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## Business Ethics Disclosure Measurement in Public Companies in Indonesia

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### Abstract

*This study aims to develop a measurement of business ethics disclosure in public companies in Indonesia. The research method used a quantitative approach with primary and secondary data types. Primary data was obtained by questionnaires, interviews, and focus group discussions consisting of 74 respondents from regulators, academics, and practitioners. Secondary data totaling 92 were obtained using non-probability sampling techniques extracted from annual reports and sustainability reporting of companies listed on the Indonesia Stock Exchange in 2019-2020. Data analysis used validity, reliability, weighted index preparation procedure and paired simple t-test. This study developed 6 clusters consisting of 74 weighted indexes of business ethics disclosures. The findings have a theoretical contribution to the development of the concept of disclosure in the accounting conceptual framework. Practical contributions provide information to stakeholders about business ethics disclosure items that can be used as indicators of the level of ethical commitment to business processes, risk, corporate social responsibility, as well as consideration for the government to make regulations that can encourage companies to disclose business ethics.*

**Keywords:** *business ethics disclosure, weighted index, stakeholder, accounting conceptual framework, business processes*

### Introduction

Business ethics disclosure is currently receiving enormous attention from the public, investors and regulators as a result of accounting disasters that occurred in leading companies such as Enron and WorldCom (Persons, 2009). Business ethics disclosure is important for companies to create transparency and social responsibility, as it has practical implications in promoting transparency that can help fight corruption (Waweru, 2020). Increasing transparency and social responsibility is accomplished by building a good and effective communication link between the company and the public and stakeholders regarding how the company uses ethics in its business activities (Bhimani, 2008). Companies are frequently primarily concerned with earnings, justifying any measures, even if they harm diverse stakeholders. Steward (1996) states that without an ethical framework that regulates business behavior and individual behavior,

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business will not be able to run well and can even cause chaos. Ignoring ethical aspects can result in huge losses and costs, such as the Enron scandal in 2001, the financial crisis in 2008, the Gulf of Mexico oil spill in 2010 (Becker, 2019).

Some cases of unethical behavior by companies occurred in accounting scandals that occurred in well-known companies such as AOL Time Warner, Merck, Qwest Communications, WorldCom, Xerox, Parmalat (European version of Enron), Daewoo, and SK Global (Korean conglomerate), which have raised serious concerns among market participants about ethical issues in the global world. These companies have ignored ethics and emphasized short-term profits by manipulating earnings (Jo & Kim, 2008). These financial scandals indicate that a number of high-performing companies have ignored ethical principles, being perceived as entities that are solely concerned with profit and selfish behavior. Greed and manipulation of financial statements have raised many questions about the ethical integrity that should be reflected in the company's operations, which should be disclosed to the public and stakeholders. These financial scandals have cast doubt on the relevance and reliability of some corporate data (Rossi, 2021).

Business ethics disclosure provides important and material information about the company's core values to external parties who have a special interest. Disclosure of ethical and social principles increases trust and reduces conflicts of interest (Alves *et al.*, 2012; Maskati & Hamdan, 2017). Business ethics disclosure has a direct influence on the long-term survival and success of the company (Choi & Pae, 2011). Business ethics disclosure has a positive relationship with firm value (Choi & Jung, 2008), is negatively associated with unethical earnings manipulation, has a positive impact on the company's long-term financial performance (Jo & Kim, 2008), and has a positive relationship with corporate governance characteristics (Waweru, 2020).

Business ethics disclosure in Indonesia is still voluntary (Laksito, 2020). In Indonesia, there is no regulation that requires companies to have a code of ethics (OJK, 2014). Based on the observations of researchers, manufacturing companies listed on the IDX from 2018 to 2020 that conducted business ethics disclosure were only around 30% (processed data, 2021). Low business ethics disclosure can also be observed in companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2020 in Figure 2.



