping ethical disclosures by focusing research efforts on these territories. Therefore, enriching the theoretical landscape of institutional theory that offers empirical insights tailored toward the Southeast Asian corporate context.

5. Methodology

The content analysis examines the presence or exclusion of ethical values information disclosed in 100 Malaysian and 100 Indonesian companies' annual reports using a newly developed Ethical Values Disclosure Index by Joseph *et al.* (2023) as the checklist. Disclosure studies have extensively used content analysis (Joseph *et al.*, 2019; Sari *et al.*, 2021). Hence, it is considered appropriate to use content analysis for measuring the extent of ethical values information disclosure. Our study is an extension of Joseph *et al.* (2023) study that developed the ethical values disclosure index specifically based on professional accountancy bodies' guidelines, statutory requirements, past literature, and winners of corporate annual reports competitions. Importantly, Joseph *et al.* (2023)'s ethical value disclosure index has been carefully assessed by using

Sustainable Development Goal (SDG) 16 (peace, justice, and strong institutions) and institutional theory perspectives for companies in Malaysia. Arguably, this index is also relevant to the context of Indonesia due to similarities with Malaysia (e.g. dominance of Islam as the majority of the population are Muslims, geographical proximity, culture, ethnicity, language, and ethical-related laws and rules).

The data were captured using 40 items of a disclosure instrument that comprises eight aspects: Code of Ethics (12 items), Business Values (1 item), Companies Policy on Ethical Issues (7 items), Ethical Commitment (1 item), Regular Reporting / Communication and Awareness (1 item), Monitoring Program and Accountability (4 items), Ethical Performance (2 items), Ethical Infrastructure (4 items), Report to their respective Governance and Integrity Committee or Board of Directors (1 item) and Organizational Responsibility (7 items). This work refers to a new ethical disclosure index developed by Joseph *et al*. (2023) in analyzing the annual reports. Joseph et al. (2023) 40 items used in the current study are presented in the appendix. Among the 40 items, there are six new disclosure items originally derived from the annual reports of selected Malaysian public listed companies (see Joseph *et al*., 2023). These items are considered new because they have not been released, assessed, and employed by studies prior to Joseph *et al*. (2023). Therefore, the inclusion of the six new disclosure items in the disclosure index and the use of the index in the current study arguably capture the latest ethical issues in Malaysia and its neighbouring country, Indonesia. The adoption of Joseph *et al*. (2023) index is also regarded as one of the current study's contributions. The new six disclosure items are as follows:

1. Corporate integrity system management (Ethical infrastructure theme)
2. Web-based fraud monitoring system (Ethical infrastructure theme)

3. Anti-Bribery Management System certification (Ethical infrastructure theme)

4. Declaration that the company's governance is based on the principle of MCCG 2017 (Organizational responsibility theme)

5. Link of code of conduct and ethics (Organizational responsibility theme)

6. Hotline (Monitoring program and Accountability theme)

This study employed an unweighted disclosure index to measure the extent of ethical value disclosures. Every disclosure item was treated equally essential when utilizing the unweighted disclosure index. In the current study, the content of each sample company's annual report was read and compared to the items listed on the index checklist, which are Joseph *et al*. (2023) 40 disclosure items. Each disclosure item was awarded a score of "1" when the item was disclosed in the annual report. In contrast, a score of "0" was awarded when the item was not disclosed. Each sample company's disclosure index was then calculated by dividing the total score awarded to the company with the maximum number of items (40 items). Both countries' data use the same disclosure items within all eight aspects to avoid bias and ensure reliability.

The disclosure data were collected from 2019 annual reports of the top 100 companies (both financial and non-financial sectors) in both countries. The top companies were selected as samples since larger organisations are expected to disclose more information (Kansal et al., 2014). The 2019 annual reports were analyzed due to the implementation of MCCG 2017 in Malaysia and Regulation No. 21/POJK.04/2015 and Circular Letter No. 32/SEOJK.04/2015 on the Implementation of Corporate Governance Guidelines for Public Companies ("OJK CG Guidelines") in Indonesia during the period under study. The list of Indonesian companies is available at: http://iicd.or.id/en/event2019/corporate-governance-award/2019/10/09/award2019/, while the list of Malaysian companies is available at: http://www.mswg.org.my/list-of-top-100-companies-for-cg-disclosure-2019-by-rank. A comparative analysis of sub-categorisation frequency was tabulated and analysed using the Statistical Package for Social Science (SPSS) version 20.0. Several t-tests were also performed in the analysis.

