Does Business Ethics Affect Good Corporate Governance? Experience from Indonesian State-Owned Enterprise

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Abstract
This study aims to investigate the effect of business ethics on the good corporate governance implementation in the state-owned enterprises in the North Sumatra region. The variables used in this study are business ethics and good corporate governance implementation. In this study, 80 questionnaires were distributed and 64 questionnaires were returned and analyzed. Findings indicate that business ethics has a negative and not significant effect on the implementation of good corporate governance in state-owned enterprises in the North Sumatra region. This study suggests that the state-owned enterprise management be more intense in understanding ethical values in the business carried out by the company along with the implementation of good corporate governance.

Keywords: business ethics, good corporate governance, Indonesian state-owned enterprise, ethical, state-owned enterprise management

JEL Classification: M1, M2

Introduction

In an effort to implement good corporate governance in a company, it will not be separated from the rules that must be accepted and obeyed by the company, both legal rules, and moral or ethical rules. An ethic may refer to the way to carry out an activity or program, which covers all aspects relating to individuals, company management, and also society. Moreover, business ethics in a company is an implementation of the principles of good corporate governance. The practice of a business ethic requires employees and all company leaders to carry out all activities

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on behalf of the company and may become standards as well as guidelines for all employees and management.

A business ethic is closely related to the code of conduct that applies in a corporate environment (Sarkar, 2017). Thus, the management of a company must follow the code of conduct, rules, and regulations that apply and also must uphold ethical norms and values. Moreover, an awareness of good behavior will be able to enhance and strengthen a positive image for the company so that the company is respected and dignified in its business environment.

In order to realize these efforts, a company must be able to formulate a guideline. The guideline will regulate various ethical values policies that can be stated explicitly as a standard of behavior that must be followed by the company. It is expected that the principles and guidelines for behavior have been implemented and are rooted in a company, then the ethical guidelines will become a culture within the company and can be applied in every activity (Keraf, 1998).

Business ethics is the heart and soul in implementing good corporate governance. Without being based on good morals and ethics from business people, good corporate governance is difficult to implement. Business ethics also cannot be separated from law and morals. Although the company has a good quality product that is useful for the welfare of the community and managed with proper management (for example, in the fields of production, finance, human resources, and marketing), however, not applying good ethics, then this will sooner or later become a stumbling block for the company (Floyd, Xu, Atkins & Caldwell, 2013; Khomba & Vermaak, 2012).

This paper is structured as follows. In the next section, we present the literature review related to good corporate governance and business ethics. Next, in section 3 provide the methodological approach used in this study and followed by result and discussions in section 4. The last section 5 and section 6 presents conclusions and limitations as well as the suggestion for future study.

Good Corporate Governance

The concept of good corporate governance is a concept that explains the relationship between various participants in a company that determines the direction of overall company performance. Good Corporate Governance may refer to a concept that concerns the structure of the company, the division of tasks, the distribution of authority, and the distribution of the responsibility of each element (Lukviarman, 2016). Further, the basis forms the elements of the company and the mechanism that must be adopted by each of these elements.

According to the Organization for Economic and Development (2004), good corporate governance is a set of relationships between the company management, board, shareholders and other parties that related to the company. Good corporate governance requires a structure to achieve goals and control company performance. Further, good corporate governance also provides a stimulus to the board and management to achieve goals that are in the interests of the company and shareholders. And also facilitate effective control, so that it can encourage companies to use resources more efficiently.

Meanwhile, Al-Haddad, Alzurqan, and Al-sufy (2011) state that good corporate governance is concerned with all stakeholders to make sure that managers and other internal employees always take the right steps or adopting a mechanism that protects the interests of stakeholders. Another definition proposed by Gregory and Simss (2011) states that good corporate governance is a combination of laws, regulations, and personal practices that enable companies to attract capital, have efficient performance, generate profits, and meet the expectations of the general public as well as legal obligations.

In Indonesia, based on Article 1 of the Decree of the Minister for State-Owned Enterprises No. KEP-117/M-MBU/2002 dated July 31, 2002, regarding the implementation of good corporate governance states that good corporate governance is a process of structure used by state-owned enterprise organs to enhance business success and corporate accountability. The main objective is to create shareholder value over the long term by focusing on the interests of other stakeholders, based on legislation and ethics.