**Figure 1.** Business Ethics Disclosure of Companies Listed on the IDX.

In Figure 1, only 12% or 77 companies made business ethics disclosures in 2019, and this figure decreased to 8% or 58 companies in 2020. Therefore, it can be concluded that the level of business ethics disclosure in public companies in Indonesia is still low. The low level of business ethics disclosure, together with variations in the level of disclosure, may create a gap between stakeholder expectations of higher levels of business ethics disclosure and regulated objective standards.

According to Person (2009), although many companies already have a written code of ethics, many still do not disclose in detail the code of ethics applied, so the level of voluntary ethics disclosure is still very low. Business ethics disclosure is carried out with the aim of promoting ethical activities, improving perceptions of the company, and building the company's reputation in the eyes of external stakeholders who have potential conflicts, such as the media, activists, and regulators (Huhmann & Conner, 2014). Reporting ethical activities also serves as a signal to regulators that the company is proactive (Huhmann & Conner, 2014). With a greater level of need to demonstrate conformity with social norms, it is expected that the level of business ethics disclosure will be higher (Villiers & Marques, 2016).

Ethical disclosure is included in the voluntary disclosure category carried out by companies to improve corporate governance (Waweru, 2020). Voluntary disclosure is a disclosure made by the company that exceeds the mandated disclosure requirements (Qu, Cooper, Wise, & Leung, 2012). Voluntary disclosure can provide complete and transparent information to users of annual reports (Qu *et al.*, 2013). Voluntary disclosure can increase stock prices and reduce the cost of capital for companies that issue equity (Botosan, 1997; Lang & Lundholm, 2000). Business ethics disclosure is a voluntary disclosure that can increase transparency, social responsibility, image or good name, build trust, and become a strategy to achieve future corporate sustainability.

Business ethics disclosure is one of the important elements in financial reporting. Disclosure of ethics and organizational values is one of the content elements that must be disclosed in Integrated Reporting (IR). Integrated Reporting presents information about the strategy, governance, performance and prospects of the organization that can create short-, medium- and long-term value (IIRC, 2013). The United Nation encourages the presentation and disclosure of integrated reporting elements to be applied in all countries both voluntarily and mandatory, including Indonesia as well.

According to Aras and Crowther (2008), companies that adopt more ethical and socially responsible business processes in decision making will be more sustainable. Conversely, when companies engage in unethical business practices, the negative impact is not only limited to a decrease in trust from customers, employees, investors and consumers, but also raises serious questions about the ethical values espoused by the company (Pittman & Narvan, 2003). Therefore, business ethics disclosure becomes very important to reflect the extent to which the company's business processes are ethical.

Business ethics disclosure can help explain differences in the quality of corporate codes of conduct (Persons, 2009). How ethical business practices are is reflected in behaviors that reflect the company's relationship with legal compliance, transparency, and social responsibility. The way a company treats its stakeholders reflects its ethical standards (Rossouw, 2005). Good corporate governance is based on a number of fundamental ethical values. Rossouw (2005) lists four values of good corporate governance, namely transparency, accountability, responsibility, and honesty. Business ethics play an important role in shaping companies that are strong, competitive and capable of high value-creation.

Business ethics disclosure based on the lens of integrative social contract theory is carried out by companies to fulfill social contract agreements that occur between companies and stakeholders. The disclosure is done to realize a mutually beneficial and harmonious relationship with stakeholders and as a form of moral consequences of the company (Donaldson & Dunfee, 1999). Researchers argue that companies that can internalize social contracts with stakeholders will achieve goals in a more effective and efficient manner. Business ethics disclosure is expected to create a balance between the company's value system and the value system in society, creating a mutually beneficial agreement and protecting the interests of the company and stakeholders.

Business ethics disclosure is important to increase transparency and corporate social responsibility by using more objective measurement standards. In-depth study and research on the measurement of business ethics disclosure is very important to do. This is because a more objective measurement of business ethics disclosure has implications for improving the company's business ethics standards. Higher ethical standards will prevent fraud or financial manipulation that occurs in large-scale business processes. Companies with higher levels of ethical commitment show better financial reporting quality than companies with lower levels of ethical commitment (Choi & Pae, 2011).

