

CHAPTER I

INTRODUCTION

1.1 Research Background

Corruption is a major problem faced by all business organizations because it is included in deceiving disadvantaged people by diverting important resources to dishonest officials (Hills et al., 2009; Sari et al., 2021). Based on Transparency International (2020), Indonesia's ranking on the Corruption Perception Index in 2020 is 102 which is equivalent to the Gambia. Previously, Indonesia was ranked 85 out of all countries in 2019. Throughout 2020, according to Indonesia Corruption Watch (ICW), there were 444 corruption cases with a state loss of USD1.2 billion that were acted upon by law enforcement in Indonesia. This shows that corruption in Indonesia is still quite high among ASEAN countries such as Brunei, Singapore, and Malaysia (Transparency International, 2020), forcing the Indonesian government to issue many regulations to prevent and eradicate corruption, and other regulations such as the issuance of SNI ISO 37001 about the Anti-Bribery Management System for companies in Indonesia.¹

Therefore, business organizations in the world are encouraged to make and implement anti-corruption strategies (Hills et al., 2009; Sari et al., 2021). Companies can incorporate corruption prevention strategies into their CSR practices and communicate them to all organizational members and stakeholders both external and internal (Joseph et al., 2016). The term CSR in the ten principles of the United Nations Global Compact covers the environment, labor, human rights, and anti-corruption (Branco & Matos, 2016). This is in line with

¹ SNI ISO 37001 is a standard released since 2016, which regulates the anti-bribery management system or known as SMAP. Following up on the issuance of Presidential Instruction No. 10 of 2016 concerning Actions for Prevention and Eradication of Corruption, the application of SNI ISO 37001 is used by companies explicitly to disclose their commitment to anti-bribery. The anti-bribery management system provides guidance to management to eliminate any actions that lead to other forms of bribery, both financial and non-financial.

Transparency International (2010), which suggests that companies should incorporate these strategies into their overall approach to corporate responsibility to assess and reduce the risk of bribery and corruption. Not only that, the United Nations Global Impact and Global Reporting Initiative also called for the anti-corruption disclosure to all business organizations in the world.

Information about anti-corruption practices becomes valuable for the company's key stakeholders (Joseph et al., 2016; Nobanee & Ellili, 2020), because the anti-corruption disclosure is used to see the company's commitment and as a positive signal in the prevention and eradication of corruption. (Duho et al., 2020; Blanc et al., 2017). The corruption is most prevalent in developing countries (Vale & Branco, 2019), thus increasing initiatives to develop anti-corruption regulations.

One proof of Indonesia's commitment to eradicating corruption is the establishment of the Corruption Eradication Commission and Indonesia Corruption Watch. However, Indonesia Transparency in Corporate Reporting shows that most companies in Indonesia still have less transparency and tend to have a high risk of being involved in corruption because they do not have an adequate anti-corruption program as indicated by Indonesia's score of 3.2 out of 10 (PWC, 2019). This score indicates that regarding transparency of anti-corruption programs, the corruption prevention system in Indonesia still has a few adequate (Salim, 2018; Faisal et al., 2021).

The implementation of anti-corruption in Indonesia is due to the several advantages it provides. One of them is to ensure sustainability. This is because the disclosure is used to communicate the commitment of the firm in fighting corruption and as a form of accountability to stakeholders (Branco & Matos, 2016). Currently, investors are starting to consider anti-corruption information in companies because every corruption case will have an impact on the uncertainty of returns for these investors, so this encourages companies to implement anti-corruption policies and prevention strategies. Therefore, the application of anti-corruption can provide certainty of returns for investors in the long term which is part of sustainability.

Several studies discuss anti-corruption disclosures and their impacts (Barkemeyer et al., 2015; Hoang et al., 2022; Oh et al., 2017; Xu, 2018; Faisal et al., 2021; Blanc et al., 2019; Branco & Matos, 2016; Nobanee & Ellili, 2020; Vale & Branco, 2019). Hoang, Doan, & Tran (2022) show that anti-corruption campaigns have a positive effect on the performance of privately owned companies where this is important for fighting corruption, so that it can encourage growth in the private sector by reducing rent-seeking behavior of corrupt officials, as well as facilitating growth wheel of private-owned companies, but it also has a negative impact on the performance of state-owned companies where this can increase the financial transparency of these companies in Vietnam. Jiang & Nie (2014) found a positive correlation between regional corruption and profitability in private companies, but this correlation did not appear when transferred to state-owned enterprises due to the heterogeneous effect of corruption on firm performance explained by the heavy regulatory nature of the economy and the reaction different types of company ownership against government regulations. In this case, private companies have to bribe regulators to circumvent legal business restrictions so as to gain benefits such as slack or flexibility in business operations, while state-owned companies are treated differently and preferentially and have less bribes to corrupt officials, so corruption increases efficiency to some extent for private companies, no effect for state-owned companies (Jiang & Nie, 2014).