Based on several definitions above, it can be concluded that the implementation of good corporate governance is a system that regulates and manages companies to create value-added for stakeholders, which influenced by top management in delivering direction and monitoring of management to achieve company objectives.

The implementation of good corporate governance is an asset for the company because it will be able to increase value-added for stakeholders, facilitate access to the capital market and enhance the positive image of the public (Al-Haddad et al., 2011; Khan, Nijhof, Diepeveen & Melis, 2018). Due to its important role, the good corporate governance implementation needs to be supported by three inter-related pillars, namely the state and its instruments as regulators, the business environment as a market participant, and the public as users of products and services in the business world (Kamal, 2008; Khan et al., 2018). Meanwhile, the implementation of good corporate governance in Indonesia suggests that all stakeholders must participate.

National Committee on Indonesian Corporate Governance Policy which at the beginning of 2005 was changed to the National Committee on Governance Policy issued the good corporate governance guidelines in 2001, as a standard for implementing good corporate governance for companies in Indonesia. In general, the Indonesian government sets the direction of implementing good corporate governance in the state-owned enterprise environment in Indonesia including setting national policies, refining national frameworks and developing private sector initiatives.

The general objective of good corporate governance is to create a system of control and balance (check and balance) to prevent misuse of resources and continue to encourage the growth of the company (Nurainy, Nurcahyo, Kurniasih & Sugiharti, 2013). Meanwhile, according to the Forum for Corporate Governance Indonesia (2001), the objective of good corporate governance is to create value-added for whole shareholders. In addition to these objectives, there are other objectives, namely:

1. Meeting the company's strategic objectives, in the form of increasing company value.
1. Fulfillment of responsibilities to stakeholders, especially the local community.
2. Comply with the existing legal framework.

The application of good corporate governance is expected to provide the following benefits (Rahmawati, 2006):

1. Improving company performance through the creation of a better decision-making process, increasing the operational efficiency of the company, as well as further improving services to stakeholders.
2. Facilitate the acquisition of financing funds, so that it can further enhance corporate value.
3. Restore investor confidence to reinvest in Indonesia.
4. Shareholders will be satisfied with the company's performance, it will simultaneously increase shareholder value and dividends.

The topic of good corporate governance has been widely discussed, especially after the economic issue in Indonesia and several other countries. This phenomenon is inseparable from the results of several studies that show that one of the factors causing the issue that harmed the structure of the economy was the weak implementation of good corporate governance by business people and the business sector (Kamal, 2008; Lukviarman, 2016).

The weak implementation of good corporate governance by these business people is believed to not only be a trigger for the economic issue, but also an obstacle to efforts to get out of the crisis. Therefore, it is not surprising that Indonesia and several other developing countries are relatively slow to achieve economic recovery. Through the application of GCG, business ethics and awareness of business people, a company will be able to maintain and enhance its reputation as a responsible company, which will maximize shareholder value and ultimately help accelerate the country's economic growth (Ariesti, Yolanda & Hia, 2014). If the company does not carry out business ethics in the company, then the company's survival will be disrupted (Keraf, 1998). Since the core of the business is trust, then every management company must implement business ethics in the business sector (Keraf, 1998). Thus, the application of business ethics reflects the application of good corporate governance principles, which meet the needs and protect the interests of stakeholders (Ariesti et al., 2014; Keraf, 1998).

Business Ethics

Business activity cannot be separated from the ethical spotlight. The development of ethics for a business is as long as the business itself. Since humans conduct business activities, whether recognized or not these activities can not be separated from ethical problems. For example, since humans engage in commercial activities, they already know about the possibility of risks of fraud. Therefore, commercial activity will always deal with ethics which means always considering what is allowed and not allow in business activity.