Companies with a high level of ethical commitment will emphasize honest and ethical attitudes, including in handling actual conflicts of interest between personal and professional. Choi and Pae (2011) state that corporate governance and business ethics have a high correlation. Good corporate governance tends to show higher corporate ethical standards, the more comprehensive corporate governance, the higher the level of business ethics disclosure of the company in line with the high ethical standards of the company (Choi & Pae, 2011). A high level of ethical commitment will affect the way the company conducts its business (Loe & Mansfield, 2000; Jones & Washington, 1991). Business ethics disclosure can reflect the high and low level of the company's ethical commitment in running its business.

The novelty in this study is the preparation of business ethics voluntary disclosure items in Indonesia, which was developed based on previous studies (Waweru, 2020; Abidin *et al.*, 2020; Khaireddine & Jarboiu, 2020; Elgammal, 2018; Elkassar *et al.*, 2015; Othman *et al.*, 2014; Pae & Choi 2011; Person, 2009, 2010). This study aims to create a measurement of business ethics disclosure by incorporating crucial components that are presently absent but remain compliant with regulatory requirements in Indonesia. Additional items come from the General Guidelines for Indonesian Corporate Governance (PUGKI) 2021, Law No.7 of 2021 concerning tax harmonization PMK-196/PMK.03/2021, and benchmarking with the codes of ethics of several public companies. The business ethics disclosure items created in this study resulted in the creation of a weighted index. Previously, some studies only compiled an unweighted business ethics disclosure index.

This study has high significance because studies on business ethics disclosure are still very limited both globally and in Indonesia, with one of the causes being the lack of quantitative measures to measure business ethics disclosure (Choi & Pae, 2011). Studies that specifically develop a weighted index of business ethics disclosure in Indonesia are still very limited. This study also aims to fill the literature gap in voluntary disclosure of corporate social responsibility related to business ethics. Currently, Indonesia does not have regulations that require companies to have a code of ethics (OJK, 2014), so this study can provide recommendations to stakeholders as a consideration in making related regulations. This study develops important indicators that can be used to measure the level of business ethics disclosure. The findings of

this study have an important impact in the field of social accounting, contributing to the development of an accounting conceptual framework related to the concept of disclosure, and encouraging relevant parties to formulate policies that can increase voluntary disclosure of business ethics.

## **Literature Review**

Business ethics disclosure is the presentation of information about a company's business norms, principles and processes related to expected or impermissible actions. This activity involves providing information about the implementation of the company's code of ethics to external parties with special interests. The disclosure is done to foster an effective communication relationship between the company, the public, and stakeholders, related to how the company applies ethics according to objective standards (Choi & Pae, 2011). Business ethics disclosure embodies the disclosure of the company's code of ethics that helps the board of directors and management in shaping a culture of honesty, accountability, improving internal control, and reducing the risk of fraud in financial statements (Persons, 2010).

This study conducted a literature study to identify items that have been developed and used in several previous studies. Choi and Jung (2008) created an ethical commitment index based on ethical behavior, which was initially used as a survey instrument on companies listed on the Korean Stock Exchange. They used 11 dimensions to identify a measure of ethical commitment referred to as the Ethical Commitment Index (ECI), with a value of 0 for a "no" answer and 1 for a "yes" answer. Persons (2009) examined the specific characteristics of audit committees associated with voluntary ethics disclosure and also conducted research on whether investors can detect fraudulent financial reporting through reading voluntary ethics disclosure (Persons, 2010). The studies were conducted on public companies investigated by the Securities Exchange Commission (SEC) that were involved in fraudulent financial reporting before the Sarbanes-Oxley Act (SOX) and the new rules of the New York Stock Exchange (NYSE). Ethical disclosure in the two studies was measured using 18 aspects with a point system.