6. Results

This paper aims to examine the extent of ethical values disclosure on Malaysian and Indonesian companies' annual reports using coercive isomorphism under the institutional theory. On average, the disclosure by the Malaysian and Indonesian companies revealed that, overall, Indonesian companies disclosed higher on average than their counterparts in Malaysia. On average, Indonesian companies' disclosure is 30.68 as compared to 26.96 disclosed by their Malaysian counterparts. By category, the Indonesian companies disclosed more on code of ethics (80.58%), companies' policy on ethical issues (90.00%), monitoring program and accountability (72.50%), ethical performance (42.50%), ethical infrastructure (43.75%) and organizational responsibility (79.71%) as compared to their counterparts in Malaysia. For the same aspects, the Malaysian companies disclosed 74.50% for the code of ethics, 84.14% for companies' policy on ethical issues, 62.25% for monitoring programs and accountability, 19.00% for ethical performance, 19.75% for ethical infrastructure, and 63.86% organizational responsibility. Companies in both countries reported 100% in the business values theme.

The Malaysian companies, however, beat their Indonesian counterparts in ethical commitment (100%), regular reporting/communication and awareness (100%), and reporting to their respective

Governance and Integrity Committee or Board of Directors (100%), The Indonesian companies, on the other hand, disclosed 99% for ethical commitment and regular reporting/communication and awareness respectively and report to their respective Governance and Integrity Committee or Board of Directors (65%). The average counts and percentages by category are presented in Table I below.

Insert Table I

The difference in disclosure by the companies in both countries was investigated using the Kruskal-Wallis test. Kruskal Wallis test result shows a significance level at 5% (p-value < 0.05), revealing that the differences between the two countries' disclosures were significant for the Code of Ethics, Companies' Policy on Ethical Issues, Monitoring Program and Accountability, Ethical Performance, Ethical Infrastructure, Report to their respective Governance and Integrity Committee or Board of Directors and Organizational Responsibility as depicted in Table II.

Insert Table II

The mean rank for the Code of Ethics, Companies Policy on Ethical Issues, Monitoring Program and Accountability, Ethical Performance, Ethical Infrastructure, and Organizational Responsibility revealed that Indonesian companies were higher than their counterparts in Malaysia, and the difference was significant at 95% confidence levels. The Malaysian companies, on the other hand, registered a higher mean rank for the Report to their respective Governance and Integrity Committee or Board of Directors theme, and the difference in mean rank was also significant at 5% significance level, in which the p-value was less than 0.05.

Insert Table III

Equality for means was also explored using the independent t-test to determine whether there was a significant difference in the extent of the disclosure. The test statistics revealed that the disclosures were significant from the following themes: i) Code of Ethics, ii) Companies Policy on Ethical Issues, iii) Monitoring Program and Accountability, iv) Ethical Performance, v) Ethical Infrastructure, vi) Report to their respective Governance and Integrity Committee or Board to their respective Governance and Integrity Committee or Board of Directors and vii) Organizational Responsibility The test results are presented in Table IV below.

Insert Table IV

Based on the statistical test above, item-wise, it can be stated that the observation in this study was rather consistent with previous studies on disclosures. Previous studies on disclosures of integrity items of local authorities reported that the Indonesian local authorities disclosed more information on integrity as compared to their Malaysian counterparts (Joseph *et al*., 2019). Kruskal Wallis statistics in this current study also supported the notion that Indonesian company providers were more transparent in terms of disclosure of ethical values information. The difference in the amount of disclosure was significant at 5%. The p-value was less than $p<0.05$.

7. Discussion

Malaysian companies are found to disclose less information about their ethical values, which is unsurprising. The disclosure conundrums have been significant issues that require the government's and regulators' attention. The lack of coercive power is why companies disclose less (Joseph *et al*., 2019). Malaysian companies lack comprehensive disclosure in their whistleblowing policies (Ahmad *et al*., 2018), have a low level of CSR disclosure (Wan Jusoh and Ibrahim, 2017; Ramba *et al*., 2018), and have a low level of integrated reporting disclosure (Ghani e*t al*., 2018).