The purpose of ethics is to develop the character and mentality of someone to become a good individual, physically and mentally (Keraf, 1998; Sabir, Iqbal, Rehman, Shah & Yameen, 2012). Ethics is more important than the law because no matter how complete the law is, without ethics, people will find loopholes in the law (Keraf, 1998)

The background of the establishment of business ethics is a powerful way to institutionalize ethics in the structure and activities of a company. Business ethics is a form of application of the principles in the company (Sabir et al., 2012). Business ethics has a very essential role, which if it can be implemented properly and consistently it can elevate the company image and has high competitiveness (Khomba & Vermaak, 2012). Since the core of the business activity is mutual trust, then honesty is the main factor. Honesty is one of the important principles of business ethics (Effendi, 2005; Velasquez, 2005). Thus, business ethics becomes a major factor in business success and is a form of translation of the good corporate governance practice in a company (Effendi, 2005).

Hill and Jones (2008) postulate that business ethics is a doctrine to differentiate between right and wrong to provide debriefing to every company leader when considering the strategic decisions related to complex moral issues. Business ethics according to Velasquez (2005) is a specialized study of right and wrong morals.

This study concentrates on moral standards as applied in policies, institutions, and business behavior. Meanwhile, According to Bertens (2007), business ethics is not merely a provision regulated by law, it is even a standard that is higher than the minimum standard of legal provisions, because in business activities often find gray areas that are not regulated by legal provisions.

What arrangements should be implemented to create a good relationship within a company or other business entity such as the government to be fairer? The question concerns the need for a set of rules that govern internally the business environment (Sarkar, 2017; Ugoani, 2019). The need for this set of rules is needed to create an institution, both business and public so that it is better and can protect the interests of the public or consumers (Sarkar, 2017).

The principles of business ethics in good business activity cannot be separated from human life. This means that the principles of business ethics are very closely related to the value system adopted by every society (Effendi, 2005). For instance, the principles of business ethics that implement in Indonesia will be greatly influenced by the value system of Indonesian society, while, the value system of European society will influence the principles of business ethics that apply in Europe, and so on. However, ethical principles that apply in business are actually the application of ethical principles in general (Effendi, 2005). Without ignoring the uniqueness of the value system of each business community. Keraf (1998) points out five principles of business ethics, namely:

1) The autonomy principle. The principle of Autonomy is the attitude and ability to make decisions and act based on awareness of what good to do and not to do. An autonomous business person is someone who knows and aware of the decisions and actions is taken, as well as risks or consequences that will arise both for themself and their company and other parties. Business people may only act ethically if they are given full freedom to make decisions and act according to what they consider good. This freedom allows business people to determine precisely their choices to develop the business properly in accordance with the method. However, freedom does not guarantee a business person can act autonomously and ethically. A business person can act without realizing whether their actions are good or not. Therefore, a business person who acts autonomously also requires responsibility. With a responsibility, business people are not only aware of their obligations and freedom to act, but also willing to take responsibility for their actions and the impact of those actions. Thus, an autonomous business person is a person who knows and aware of their actions, free in carrying out their actions, at the same time also responsible for their actions. These three elements are very essential and cannot be separated from each other. The principle of autonomy ultimately enables innovation, encourages creativity, and increases

productivity. In addition, these three elements will be very useful for business people in a modern business environment that is constantly changing and developing in intense competition.

2) The honesty principle. The principle of honesty is very relevant and necessary in carrying out business activities. Honesty is the key to the success of business people to maintain their business in the long term in a competitive environment. At least three factors that make the principle of honesty very relevant in the business world, first, honesty is relevant in fulfilling the terms of agreements and business contracts. Honesty is very important for each party to agree, in determining the relationships and business continuity of each party. This has an extraordinary multiplier-expansive effect. In this open and fast information age, in a short time, all other entrepreneurs will know that fraud must be avoided in the next business. Secondly, honesty is relevant in offering goods and services of comparable quality and price. In a competitive modern business, consumer trust is the most important thing for entrepreneurs. Entrepreneurs always try to build and maintain consumer trust. Thus, the ways of deceiving consumers to gain high profits are not good in the business method. Third, honesty is also relevant in internal working relationships within a company. A company will not be able to survive if the employment relationship within the company is not based on the principle of honesty. The company owner who always deceive employees by cutting their salary for no apparent reason. Or conversely, employees always do things that harm the company by taking company property. The company will be destroyed if the work atmosphere is full of such deception. Therefore, the principle of honesty is precisely the core and strength of the company. The three factors above clearly show that the principle of honesty is very important and is needed for business people who want their business to be successful and sustainable.