Choi and Pae (2011) conducted research on companies listed on the Korean Stock Exchange, using the Ethical Commitment Index (ECI) which was summarized and adapted from the 11 attributes of Business Ethics survey results (Choi & Jung, 2008). Each item is given a value of 1 if present and 0 if absent. Othman *et al.* (2014) examined public companies on Bursa Malaysia using 18 ethical disclosure items from research (Persons, 2009). Elkassar *et al.* (2015) used 17 items to assess ethical practices in small and medium enterprises in developing countries such as Lebanon and Egypt. Elgammal (2018) used 13 items of ethical practices based on the study of El-Kassar *et al.* (2015), which focuses on small and medium-sized enterprises in Middle East and North Africa (MENA) countries. Khairredine *et al.* (2020) identified the type of ethical disclosure that is considered the most ethical area, namely compliance with laws and regulations, consisting of 7 items in companies listed in the SBF 120 index on the French Stock Exchange, using items from Othman *et al.* (2014). Ethical Disclosure (ETHDI) is assigned a value of 1 if the item is disclosed and 0 if it is not disclosed (Khairredine *et al.*, 2020).

Abidin *et al.* (2020) modified the Ethical Commitment Index (ECI) originally created by Choi and Jung (2008) and further adapted by Pae and Choi (2011). This modification resulted in 17 disclosure items segmented into five dimensions, namely corporate ethical values and philosophies, actions to promote ethics and prevent unethical behavior, codes of conduct, whistleblowing policies, and sustainability practices. Disclosure measurement was conducted

on companies listed on Bursa Malaysia, using a binary scoring method, where a score of 1 (one) is given if the item is disclosed and zero (0) otherwise. Binary scoring is considered a reasonable approach to analyze the availability of each ECI item in annual reports. Waweru (2020), who examined financial companies listed on the national stock exchanges of Ghana, Kenya, Nigeria, South Africa and Zimbabwe, produced five clusters consisting of environmental protection, employees, communities, customers and investors with a total of 58 items on the Ethical Commitment Index. Items are scored 1 if present and 0 if absent, and the Business Ethics Disclosure (BED) score for each company is calculated by dividing the company's total score (i.e., the sum of all scores 1) by the maximum score. The results of this study differ from several previous studies, and the novelty in this study lies in the preparation of a weighted index of business ethics disclosure, a concept that has not been found in several previous studies.

## **Research Method**

This research method adopted a quantitative approach using primary and secondary data. Data collection techniques involved questionnaires, interviews, focus group discussions, and field research on annual reports and sustainability reports of companies listed on the Indonesia Stock Exchange during 2019-2020. The sample was drawn from the pilot test, and 74 respondents from various elements, including regulators, academics, and practitioners, were part of the sample frame. The sample design used non-probability sampling. Data analysis involved tests of validity, reliability, weighted indexing procedures with reference to Suhardjanto *et al.* (2021), and paired simple t-test.

### **Development of Weighted Index of Business Ethics Disclosure**

Weighted index in business ethics disclosure is constructed by considering several aspects, as described by Coy and Dixon (2004): (1) setting the purpose of the index, (2) identifying the items required for proper disclosure with their qualitative characteristics, and (3) analyzing the respondents (Coy & Dixon, 2004). The weighted index formed can then be used to measure business ethics disclosure. Each item of business ethics disclosure published by the company, based on the index, is multiplied by the weight of each item, so that the company's business ethics disclosure score can be known. The procedure for preparing the weighted index refers to Suhardjanto *et al.* (2021), with the following steps:

1. Collecting and identifying elements in the definition of business ethics disclosure from several previous research articles.
2. Identifying items by scrutinizing based on the results of previous research. Adding important items that are in accordance and do not yet exist with regulatory provisions in Indonesia, by referring to the Financial Services Authority Regulation Number 29/POJK.04/2016 concerning Annual Reports of Issuers or Public Companies, Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, SEOJK.04./2021 regarding the form and content of annual reports of issuers or public companies, General Guidelines for Indonesian Corporate Governance (PUGKI) 2021, Law No.7 of 2021 concerning tax harmonization PMK-196/PMK.03/2021, and benchmarking with the codes of ethics of several large companies in Indonesia.
3. Combining items that have the same meaning or intent based on the mapping results in the previous research.

