

## COMMITMENT TOWARDS ETHICS: A SUSTAINABLE CORPORATE AGENDA BY NON-FINANCIAL COMPANIES IN MALAYSIA

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**Abstract:** This paper examines corporate disclosures related to ethical practices by publicly listed companies in Malaysia. The aim of this study is to determine the level of corporate commitment towards ethical conduct to see whether the highest standards of business ethics are upheld in the Malaysian corporate sector. This issue needs attention since corporate misconduct, such as fraud and bribery, still occurs despite companies complying with regulations set by the authorities. Surveys, such as the ASEAN Corporate Governance Scorecard in 2014, highlight concerns about the low level of commitment to the code of ethics and whistle-blowing policies in Malaysia. This paper analyses the annual reports of 250 non-financial companies listed in the Main Board of Bursa Malaysia and measures their ethical commitment using an Ethical Commitment Index. The index consists of 17 disclosure items from five dimensions. Findings indicate that companies commit the most towards sustainability practices, but the least towards actions to promote ethics and prevent unethical practices. The lack of disclosures related to corporate ethical conducts is an issue that needs to be tackled by regulators as commitment towards ethical conduct is an important aspect in ensuring corporate sustainability.

**Keywords:** Ethical Commitment Index, ASEAN Corporate Governance Scorecard, Ethical practices, code of ethics, corporate sustainability.

**Abbreviation:** ECI, CEV, ACT, CODE, WBP, SUST.

### Introduction

Concerns about ethical practices and transparency have been discussed for decades. To prevent unethical conducts, which have been the cause of many corporate failures, companies are subjected to various regulations that are aimed at upholding the highest standards of business ethics in the marketplace. In Malaysia for example, the Malaysian Code on Corporate Governance (MCCG) 2012 provides guidelines for companies to commit to better transparency and ethical business conducts. The MCCG 2012 emphasises the provision of code of ethics, the establishment of whistle-blowing policies, and the promotion of corporate sustainability for Malaysian public-listed companies.

Despite scrutiny by regulators, issues of corporate ethical misconducts are still alarming. The 2013 Malaysian Fraud Survey by

KPMG (2014) indicates that 89 percent of the respondents agree that bribes and corruptions have increased from 2010 to 2012, and that the consequences of unethical practices can damage public trust and corporate reputation. The Global Economic Crime Survey, conducted by PwC in 2016, shows that bribery and corruption have increased from 19 to 30 percent from 2014 to 2016 in Malaysia. The survey also shows that unethical practices negatively impact corporate reputation and financial stability. Unethical practices affect not only the company involved, but also the community as a whole (Adu-Gyamfi, 2016).

Another issue related to ethical practices is transparency and disclosures. The ASEAN Corporate Governance Scorecard (ACGS) 2014 reported that although the levels of corporate governance (CG) disclosures among Malaysian

companies have improved from 2012 to 2014, there is still a lack of transparency in relation to the MCCG compliance statement and ethics practice (Asian Development Bank, 2014). The Malaysian-ASEAN Corporate Governance Scorecard in 2016 reported that 80 percent of Malaysian companies have improved their transparency in terms of CG. However, transparency related to the code of ethics and whistle-blowing policies are still below 50 percent, compared with CG and corporate social responsibility (CSR) disclosures (MSWG, 2017). Also, top companies were shown to have better disclosures compared with other listed companies.

With the alarming situation on corporate scandals, and evidence indicating the lack of ethics disclosures, there is a need to explore the commitment taken by companies towards ethical conduct. In corporate settings, the commitment towards ethical conduct is an important element in the sustainable performance of companies. Therefore, the objective of this paper is to examine the level of ethical commitment by Malaysian non-financial companies based on their reporting of ethics information.

### ***Corporate Ethical Commitment***

Ethics can be described as the human ability to differentiate between right and wrong by being aware of morality, as well risk and reward in making decisions (Benton, 2012). Business ethics refers to the guidance and values in developing ethical norms and behaviour in a corporation (Ferrel *et al.*, 2011). Components that are needed for companies to create ethical norms and behaviour include having corporate ethical values, implementing an ethics programme and having an ethical leadership in top management (Schwartz, 2013; Craft, 2018). The voice of directors and top management regarding companies' mission and vision (Grojean *et al.*, 2004), core values, ethical philosophies and their objectives (Melé *et al.*, 2006) reflect the top management's commitment in setting ethical cultures from top to bottom (Driskill *et al.*, 2019). The mission statement,

for example, is where ethical values, including integrity and loyalty, are emphasised to show companies' commitment towards ethical practices (Chandler, 2015).