3) The fairness principle. The principle of fairness requires that everyone is treated equally according to rules that are fair and following criteria that are rationally objective and accountable. The most basic principle of fairness is the principle of not harming others, especially not harming the rights and interests of others. The basis of this principle is the appreciation of the dignity and the rights of people. The principle of no harm applies to every element of economic and business activities. Without this principle, it is difficult to expect good and ethical business activities can be realized. This means that in business activities no party may suffer a loss, both their rights and interests, this applies to employees, suppliers, distributors, consumers, investors, and the wider community. Whole parties in any business relationship cannot harm each other. Because once particular parties harm

other parties, certainly there will be no business people who want to establish business relationships with these parties.

4) The mutual benefit principle. This principle requires mutual positively so that all parties strive for the mutual benefit of each other. This principle mainly accommodates the nature and purpose of business. The main purpose of business activities is to gain a profit. Manufacturers want many consumers to buy or use their products. Meanwhile, consumers want to get goods and services at a good price and quality. Therefore, the business should be run with mutual benefit, both producers and consumers. In other words, the principle of mutual benefit requires that the business is run with good ethics so that it benefits all parties involved in the business activities.
5) The moral integrity principle. The principle of moral integrity is an internal demand in business people so that they conduct business while maintaining their good name and good image of the company. This principle contains a moral imperative that applies to business people and their companies to do business to remain the most superior and reliable. In other words, this principle is a requirement and encouragement from within business people and companies to be the best. This is reflected in all the behavior of business people with whole parties, both parties within the company and parties outside the company.

Research Method

The data collection method in this study uses a questionnaire, by distributing a list of questionnaires to state-owned enterprise accounting managers in the North Sumatra region. The main respondents in this study are state-owned enterprise staff, particularly accounting managers. This is because they are involved and actively participate in supporting the implementation of business ethic practices and good corporate governance in the state-owned enterprise environment. In this study, the measurements of business ethics are measured using 5 statement items (questions) that are adopted and modified from Saputro (2019) and Sari (2011). The implementation of good corporate governance in this study is measured by using 20 statement items (questions) adopted and modification from Saputro (2019) and Sibarani (2012). A five-point Likert scale is used, which measures attitude by expressing the agreement and disagreement of proposed statements with a score of 5 (SA= Strongly Agree), 4 (A= Agree), 3 (N= Neutral), 2 (D= Disagree), and 1 (SD= Strongly Disagree). 80 questionnaires were distributed to respondents in state-owned enterprises in the North Sumatra region. Incomplete questionnaires were 2 and 14 questionnaires were not returned. Thus, 64 questionnaires were returned and analyzed in this study, with a response rate of 80%. Table 1 presents the variables used in this study as well as the operational definitions and indicators for each variable.

Table 1. Indicators and Operational Definition

Variables	Operational definitions	Indicators
Business Ethics	The overall ethical rules, which govern the rights and obligations as well as ethics that must be practiced in business.	1) Vision, mission and corporate value 2) Policies that lead to laws and regulations, and applicable codes of ethics. 3) Policies to all company organs. 4) Policies to the public. 5) Policies for business partners.
Good corporate governance Implementation	The implementation of good corporate governance in the company.	1) Transparency 2) Accountability 3) Responsibility 4) Independency 5) Fairness

Result and Discussion

Table 2 present the profile of the respondent based on gender. According to Table 2, the majority of respondents in the study were male which was 59.4% (38 respondents) and followed by 40.6% of female respondents (26 respondents).

Table 2. Demographic Profile Based on Gender

Gender	Frequency	Percentage
Male	38	59%
Female	26	41%

Table 3 indicates that the majority (42%) of respondents in this study are between 25 and 30 years old (27 respondents). Followed by 31% (20 respondents) of the respondents are between 36 and 40 years old. 16% (10 respondents) of the respondents are between 31 and 35 years old. 8% (5 respondents) of the respondents are 45 years old and above. And only 3% (2 respondents) of the respondents are between 25 and 30 years old.