4. Conducting focus group discussions with academics, practitioners, and regulators to discuss the business ethics disclosure items that have been compiled in step 3.
5. Conducting a pilot test by distributing questionnaires to respondents to assess how important the business ethics disclosure items that have been compiled in the previous step are using a Likert scale (1 = very unimportant, 2 = not important, 3 = quite unimportant, 4 = neutral, 5 = quite important, 6 = important, 7 = very important). The distributed pilot test results are then tabulated and validity and reliability tests are carried out.
6. The results of the validity and reliability tests on the items are referred to as the business ethics disclosure index, which is ratio data. Ratio numbers can show a measure that can describe the absolute value of an object being measured.
7. Indexing the information of business ethics disclosure made by the company. Business ethics disclosure items are weighted according to the level of importance and usefulness of the published information based on the opinion of external parties. This process is done by asking for practitioners' opinions through interviews. The weighting value uses a Likert scale of 1 to 7, where a value of 1 indicates that the item is very unimportant, up to a value of 7 which indicates that the item is very important (Hair *et al.*, 2010) to be known by investors and other stakeholders. The weights are summed and then divided by the total items, to produce an average weight value. The weighted value of each item is reduced by the average weighted value, then the result shows the business ethics disclosure index.
8. The business ethics disclosure items are divided by the weighted average, the result is a weighted index, which is an index containing weighted values.
9. Weighted index can be used by summing up the weighted values of each disclosed item, then divided by the total weighted index. The result can show the score of business ethics disclosure made by the company.

## Results of Data Analysis and Discussion

### Reliability Testing

This test aims to determine whether respondents provide consistent answers, so that the answers can be relied upon. The reliability test results produced a reliability coefficient of Cronbach's Alpha value of  $0.968 > 0.6$ , and therefore declared reliable. In conclusion, all instrument items used in this study can be considered reliable. The results of the reliability testing are presented in the following table.

**Table 1.** Reliability Testing Results.

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.968	0.975	76

### Validity Testing

The validity test is conducted to provide confidence that the business ethics disclosure items are an important part of an information disclosure. External validity test is conducted based on the correlation between the respondent's answer score on each disclosure item with the total score. Decision making is based on the value of  $r_{\text{count}}$  (Corrected Item-Total Correlation)  $> r_{\text{table}}$  of 0.2290, for  $df = 76 - 2 = 74$ ;  $\alpha = 0.05$ , then the item/question is valid and vice versa. The results of the statistical analysis showed that there were two invalid disclosure items, namely the privacy policy item of confidential information and political involvement and

contribution. At the next stage of analysis in determining the score, rating and preparation of the weighted index, the researcher excluded these two items, considering the statistical results showed that these two items were not valid to be part of the disclosure items to be compiled. After carrying out the steps of compiling the business ethics disclosure index which refers to Suhardjanto *et al.* (2021), the weighting results as well as the disclosure index ranking are obtained as shown in table 4.6 below:

**Table 2.** Score, Rating, and Weighted Index.

Cod e	Disclosure Items	Score	Rating (%)	Weighted Index
I.	Environmental Protection			
BED 1	Waste recycling	487	1.39 64	1.0333
BED 2	Energy and material conservation	486	1.39 35	1.0312
BED 3	Environmental assessment of capital projects	484	1.38 78	1.0270
BED 4	Water conservation	486	1.39 35	1.0312
BED 5	Biodiversity protection and rehabilitation	480	1.37 63	1.0185
BED 6	Environmental care and awareness	491	1.40 78	1.0418
BED 7	Pollution	484	1.38 78	1.0270
BED 8	Climate change	466	1.33 62	0.9888
BED 9	Carbon emissions	474	1.35 91	1.0057
II.	Employees			
BED 10	Human rights	473	1.35 62	1.0036
BED 11	Personal and professional conflict of interest policy	476	1.36 48	1.0100
BED 12	Prohibition of receiving gifts/gratuities	493	1.41 36	1.0460
BED 13	Code of ethics assessment and monitoring program	484	1.38 78	1.0270
BED 14	Rewards to employees who report unethical behavior	439	1.25 87	0.9315
BED 15	Sexual harassment policy	498	1.42 79	1.0567
BED 16	Affirmative action	468	1.34 19	0.9930
BED 17	Volunteer guidelines	442	1.26 73	0.9378
BED 18	Political activity guidelines	382	1.09 53	0.8105