Even Shariah-compliant businesses have been found to withhold information required by Islamic law (Shariah), such as zakat (Islamic levy) information (Muhammad and Mohd Hanefah, 2020) and a low level of disclosure for corporate social responsibility (Aziz and Haron, 2020). The Securities Commission and the Malaysian government's involvement in addressing this issue are still required. This indicates how vital coercive power is to ensure full compliance among Malaysian Companies about any disclosure, which includes the disclosure of ethical value information. Perhaps the regulator's need for more encouragement and guidance, as evidenced by the latest Malaysian Code on Corporate Governance's Recommendation 2.3, highlights only two areas to disclose in the annual report: remuneration policies and procedures. This may explain, in part, why Malaysian companies are reluctant to disclose information (Jaafar et. al., 2019). While there is evidence of coercive power in the form of regulatory requirements relating to disclosure, its influence is still limited. The less or absence of disclosure regarding corporate ethical behaviour may indicate that unethical practices continue to be a problem in the Malaysian corporate sector (Abidin *et al*., 2019).

Various initiatives undertaken by the Government of Malaysia imply its serious effort and commitment to institutionalize ethics (Ali *et al*., 2018), particularly among companies, and strong corporate governance is fundamental for the sustainability of the Malaysian economy. The positive results from the initiatives to strengthen corporate governance can be seen in 2019 Malaysia's ranking on the Corruption Perception Index (CPI), which increased by 10 places from 61 out of

180 countries in 2018 to 51 in 2019. However, Malaysia's ranking in CPI dropped to the 57th position in 2020. Hence, this indicates that corruption still exists due to political issues, a weak economy, and a lack of good governance (Focus Malaysia, 2021). Strong political change is needed in relation to weak governance as stated by the Malaysian Prime Minister "Unless there is a clear political commitment and resolve to change, I do not believe Malaysia will survive" (Koh and Chou, 2023). This possibly increases the coercive isomorphism to promote ethical practices among companies in Malaysia, especially when unlawful practices, such as corruption are still critical (Joseph *et al*., 2016). The Malaysian government has acknowledged two important aspects in combating corruption and improving governance: 1) Strong support and a clear mandate from the top leadership is a pre-requisite to pursuing difficult reforms, and 2) It is important to have a broader coalition of reformers that is not limited to public institutions and other formal institutions of government (The World Bank, 2021). Thus, it could be argued that the government has undertaken tremendous steps to combat unethical practices. The government has to go beyond the implementation i.e., by improving the enforcement initiatives to encourage companies to comply with the laws and regulations and showcase the ethical values via disclosure.

The low disclosure of ethical values information by Malaysian companies is a possibility due to a lack of pressure coerced by stakeholders in Malaysia. This is because different stakeholders have different areas of concern. Thus, managers would have to react based on the stakeholders' power (Majid *et al*., 2023). Shareholders' power indicated by activism in firms is comparatively low (compared with that in developed countries). Thus, to promote ethical values disclosure, stakeholders' engagement is crucial.

Another possible reason for the lower disclosure of ethical values information by Malaysian companies is due to conformance to specific industry requirements. According to Majid *et al*. (2023), the construction and property companies received great attention from the media due to the environmental impacts caused by these sectors. In addition, the media or online news is also a source of coercive pressure that influences the level of reporting practices, for example, accountability practices (Abang Ahmad *et al*., (2022; Cahaya *et al*., 2016). For this reason, it is put forward in this paper that the ethical values information is not largely being emphasized by companies in a specific industry due to a different need by companies in their reporting practices. In addition, the sustainability reporting guidelines by the Global Reporting Initiative (GRI) Standard encourage companies to identify material topics in the company's reporting.

The results show that Indonesian companies disclose more ethical values information in their annual reports. One possible explanation for this finding is that companies in this country are coercively pressed by various influential stakeholder groups, such as the Indonesian government, to address ethical issues such as codes of ethics and policies on ethics. By addressing such issues through disclosures, companies can avoid scrutiny or even penalties from the government as the government is well informed about the companies' commitment to ethics. The Indonesian government through its agencies such as OJK, actively monitors companies' ethical conduct and takes immediate action if there is an indication of ethical misconduct. One of the recent cases handled by OJK is the case of PT Hanson Internasional Tbk, an Indonesian-based mining company that has been penalized to pay a 500 million Rupiah fine and asked to revise and restate its financial statements for the 2016 financial year (Otoritas Jasa Keuangan, 2019). This company has been accused because of financial statement manipulation. To continuously gain legitimacy, Indonesian companies extensively communicate their ethical values, particularly issues regarding the code of ethics, policy on ethical matters, monitoring programs and accountability, ethical performance and infrastructure, and organizational performance. More specifically, the higher level of disclosures in Indonesia may be seen as a response to the issuance of a recent regulation from OJK, called OJK Regulation No. 51/POJK/03/2017. This regulation requires various types of corporations to disclose sustainability information, including ethical issues, from the 2019 financial year (Otoritas Jasa Keuangan, 2017).