Aside from just having an ethical philosophy, formulating a code of ethics and its implementations are important for companies to maintain and promote the highest level of ethical practice and culture. Efforts to promote an ethical culture in a company will be ineffective if there are no proper ethics and compliance programmes (Schwartz, 2013; Garegnani *et al.*, 2015). Effective compliance with the code can be enhanced through ongoing training, communication of the code, continuous improvement to the code (Donker *et al.*, 2008; Jasevičienė, 2012; Garegnani, *et al.*, 2015) and reward and penalty mechanisms. Ongoing ethics training can help employees deal with ethical issues they face during daily operations (Whytt *et al.*, 2012). Ethical values can be promoted through the incorporation of an ethical criteria in the appraisal programmes (Svensson *et al.*, 2010) while disciplinary action can ensure that employees comply with the code and policy, and that it reflects managers' value ethical behaviour in their leadership (Schwartz, 2013).

Whistle-blowing policies are another component of codes of ethics that aims to shape a corporate ethical culture (Wood & Rimmer, 2003; Chung *et al.*, 2004) by providing an anonymous communication channel for stakeholders to raise any concern without fear (McDonald, 2000; Singh, 2011; Lee & Fargher, 2013). However, there are several challenges that undermine the effectiveness of whistle-blowing policies, such as the sense of loyalty and culture of collectivism (Rachagan & Kuppusamy, 2013), as well as fear of retaliation (Nawawi & Salin, 2019). Therefore, an open communication channel for stakeholders (Rachagan & Kuppusamy, 2013), protection towards whistle-blowers, and a provision of monetary reward (Stikeleather, 2016) can encourage stakeholders to report unethical conduct without fear. Sustainability practices, which are also an element of ethical conduct, refer to the ethical behaviour towards

the community and environment in a company's operations. According to Bezares *et al.* (2016), sustainability practices are important for companies to achieve long-term financial stability and balance the interests of shareholders and other stakeholders. Stakeholders expect companies with a strong ethical culture to have the ability to maintain their economic and financial stability (Cuomo *et al.*, 2016).

The stakeholder theory views that commitment towards ethics benefits companies. Corporate ethical commitment acts as a competitive advantage (Yozgat & Karatas, 2012) by signalling that the company has the responsibility to fulfil stakeholders' interests while, at the same time, protect shareholders' interests through long-term financial stability (Moneva *et al.*, 2007; Berrone *et al.*, 2007; Cai *et al.*, 2017). As stated in the MCCG 2017, companies are highly recommended to be committed towards high standards of ethics in business practices to ensure their long-term sustainability. Being ethical in business provides companies with both financial and non-financial benefits (Choi & Jung, 2008; Laoussiet, 2009).

Thus, there are views that companies with a high ethical commitment are able to create values and enhance their performance. Verschoor (1998) found a positive link between corporate ethical commitment and financial performance in the US, while Donker *et al.* (2008) revealed that disclosure of ethical values is positively associated with financial performance. In South Korea, Choi and Jung (2008) found that companies' commitment to ethics are significant towards shareholders' expectations, but not significant towards companies' profitability. In the Malaysian context, commitment towards ethical practices was shown to have a positive relation with financial performance (Abidin *et al.*, 2017). Ethical practices generate positive expectations from shareholders (Berrone *et al.*, 2007) as they expect companies to be able to utilise resources effectively (Chandler, 2015; Karim *et al.*, 2016) to create long-term business sustainability. Pae and Choi (2011), who focused on South Korea, revealed that ethical practices have the potential to reduce

the corporate capital cost. Companies with high level of ethical practices receive lower risks and, at the same time, are able to securitise long-term shareholder investments, which are important for the sustainability of their businesses (Graves & Waddock 1994).