<b>Cod e</b>	<b>Disclosure Items</b>	<b>Score</b>	<b>Rati ng (%)</b>	<b>Wigh ted Index</b>
BED 19	Whistleblowing policy	482	1.38 20	1.0227
BED 20	Alcohol and substance abuse policy	485	1.39 06	1.0291
BED 21	Occupational health and safety (OHS) protection	503	1.44 23	1.0673
BED 22	Salary and remuneration	474	1.35 91	1.0057
BED 23	Ethical considerations in appointing directors/executives	482	1.38 20	1.0227
BED 24	Relationship with labor unions	464	1.33 04	0.9845
BED 25	Anti-nepotism	474	1.35 91	1.0057
BED 26	Education, training and information dissemination on corporate culture, values, and ethics	484	1.38 78	1.0270
BED 27	Disciplinary system and strict sanctions against unethical behavior	491	1.40 78	1.0418
BED 28	Anonymous hotline (open ethics complaints)	475	1.36 20	1.0079
BED 29	Employee code of conduct agreement	478	1.37 06	1.0142
BED 30	Use of company assets	471	1.35 05	0.9994
<b>III. Community</b>				
BED 31	Charitable donations (philanthropy)	439	1.25 87	0.9315
BED 32	Public education programs	465	1.33 33	0.9866
BED 33	Independent ethics department/specialized officer	453	1.29 89	0.9612
BED 34	Reporting of corruption, accounting complaints and illegal behavior	453	1.29 89	0.9612
BED 35	Independent ethics evaluation	480	1.37 63	1.0185
BED 36	Periodic revision of ethics	452	1.29 60	0.9591
BED 37	Involvement in sports	474	1.35 91	1.0057
BED 38	Community welfare programs	461	1.32 18	0.9782
BED 39	Child labor policy	474	1.35 91	1.0057
BED 40	Procurement policy	465	1.33 33	0.9866
BED 41	Relevant and balanced information to mass media	452	1.29 60	0.9591

<b>Cod e</b>	<b>Disclosure Items</b>	<b>Score</b>	<b>Rati ng (%)</b>	<b>weigh ted Index</b>
BED 42	Receiving and following up on criticism	457	1.31 04	0.9697
IV. Customer				
BED 43	Customer service ethics and behavior	473	1.35 62	1.0036
BED 44	After-sales service	471	1.35 05	0.9994
BED 45	Customer satisfaction level	481	1.37 92	1.0206
BED 46	Fair business practices	476	1.36 48	1.0100
BED 47	Product safety	489	1.40 21	1.0376
BED 48	Customer communication	478	1.37 06	1.0142
BED 49	Customer complaints	484	1.38 78	1.0270
BED 50	Consumer rights protection	488	1.39 92	1.0354
BED 51	Product quality	496	1.42 22	1.0524
BED 52	Appropriate level of advertising	459	1.31 61	0.9739
BED 53	Ethics committee	464	1.33 04	0.9845
BED 54	Security of customer data and information	487	1.39 64	1.0333
BED 55	Identification of customer needs	477	1.36 77	1.0121
V. Investor				
BED 56	Values of the company's business philosophy	464	1.33 04	0.9845
BED 57	Insider trading policy	468	1.34 19	0.9930
BED 58	Risk strategy	472	1.35 34	1.0015
BED 59	Sustainability practice information	475	1.36 20	1.0079
BED 60	Code of conduct links and publications	457	1.31 04	0.9697
BED 61	Company legitimacy and legality	457	1.31 04	0.9697
BED 62	Protection of investor rights	468	1.34 19	0.9930
BED 63	Compliance with laws and regulations	493	1.41 36	1.0460
BED 64	Public health and safety	476	1.36 48	1.0100