Another possible explanation is that corporate governance components coercively push companies to implement their commitments to ethics by, for instance, continuously developing their policies on ethical issues and disclosing all these activities in their annual reports. According to Pareek, Pandey, and Sahu (2019), corporate governance regulates the way a company operates and behaves – signifying the presence of coercive isomorphism. In Indonesia, a two-tier corporate governance structure is applied. In such a structure, managerial and supervisory roles are clearly separated through different boards, which are the Board of Directors (managerial role) and the Board of commissioners (monitoring and supervisory role). Members of the board of commissioners, therefore, have a clear power to push the board of directors and express their views in general shareholder meetings. Evidence showing the power of commissioners in this nation can be seen from the recent case of PT Garuda Indonesia Tbk, a listed state-owned airline company. In this case, the independent commissioners impeached that the company's 2018 financial statements were not presented in accordance with the financial accounting standards and they decided not to sign the report (Aviantara, 2023). This then led to a series of investigations and a penalty from the Ministry of Finance and OJK. Such a commissioner power might not exist in Malaysia because, in this country, companies apply a one-tier governance structure in which managerial and supervisory roles are served within one board. Therefore, it is logical to see a higher level of corporate ethical values disclosure in Indonesia.

The level of ethical value disclosure in Indonesia could be attributed to the proactive role played by KPK and improvement in the awareness of the consequences of corruption in society. Companies are more committed to good governance by disclosing more information on information such as code of conduct which subsequently leads to positive outcomes for the companies. These include obtaining trust and confidence from stakeholders, lowering reputational risks, accelerating the exchange of ideas with stakeholders, and exhibiting leadership, honesty, and accountability. Stakeholders are one example of coercive pressure (Midin *et al*., 2017).

Few rules and efforts implemented by the Indonesian government act as the catalyst of ethical value practices. Several schemes in the corporate governance areas are conducted to offer rewards to companies that practice ethical value principles. For instance, the Indonesian Institute for Corporate Directorship (IICD) Corporate Governance Award, Indonesia Sustainability Report Award (ISRA), Annual Report Award (ARA), Bung Hatta Anti-Corruption Award (BHACA), and Indonesia Most Trusted Award. Institutional theorists such as Meyer and Rowan (1977) maintain that conformance to the formal evaluation criteria, such as the competition is a result of the isomorphic pressure, furthermore organizations are moving in a direction that is consistent with isomorphic pressures. Organizations adapt their internal characteristics in order to conform to the expectations of the key stakeholders in their environment. When firms face social and political pressures, they have incentives to take actions to reduce that exposure, and one of the ways they can do this is through disclosure (Blanc *et al*., 2017). This is important to ensure continued support from society.

The regulatory authority in Indonesia appears to be the external force in preventing fraud among companies and is the source of coercive pressure. In the Corruption Perception Index 2019, Indonesia is now in the 85th position of 180 countries. This indicates that the efforts by the government, the KPK, financial and business institutions, and civil society to eradicate corruption carried out during 2019 have given positive results. The increase in law enforcement's effectiveness against political corruption indicates strong coercive pressure. This indicates that to survive best and sustainably operate, a company needs to meet the desires, norms, values, beliefs, and expectations of the public within a social system (Akbar and Deegan, 2021).

8. Conclusion

The objective of this paper is to determine the extent of ethical values disclosures on Malaysian and Indonesian companies using coercive isomorphism under the lens of institutional theory. Overall, the higher Indonesian companies' disclosure of 77.20% compared to 72.35% by their Malaysian counterparts was noteworthy. This leads us to suggest that companies in Indonesia tend to legitimize societal accountability.