Table 3. Demographic Profile Based on Age

Age	Frequency	Percentage
25-30	2	3%
31-35	10	16%
36-40	20	31%
41-45	27	42%
>45	5	8%
Total	**64**	**100%**

The result from Table 4 indicates that the majority of the respondents have a bachelor's degree (55%). 41% (26 respondents) have a master's degree, and the remaining 5% (3 respondents) have a diploma.

Table 4. Demographic Profile Based on Education Level

Education Level	Frequency	Percentage
Diploma	3	5%
Bachelor	35	55%
Master	26	41%
Total	**64**	**100%**

The following Table 5 shows the results of the validity assessment on business ethics variables. Based on Table 5, it appears that there are 2 invalid questions, namely questions BE_4 and BE_5. This invalidity is because r counts from questions BE_4 and BE_5 are smaller than r tables, and r counts from each invalid statement are 0.060 and 0.169.

Tabel 5. Validity Assessment of Business Ethics (First Assessment)

Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
BE_1	15.2188	2.301	.405	.368
BE_2	15.3125	2.790	.488	.362
BE_3	15.5469	2.823	.417	.392
BE_4	15.9063	3.356	.060	.588
BE_5	15.3906	2.877	.169	.546

Since questions BE_4 and BE_5 are invalid in the first assessment, then these questions must be eliminated in the second assessment. The results of the second assessment on business ethics variables are presented in table 6 and the results of all remaining questions are valid.

Tabel 6. Validity Assessment of Business Ethics (Second Assessment)

Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
BE_1	7.8281	.843	.565	.558
BE_2	7.9219	1.311	.602	.514
BE_3	8.1563	1.436	.420	.697

Based on table 7, the validity test results on the good corporate governance implementation variable indicate that there are 4 invalid questions, namely questions of accountability_1, responsibility_2, independency_1, and fairness_2. This invalidity is caused by r count of questions accountability_1, responsibility_2, independency_1 and fairness_2 is smaller than r table, as well as r count of each invalid questions are 0.224, 0.120, 0.239, and 0.12.

Tabel 7. Validity Assessment of Good Corporate Governance Implementation (First Assessment)

Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
transparency_1	75.5938	34.467	.439	.738
transparency_2	75.6250	34.079	.446	.736
transparency_3	76.0156	35.603	.267	.749
transparency_4	75.6094	34.972	.359	.743
accountability_1	75.8125	36.091	.224	.752
accountability_2	75.6875	34.758	.354	.743
accountability_3	75.8750	33.698	.531	.731
accountability_4	75.9688	34.793	.301	.747
responsibility_1	75.5625	34.060	.443	.736
responsibility_2	75.6250	36.619	.120	.760
responsibility_3	75.8281	33.922	.417	.738
responsibility_4	75.5469	35.172	.363	.743
independency_1	75.8594	35.488	.239	.752
independency_2	75.7188	35.031	.319	.746
independency_3	75.8125	34.948	.303	.747
independency_4	75.6563	34.928	.322	.745
fairness_1	76.0469	34.680	.300	.747
fairness_2	76.0625	36.377	.121	.762
fairness_3	75.9219	34.518	.310	.747
fairness_4	75.7188	35.602	.250	.750

Since accountability_1, responsibility_2, independency_1 and fairness_2 are invalid in the first assessment, then these questions must be eliminated in the second assessment. The results of the second assessment on good corporate governance implementation variables are presented in table 8 and the results of all remaining questions are valid.

Tabel 8. Validity Assessment of Good Corporate Governance Implementation (Second Assessment)

Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
transparency_1	59.8906	26.797	.412	.747
transparency_2	59.9219	26.391	.430	.745
transparency_3	60.3125	27.456	.290	.757
transparency_4	59.9063	27.420	.307	.756
accountability_2	59.9844	26.714	.376	.750
accountability_3	60.1719	25.668	.577	.734
accountability_4	60.2656	26.579	.340	.753
responsibility_1	59.8594	26.567	.399	.748
responsibility_3	60.1250	25.794	.462	.742
responsibility_4	59.8438	27.436	.333	.754
independency_2	60.0156	27.127	.316	.755
independency_3	60.1094	26.956	.313	.755
independency_4	59.9531	27.061	.316	.755
fairness_1	60.3438	26.832	.294	.758
fairness_3	60.2188	26.586	.316	.756
fairness_4	60.0156	27.539	.259	.760