<b>Cod e</b>	<b>Disclosure Items</b>	<b>Score</b>	<b>Rati ng (%)</b>	<b>Wigh ted Index</b>
BED 65	Relations with foreign governments	409	1.17 27	0.8678
BED 66	Competitor information collection methods	457	1.31 04	0.9697
BED 67	Relationships with competitors	470	1.34 76	0.9972
BED 68	Anti-money laundering and terrorist financing, anti-bribery, anti-corruption and anti-fraud policies and practices	488	1.39 92	1.0354
BED 69	Balanced employment agreements	476	1.36 48	1.0100
BED 70	Common ethical standards with partners	474	1.35 91	1.0057
BED 71	Taxpayer voluntary disclosure programs	452	1.29 60	0.9591
VI.	Financial Statement Integrity			
BED 72	Compliance with financial reporting standards	485	1.39 06	1.0291
BED 73	Honest reporting system	494	1.41 64	1.0482
BED 74	Accuracy of financial records and reports	499	1.43 08	1.0588
	<b>TOTAL</b>	<b>348 76</b>	<b>100</b>	<b>74</b>
	Mean	474. 5	1.36 05	1.0068
	Max	503	1.44 23	1.0673
	Min	382	1.09 53	0.8105

In table 2 above, it is known that the weighted index of business ethics disclosure that has been compiled consists of 6 clusters consisting of environmental protection, employees, communities, customers, investors, and integrity of financial statements, with a total of 74 index items. The preparation of the index comes from 76 items of questionnaire questions answered by 74 respondents who were then analyzed according to the steps previously described and obtained the weighted index value, score, and rating. The business ethics disclosure items that have been compiled by researchers show the 10 highest scores, which consist of occupational health and safety (OHS) protection (BED21), accuracy of financial records and reports (BED74), sexual harassment policy (BED15), product quality (BED51), honest reporting system (BED73), prohibition of accepting gifts/gratuities (BED12), compliance with laws and regulations (BED63), strict disciplinary system and sanctions against unethical behavior (BED27), environmental care and awareness (BED6), and Product safety (BED47).

Business ethics disclosure items with the lowest score of 10 are political activity guidelines (BED18), relations with foreign governments (BED65), involvement in sports (BED37), charitable donations (philanthropy) (BED31), rewards to employees who report unethical behavior (BED14), volunteer guidelines (BED17), independent ethics evaluation (BED35),

taxpayer voluntary disclosure program (BED71), relevant and balanced information to the mass media (BED41), and revising ethics periodically (BED36). Therefore, it can be concluded that each item of Business Ethics Disclosure has a different score. This indicates that the degree of information disclosed in each item of Business Ethics Disclosure has a different value, level of importance, and benefits based on perceptions and responses from external parties (practitioners, academics, and regulators).

The weighted index results show the highest value of 1.0673, namely the occupational health and safety (OHS) protection item (BED21), which is the Employee item group. The item with the lowest value of 0.8105 is the political activity guidance item (BED18) and the average weighted index value is 1.0068. The number of items that have a value above one is known to be 44 items or 59, 46%. This shows that all business ethics disclosure items have different degrees of information, value, importance and benefits in each item based on perceptions and responses from external parties (practitioners, academics, and regulators). The weighted index of business ethics disclosure that has been compiled has an above-average level of importance and benefit. This shows that these items are important to be disclosed by the company in order to incarnate as a positive force to the world, by implementing good and correct business strategies and processes to achieve goals.

Ethical business practices are reflected in the company's behavior to comply with social contract agreements that are in line with stakeholder interests. The way a company treats its stakeholders reflects its ethical standards (Rossouw, 2005). According to integrative social contract theory, corporate social responsibility towards stakeholders is to realize a harmonious social contract (Donaldson & Dunfee, 1999). This consideration reflects that business ethics disclosure is important to create a harmonious and mutually beneficial social contract. Business ethics disclosure is required as one of the company's ethical consequences to stakeholders. Companies that are able to internalize a good social contract with their stakeholders can achieve their goals more effectively and efficiently. Business decisions and strategies can be made by considering the relationship and impact on the business community, norms, and possibly universal moral standards. A good reputation in terms of ethics is a very important asset for companies (Bertens, 2013) and should not be ignored by companies.