There are at least three implications from the findings. The first implication is related to the higher disclosure levels on some particular ethical value aspects in Indonesia such as Companies' Policies on Ethical Issues and Organizational Responsibility. It is implied from the findings that companies in Indonesia attempt to gain legitimacy from the government and the general public, particularly for the social responsibility activities (e.g., companies' relationships with employees, anti-corruption practices, and stakeholder engagement) they have undertaken. This is because social responsibility issues, including debates and news surrounding these issues (e.g., corruption, issuance of OJK Regulation No. 51/POJK/03/2017 regulating sustainable finance, sustainability activities and reporting, and conflicts between companies and their workers) were intensively exposed in the media prior to the end of the 2019 financial year. Corruption scandals involving state-owned enterprises' top managers, for example, were intensively exposed from 2014 to 2019 (Banjarnahor, 2019). Media exposure itself reflects coercive pressures from the general public (Cahaya *et al*., 2016). The Indonesian government and the general public can thus be considered as the key constituents who were expected to confer legitimacy to Indonesian companies in the context of ethical values and the disclosure of these values in the 2019 financial year.

The second implication is related to the disclosure level of "Report to companies' respective Governance and Integrity Committee or Board of Directors" in Malaysia, which is higher than that of Indonesia. The results imply the power of the board of directors that is present in the Malaysian corporate governance structure. As explained by Wahab *et al*. (2017), in this nation, the board of directors controls managers. Such control is undertaken through multiple channels, including reports from managers to the board of directors. The disclosure of the report to the board of directors highlights companies' efforts in responding to the coercive pressures from their boards of directors so that the companies eventually gain legitimacy from these boards. Under MCCG, the board of directors is responsible for promoting good corporate governance (Wahab *et al*., 2017). Therefore, it is logical for this board to push companies to provide reports to them so that companies' activities, including ethical commitment and practices, can be well monitored and further communicated to relevant audiences.

The third implication is related to the enforcement of the existing business ethical conduct regulations. While there are some ethical value aspects that are highly disclosed in Indonesia and Malaysia (e.g. Business Values, Ethical Commitment, and Regular Reporting/Communication and Awareness), the levels of some aspects like Ethical Performance and Ethical Infrastructure are still low. This may imply that the existing business ethical conduct regulations are not optimally enforced so some key ethical value aspects are not addressed and communicated by companies. The Indonesian government, for example, has been criticized because law enforcement is weak, leading to uncertainties in businesses and investments (Famiola and Adiwoso, 2016). As stated by Sofi and Yahya (2020), weak law enforcement can result in financial scandals and huge losses. Stronger law enforcement is, therefore, a key for coercively pushing companies to comprehensively address all ethical value aspects, including Ethical Infrastructure issues, so that further problems such as huge losses can be avoided. Companies' responses to such coercive pressure can then be reflected in higher levels of disclosure on all ethical value aspects.

There is nonetheless a chance to change for the better in regard to the disclosure of ethical values information in Malaysian and Indonesian companies. There should be more understanding of the importance of ethical values disclosures which will serve as effective tools to create greater accountability within corporations. Malaysian firms must take the initiative to increase the level of ethical value information disclosure and learn from Indonesian companies in disclosing ethical value information.

Governments can implement various strategies to prevent corporate corruption by leveraging the construct of coercive isomorphism as an element of Institutional Theory. These strategies include legislative, oversight, international, and participatory mechanisms. Legislative frameworks must be strengthened, primarily by imposing stringent disclosure requirements centred on anti-corruption initiatives within firms. Imposing severe penalties for noncompliance could act as an additional coercive force, compelling businesses to adhere to established ethical and anti-corruption standards. To support this, an independent oversight body should examine the fidelity and scope of corporate disclosures related to ethical and anti-corruption practices. Random corporate financial audits would support this to uncover corrupt activities.

Governments may seek to align their domestic anti-corruption legislation with current international standards, such as the United Nations Convention against Corruption (UNCAC), thereby widening the scope and reach of domestic coercive pressures. Data sharing on corruption cases and successful anti-corruption interventions can yield valuable policy insights.

Using these approaches, the government can create a coercive isomorphic environment that strengthens existing anti-corruption frameworks and creates a corporate ecosystem that is inherently resistant to corruption. Such targeted initiatives have the potential to provide a paradigm shift in the fight against corruption, yielding invaluable theoretical and practical implications for academics, policymakers, and corporate stakeholders.