Based on the following Table 9, it can be seen that the Cronbach alpha value for the business ethics variable is 0.690. This value is in line with the reliability requirements of 0.60. Table 9 indicates that the measuring instruments used in this study are reliable. Moreover, According to table 9, the reliability assessment results for good corporate governance implementation variable can be seen that the Cronbach alpha value is 0.755. This value complies with the reliability requirement of 0.60. From the assessment results, it can be concluded that the measuring instrument used in this study is reliable.

Tabel 9. Data Reliability Assessment

Variable	Cronbach's Alpha	N of Items
Business ethics	.690	3
Good corporate governance	.755	16

The t-test in this study was conducted to determine the effect of business ethics variables on the variable implementation of good corporate governance. The t-test results are present in table 10 below. Table 10 indicate that the variable of business ethics has a negative and insignificant effect on the variable implementation of good corporate governance. This is evident from the significant value of 0,407 is greater than 0.05.

Tabel 10. Result of t-Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	34.517	6.771		5.098	.000
	business ethics	.469	.562	.131	.835	.407

Based on the results of data analysis, findings show that the variable of business ethics has a negative and not significant effect on the variable implementation of good corporate governance. Findings indicate that the application of business ethics does not affect the implementation of good corporate governance in the company. This is possible because of the limited understanding of staff related to the business ethics values applied by the company, there are still differences in understanding particularly regarding the indicators of accountability, transparency, and disclosure that indicate ethics in implementing business.

The insignificant result of the relationship between business ethics and the implementation of good corporate governance is rather unexpected. Theoretically, it is explained that the implementation of good corporate governance will run effectively if it is based on and supported by the proper application of business ethics in the company. Moreover, companies are more motivated to increase understanding of business ethics and apply it in the company along with the improvement in good corporate governance implementation.

The result of this study is in line with previous studies, among others, Prawitasari (2010). She finds that business ethics has a negative and no significant effect on good corporate governance. However, different from the results of several previous studies, including Effendi (2005), Saputro (2019) and Sari (2011) who found that business ethics had a positive and significant effect on the implementation of good corporate governance.

Conclusion

This study aims to determine the effect of business ethics on the implementation of good corporate governance in state-owned enterprises in the North Sumatra region. The variables used in this study are business ethics and good corporate governance implementation. Based on the results of the data analysis described in the previous section, the conclusions obtained from this study show that business ethics has a negative and not significant effect on the implementation of good corporate governance in state-owned enterprises in the North Sumatra region. Therefore, the application of business ethics in state-owned enterprise environments does not necessarily affect the implementation of good corporate governance in the company.

The insignificant result is probably due to limited understanding related to the values of business ethics adopted by the company. There are differences in understanding of several indicators of good business ethics implementation, among others accountability, transparency, and disclosure that indicate the implementation of good ethics in conducting business.

In conclusion, for state-owned enterprise management to be more intense in understanding and implementing ethical values in the business carried out by the company along with the implementation of good corporate governance in the company's operational activities as well. That is because the concept of building a good business environment must be applied by implementing the principles of good corporate governance which is an embodiment of business ethics. Also, state-owned enterprise management must intensify the enforcement of business ethics in their daily operations to drastically reduce common problems and to promote their sustainability.

Limitation and Suggestion

This study only focuses on the relationship of business ethics variable and the implementation of good corporate governance in the state-owned enterprise environment in the North Sumatra region. Respondents in this study are only the accounting manager in the Indonesian state-owned enterprise. Future studies may add several variables that can influence good corporate governance implementation in state-owned enterprises in Indonesia, for instance, code of conduct, internal audit effectiveness, and the role of the audit committee. The next studies may combine several respondents who could be involved in the implementation of good corporate governance such as financial manager and internal auditor. Future studies may use qualitative analysis in terms of the need to analyze more precisely how the application of business ethics in the company.

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