### **Additional Analysis**

#### **Paired Sample T-test**

T-test was conducted to evaluate the difference between unweighted index and weighted index on business ethics disclosure developed by the researchers. The aim is to provide an initial overview of the application of the weighted index in business ethics disclosure in companies. This t-test method uses averages for two paired samples (paired sample t-test). The test was conducted on public companies that published sustainability reports listed on the Indonesia Stock Exchange (IDX) in 2019-2020. Sample determination was carried out using convenience sampling technique. The total population of companies that published sustainability reports in 2019 was 88 companies and in 2020 was 68 companies, so the total population was 156 sustainability reports. Of these, researchers chose 46 companies that could be studied due to the limited research time of two years, so that the total sample used was 92. Measurement of business ethics disclosure is done using the disclosure index. The total business ethics disclosure score is calculated from the number of items compiled by the researcher, multiplied by the weight of each item.

**Table 3.** Paired Sample T-test.

Description	Mean	N	Std. Deviation	Std. Error Mean
UNWIBED	6648061.1196	92	1284700.10420	133939.24473
WIBED	6696078.1522	92	1290101.11256	134502.33878

In Table 3, it is known that the unweighted value has an average or mean of 6,648,061.1196, with a standard deviation value of 1,284,700.10420, and a standard error value of the mean of 133,939.24473. Meanwhile, the weighted value has an average or mean of 6,696,078.1522, with a standard deviation value of 1,290,101.11256, and a standard error mean of 134,502.33878. These results descriptively show that there is a difference in the average value between the unweighted and weighted indexes.

**Table 4.** Paired Samples Correlations.

Description	N	Correlation	Sig.
UNWIBED & WIBED	92	1.000	.000

In Table 4, the results of the correlation test or relationship between the unweighted and weighted index are known. The correlation coefficient value (correlation) is 1.000 with a significance value of 0.000 (<0.05), so it can be concluded that the unweighted and weighted indexes have a fairly strong correlation relationship.

**Table 5.** Paired Samples Test.

		Paired Differences						
		95% Confidence Interval of the Difference						
Description	Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
UNWIBED - WIBED	48017.0326134202	338383565.8402755100	1362640933.92895	-13.466	91	.000		

In Table 5, the sig. (2-tailed) is 0.000 (less than 0.05). Therefore, it can be concluded that there is a difference between the unweighted and weighted index in companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The results of this analysis illustrate that the weighted index on business ethics disclosure can produce a higher strength of answer compared to the unweighted index.

## Conclusion

This study successfully produced an instrument that can be used to measure the level of business ethics disclosure in public companies in Indonesia. This study succeeded in compiling 74 weighted indexes of business ethics disclosure. The different scores and ratings on each item indicate that the degree of information disclosed has different benefits based on stakeholder perceptions and responses. The weighted index compiled has a level of importance and benefits above the average, indicating that these items are important to be disclosed by the company. The items forming the weighted index consist of 5 value clusters, including environmental protection, employees, communities, investors, customers, and integrity of

financial statements. The results of the paired sample t-test showed a difference between the unweighted index and the weighted index in companies listed on the Indonesia Stock Exchange in 2019-2020. The results of this analysis provide an initial illustration that the use of the weighted index provides the possibility of producing a higher strength of answer compared to the unweighted index. The results of this study provide recommendations to stakeholders that business ethics disclosure items can be an important indicator to provide an overview of business processes, including inherent risks. This may reflect the high or low level of the company's ethical commitment to stakeholders.

## Limitation

The disclosure items compiled are still rather wide, which opens up chances for further research in producing disclosure items that are more specific to specific business processes. This can provide a clearer picture of the company's ethical behavior based on the characteristics of its business processes. The unweighted index of business ethics disclosure that has been prepared needs to be further analyzed to assess the extent of its informativeness in the capital market. Future research can be developed using independent variables within the framework of theory to provide an overview and identify determinants that may be critical factors determining the company's decisions and strategies in conducting business ethics disclosure. This aims to achieve the company's goals effectively and efficiently.

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