This is in line with the signal theory. Corporate disclosure will attract investors and increase the legitimacy of company (Servaes & Tamayo, 2013; Bowen, 1953) and of course, have an impact on the firm performance so that this will provide a signal about prospects. This theory was first put forward by Spence (1974) who explains that the sender gives a signal in the form of information that reflects the condition of the firm that is useful for the investor.

Another study found that bribes are necessary to create opportunities to gain market share (North, 1990). This is in line with Lui (1985) and Vial & Hanoteau (2010) who found the advantages of corruption in saving time and facilitating bureaucracy, thus having an impact on firm growth and improving

firm financial performance. Other studies have shown that corruption is used to increase cash flow and build networks in the short term (De Jong et al., 2012). In contrast, other studies document that disclosure of corruption reduces firm's financial stability (Asare et al., 2020). This is because corruption can hinder business growth, increase operating costs, and change the business culture (Vu et al., 2018). On the other hand, Murphy et al. (1993) and Gunawan & Joseph (2017) found that corrupt behavior changed the behavior of companies that initially relied on productivity and operating efficiency to become accustomed to using illegal and unethical behavior so that it hurt the competitiveness, long-term viability, and image of the firm.

Several studies have tested corporate disclosure and firm performance. Pham & Tran (2020) found that the disclosure of corporate social responsibility not only has relationship to the reputation of the firm but also the integrity of the CEO who serves in the firm, which in turn contributes significantly to the company's financial performance. Several studies report a negative relationship between corporate social responsibility disclosure and firm performance (Ingram & Frazier, 1983). This shows that the information disclosed by the firm will have an impact on the performance.

Based on the previous explanation, the researcher wants to examine whether the disclosure of anti-corruption has a relationship with the performance of companies in Indonesia. There are some reasons to take this topic. First, there is limited research that discusses the relationship between anti-corruption disclosure and performance, in particularly emerging economies (Odrizola & Etxeberria, 2021). There are some studies on anti-corruption disclosures by Indonesian companies (Blanc et al., 2017; Masud et al., 2022). Several studies confirm a significant relationship between disclosure of anti-corruption with politics, CSR, or gender diversity, but only a few have examined the relationship between anti-corruption disclosures and firm performance where the firm performance appraisal cannot be measured in one way (Masud et al., 2022). On the other hand, because Indonesia is a developing country and does not yet require sustainability reporting for all corporations, this causes only some

companies to report their anti-corruption (Masud et al., 2022). This research continues from the research of Blanc et al. (2019) which suggests research on the relationship between anti-corruption disclosure and firm performance. Not only that, this study extends previous research by using other international guidelines related to anti-corruption (Sari et al., 2021).

Second, there is government regulation and the issuance of SNI ISO 37001 about the Anti-Bribery Management System. The application of SNI ISO 37001 in a firm is voluntary which is part of efforts to maintain business ethics and compliance with laws and regulations. The implementation of SNI ISO 37001:2016 in Indonesia is designed to help organizations establish, implement, maintain and improve anti-corruption programs that can flexibly be used by any organization, large or small, whether it is in the public, private or non-profit sectors. The system can stand alone or can be integrated with other management systems, so that these standards are appropriate and can be applied to any form of organization, especially for those who have implemented the basics of management systems in Indonesia (Fasa & Sani, 2020).

Third, anti-corruption disclosure can benefit the firm because it is considered by the public as a sign that the firm is behaving ethically (Islam et al., 2018). Recently, people tend to look not only at the quality of services and products offered by the firm, but also how the firm is managed. As investors, this is crucial, because investors tend to pay attention to things that will prolong the survival of the firm, especially things that include strategies and actions taken by companies to prevent and eradicate corruption. Therefore, this will increase the firm value.

Fourth, anti-corruption disclosure can be used as a basis for consideration for investors and shareholders. In the future, the disclosure of anti-corruption will have an impact on the firm performance where this will give a good or bad signal to investors and shareholders about the condition of the firm. One of the characteristics of information containing signals is that it is relevant if it is used as a basis for decision making (Widiastuty & Soewarno, 2019). This is because any changes or information disclosed will affect the firm, including performance.