The review of the literature highlights that corporate ethical commitment has been explored in different methodologies and contexts. Verschoor (1998), in an attempt to link corporate ethical commitment to performance in US companies, measured ethical commitment based on the index of the American Institute of CPAs (AICPA) Statement on Auditing Standards. In the Korean context, Choi and Jung (2007) developed an ethical commitment index based on the implicit and explicit ethical behaviour that was initially used as a survey instrument. Pae and Choi (2011) later adapted Choi and Jung (2011) to examine the ethical commitment disclosures among companies listed in South Korea. In Malaysian settings, prior studies viewed corporate ethical commitment to include concepts such as integrity, anti-corruption, compliance, and transparency (Othman *et al.*, 2012; Biglari, 2018). Prior studies have also incorporated both ethics-related disclosures (Salin & Ismail, 2015; Abidin *et al.*, 2017; Salin *et al.*, 2019) and CSR disclosures (Wan Ahamed *et al.*, 2014; Joseph *et al.*, 2016) in determining the breadth and depth of corporate ethical commitment. Accordingly, there is no standardised measure of corporate ethical commitment.

Furthermore, while there have been empirical evidence related to corporate ethical commitment, the level of disclosure on the commitment towards ethics is still questionable. Zaini *et al.* (2019) claimed that Malaysian companies still suffer from the low level of voluntary disclosures, while MSWG (2017) and Abidin *et al.* (2017) highlighted that ethics-related disclosures do not receive much attention compared with CSR disclosures. In similar vein, Joseph *et al.* (2016) found that Malaysian companies have low voluntary disclosures and are still not ready to provide information about their ethics-related practices. Salin and Ismail

(2015) implied that Malaysian companies have low awareness in disclosing ethical practices, particularly the disclosures related to codes of ethics.

Taken together, the literature has identified the importance of corporate ethical practices, as well as the disclosures about their commitments towards ethics that enable companies to gain benefits to operate sustainably. Yet, the level of corporate ethical commitment cannot be ascertained as there are low levels of disclosures related to ethics. Realising the importance of upholding high standards of ethics in the corporate sector, this paper examines the disclosures related to ethics to determine the commitment of companies towards practising ethical conducts. The aim of the study is to provide a glimpse of the readiness of Malaysian companies in being more transparent regarding information related to ethics.

## Methodology

This paper employed a quantitative method by using secondary data sources. A content analysis approach was applied by examining companies' reporting avenues, including annual reports and sustainability reports, as they contain significant and relevant information about companies' ethics. The parts of the reports that were examined include statements by boards of directors, corporate governance statements, corporate responsibility statements and sustainability statements or reports.

## Sample Selection

This paper used 250 companies listed in the Main Board of Bursa Malaysia in 2016 as the sample. Data from the year 2016 was used as it was the latest year in which the companies' annual reports were available when the research was conducted. Moreover, the year 2016 was deemed suitable as it was the final year for companies to fully implement the requirements of the MCCG 2012 before the introduction of the new MCCG that begins in 2017. The number of publicly listed companies in Bursa Malaysia for

the year 2016 was 791. For the analysis, only non-financial companies were included in the sample, while those from the financial industries, including banks, insurance companies and real estate investment trusts (REITs), were excluded as they are imposed with other regulations and different accounting practices (Nuryanah & Islam, 2011; Ibrahim *et al.*, 2016).

After excluding 34 companies from the financial services (banks and insurance companies) and 18 companies from real estate investment trusts (REITs), the total number of non-financial companies listed in Bursa Malaysia in 2016 was 739 companies. From the sample size determination table in Krejcie and Morgan (1970), the required sample size was 253 companies. The 253 companies were randomly selected using the RAND command in Microsoft Excel, and an interval of three was applied to acquire the desired sample size. The sample was further reduced to 250 companies as the annual reports of certain companies were unavailable. The tabulation of the sample based on industry classification is presented in Table 1.

## Corporate Ethical Commitment

The annual reports of the 250 companies were downloaded from the Bursa Malaysia website. To examine the corporate ethical commitment, the annual reports were inspected for items based on Ethical Commitment Index (ECI). The ECI was initially constructed as a questionnaire instrument in Choi and Jung (2008), and later adapted by Pae and Choi (2011), to examine corporate reporting related to ethics in Korea. Details of the ECI of Choi and Jung (2008), which was adapted by Pae and Choi (2011), are provided in Table 2.