This paper is not exclusive of limitations. The content analysis technique is criticized due to subjectivity (Gunawan, 2015). The issue is resolved with the coding done by a coder in each country, thus reducing subjectivity. This area of research is not exhaustive. There is still room for research by expanding the sample to include other Asian countries – Singapore and Thailand. A comparative study between developed and developing countries could be conducted to provide a more nuanced picture of the ethical value of information disclosure issues. Future research could include comparing the level of disclosure required by countries with mandatory requirements to that required by countries with voluntary requirements. While it is not clear what specific sustainability issues must be disclosed by Indonesian companies, the existence of this regulation arguably reflects the presence of coercive pressures from OJK on companies operating in Indonesia to disclose ethical values information in 2019 annual reports. Further research is therefore recommended to be undertaken to empirically investigate and capture the impacts of this regulation on the disclosures of ethical values by looking at the trend of such disclosures over time.

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Table I: Average disclosure by Category

Disclosure Aspects	**Indonesia**		**Malaysia**	
Theme A - Code of Ethics (12 items)	9.67	80.58%	8.94	74.50%
Theme B - Business Values (1 item)	1	100.00%	1	100.00%
Theme C - Companies Policy on Ethical Issues (7 items)	6.3	90.00%	5.89	84.14%
Theme D - Ethical Commitment (1 item)	0.99	99.00%	1	100.00%
Theme E- Regular Reporting / Communication and Awareness (1 item)	0.99	99.00%	1	100.00%
Theme F - Monitoring Program and Accountability (4 items)	2.9	72.50%	2.49	62.25%
Theme G - Ethical Performance (2 items)	0.85	42.50%	0.38	19.00%
Theme H - Ethical Infrastructure (4 items)	1.75	43.75%	0.79	19.75%
Theme I - Report to their respective Governance and Integrity Committee or Board of Directors (1 item)	0.65	65.00%	1	100.00%
Theme J - Organizational Responsibility (7 items)	5.58	79.71%	4.47	63.86%
Total (40 items)	**30.68**	**77.20%**	**26.96**	**72.35%**

Table II: Kruskal-Wallis and Independent t-test

	Theme A	Theme B	Theme C	Theme D	Theme E	Theme F	Theme G	Theme H	Theme I	Theme J
Kruskal-Wallis H	5.140	.000	25.900	1.000	1.000	19.038	44.970	48.195	42.212	68.228
Df	1	1	1	1	1	1	1	1	1	1
Asymp. Sig	.023**	1.000	.000**	.317	.317	.000**	.000**	.000**	.000**	.000**

a. Kruskal Wallis Test
b. Grouping Variable: Country
** Significant at $p < 0.05$
* Significant at $p < 0.1$

Table III: Mean Rank by Country for Significant Disclosure Aspects

Disclosure Aspects	Country	Mean Rank
Theme A - Code of Ethics	Indonesia	109.50
	Malaysia	91.50
Theme C – Companies' Policy on Ethical Issues	Indonesia	118.80
	Malaysia	82.21
Theme F - Monitoring Program and Accountability	Indonesia	116.16
	Malaysia	84.84
Theme G - Ethical Performance	Indonesia	124.90
	Malaysia	76.10
Theme H - Ethical Infrastructure	Indonesia	127.80
	Malaysia	73.20
Theme I - Report to their respective Governance and Integrity Committee or Board of Directors	Indonesia	83.00
	Malaysia	118.00
Theme J - Organisational Responsibility	Indonesia	132.15
	Malaysia	68.85

Table IV: Independent Sample t-test for Equality of Means (Equal Variance Assumed)

Disclosure Aspects	t-value	Df	Sig. (2-tailed)
Theme A - Code of Ethics	3.488	198	.001**
Theme B - Business Values[2]	-	-	-
Theme C – Companies' Policy on Ethical Issues	3.595	198	.000**
Theme D - Ethical Commitment	-1.000	198	.319
Theme E - Regular Reporting / Communication and Awareness	-1.000	198	.319
Theme F - Monitoring Program and Accountability	4.253	198	.000**
Theme G - Ethical Performance	6.002	198	.000**
Theme H - Ethical Infrastructure	7.714	198	.000**
Theme I - Report to their respective Governance and Integrity Committee or Board of Directors	-7.301	198	.000**
Theme J - Organisational Responsibility	9.567	198	.000**

Indonesia (N=100); Malaysia (N=100)

[2] t-value cannot be computed because the standard deviations of both groups are zero.