Fifth, not only UNGC (2009) and TI (2009) a strong indicator to measure the extent to which the quality and completeness of companies in efforts to prevent corruption (Blanc et al., 2017), the Global Reporting Initiative is also one of the standard setters with regard to sustainability that encourages greater disclosure. Therefore, GRI includes the issue of corruption as a part of its disclosure. Previously, corruption was part of the social indicators, but the latest standard has included anti-corruption in the financial indicator, namely GRI 205: Anti-corruption. With this change, this shows the importance of anti-corruption indicators in boosting firm performance, so it's not just a social issue; but also corporate finance. (Asare et al., 2020).

The high level of corruption causes the government to increasingly echo its anti-corruption commitment. However, attention and commitment to anti-corruption is still low, especially in corporations. According to the Corruption Eradication Commission and Liputan 6, some of the causes are loopholes in the legislation which are considered unclear, have multiple interpretations, and tend to favor certain parties, as well as sanctions that are too light or not well targeted. Other causes are weak management control systems, inadequate accountability systems, a culture of corruption that is still entrenched, money politics, and mistakes that are often covered up in order to maintain the good name of the organization.

A low level of corruption is one of the characteristics of developed countries. This is different from developing countries where the level of corruption tends to be relatively high because they do not yet have a good institutional system. This topic is interesting to discuss because as is well known that Indonesia is a developing country and the practice of corruption in Indonesia is also high, especially in corporations. One of the reasons is that there is no obligation for companies, especially private companies in Indonesia to disclose their anti-corruption, even though the Indonesian government is aggressively promoting its commitment to eradicating corruption.

To test this relationship between anti-corruption disclosure and firm performance, the research uses all listed companies on Indonesia Stock Exchange

(IDX) for 2016-2020 as a sample, excluding industries that are in the financial sector (SIC 6). To know the relationship among variables, this research will use a regression model.

1.2 Research Problem

According to the research background, the research problem for this research is “Is anti-corruption disclosure related to firm performance in Indonesia?”.

1.3 Research Objective

Based on research problems, this study has the objective to find evidence of the relationship of anti-corruption disclosure on firm performance in Indonesia.

1.4 Research Contribution

This study has the following contributions:

1. For theoretical contribution, the result of this research can be added to the literature about anti-corruption disclosure and firm performance. There are still few anti-corruption disclosure studies that focus on firm performance, especially in emerging countries. Therefore, the results of this study are expected to expand the literature on anti-corruption disclosure that examines its impact on firm performance in Indonesia.
2. For practical contribution, the result of this study can be used as a reference and consideration for companies and further research. Therefore, research on anti-corruption disclosure is expected to be a consideration for companies to improve firm performance, so that firm value also increases.

1.5 Scope of Research

This study uses a quantitative approach and is limited to non-financial companies that have been listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020, so the research results cannot be generalized to different countries because each country has its uniqueness in disclosing anti-corruption.

1.6 Systematic Writing

The systematics of this research will be classified into several chapters:

Chapter 1: Introduction

This part will discuss the research's background that focuses on the phenomena of anti-corruption disclosure and its impact on firm

performance. The researcher will also discuss the research problems, the research objectives, the research benefits, the limitations of the research, and the research systematic.

Chapter 2: Literature Review

This chapter will discuss the research's theory as a reference. It also includes literature, theoretical review, and previous research. Furthermore, this part also explains the research framework, hypothesis development, and analysis model.

Chapter 3: Research Methodology

This chapter will discuss the rationalization of method selection, object and subject, and the use of secondary data in this research. This section also explains the methods used to prove the hypotheses that have been developed.

Chapter 4: Result and Discussion

This chapter will give the result and the explanation of statistical analytics that include statistical descriptive, Pearson correlation, and fixed effect regression. This chapter also provides the result of a robustness test on Two-Stage Heckman and Coarsened Exact Matching (CEM) regression. Furthermore, this part also gives additional analyses that are useful for the main study of this research.

Chapter 5: Conclusion

This chapter contains the conclusion, implication, and limitations of the research. The conclusion discussed the result of the statistical analysis briefly. The implication explains research contributions regarding the findings of the research. The limitation in this research explains the limitation that was found throughout the research. This limitation also includes suggestions for further research that are useful to improve and increase research quality.