For the purpose of this paper, the original ECI was modified. First, each item from the original ECI was rearranged into thematic dimensions. Each item is classified based on its purpose as recognised from prior studies. For example, items 5 and 9 in Table 2 are related to the elements in whistle-blowing policies as in Rachagan and Kuppusamy (2013). Second,

Table 1: The tabulation of sample based on industry classification

Industry	Frequency	Percent
Industrial products and services	79	32
Consumer products and services	53	21
Property	31	12
Construction	15	6
Technology	13	5
Transportations and logistics	13	5
Energy	12	5
Plantation	12	5
Health care	8	3
Telecommunications and media	8	3
Utilities	6	2
<b>Total (N)</b>	250	100

Table 2: The Ethical Commitment Index (ECI)

No	Description
1	Top managers of this company regularly emphasise the importance of business ethics
2	Ethical behaviour based on a formal business philosophy is the norm of this company
3	This company has a disciplinary system through which unethical behaviour is strictly punished
4	This company has a code of ethics
5	In this company, employees can report unethical conduct through an anonymous channel
6	In this company, ethics education, training, or workshops are in place to enhance the business ethics of employees
7	This company regularly puts a significant portion of its profits toward philanthropy
8	This company has an independent ethics department and officers
9	In this company, employees can get help regarding business ethics through an ethics hotline or open communication channel
10	This company has an ethics committee
11	This company has an ethics evaluation system measured by an independent party from outside the company

to suit the Malaysian corporate reporting environment, several items were discarded due to the limited disclosures from annual reports and redundancies with corporate governance and audit committee disclosure requirement in Malaysia. The modified index, presented in Table 3, consists of 17 disclosure items that are segmented into five dimensions, i.e. i. Corporate ethical values and philosophy, ii. Actions to promote ethics and prevent unethical behaviour,

iii. Code of ethics, iv. Whistle-blowing policies and, v. Sustainability practices.

To score the disclosures, a binary scoring method was used; a score of 1 (one) is given if the item is disclosed, and zero (0) if otherwise. The binary scoring is deemed as a reasonable approach to analyse whether each item of the ECI is available in the annual report. According to Bin-Ghanem and Ariff (2016), criticism towards



the weighted approach justify the need to apply an unweighted scoring approach, i.e. binary scoring. Furthermore, the information related to the 17 disclosure items, which were segmented into five dimensions, were not on a standardised basis to allow a particular weighting approach. The binary approach has also been applied in prior studies (e.g. Wan Abdullah *et al.*, 2013; Zahid & Ghazali, 2015). For each of the five dimensions of the ECI, disclosures of items that were analysed and the related source of information are detailed as follows:

### ***Corporate Ethical Values and Philosophy***

The first dimension is corporate ethical values and philosophy. ITEM 1 and ITEM 2, which were taken from the original ECI in Table 2, reflect the importance of ethical values and philosophy that were often made available in corporate mission statements (Melé *et al.*, 2006; Laouisset, 2009). For ITEM 1, we analysed the statements about the importance of business ethics, either towards the companies, their shareholders and other stakeholders, including statements made by companies' directors, or in any other parts of the annual report. To examine companies' ethical philosophy or values (ITEM 2), statements about mission, core values and directors' statements were analysed. We look for ethical values, such as integrity, courage, compassion, responsibility, honesty, trust and loyalty, emphasised by the companies. ITEM 3 was added based on a recommendation in the MCCG 2012, in which companies should commit to uphold high ethical standards in the marketplace. Managerial commitment to promote ethical values are crucial for companies in shaping an ethical culture (Driskill *et al.*, 2019; Grojean *et al.*, 2004). This item can be found from either the director's statement or corporate governance statement.

### ***Actions to Promote Ethics and Prevent Unethical Conduct***

The second dimension refers to actions to promote ethics; which are related to supplementary ethics programmes to promote

ethical conduct and shape an ethical culture (Schwartz, 2013). Two items from the ECI (ITEM 4 and ITEM 5) were included. These items act as supporting measures to promote ethical conduct in a company (Callaghan *et al.*, 2008; Whyatt *et al.*, 2012; Trevino & Nelson, 2013). For ITEM 4, disclosures related to disciplinary actions and punishment were analysed from the annual reports. Any criteria of action provided by companies to address wrongdoing were examined. For ITEM 5, which is related to ethics training, disclosures from various sections of the annual report were examined. Ethics training include workshops, online training, and other types of related training. ITEM 6 is related to appraisal programmes. Good appraisal programmes will motivate employees to maintain good behaviour and ethics in the workplace (Svensson *et al.*, 2010; Whyatt *et al.*, 2012).

### ***Codes of Ethics***

The third dimension is related to codes of ethics. This dimension is included based on findings by MSWG in 2017 that there is a lack of disclosures regarding the implementation of codes of ethics among Malaysian companies. ITEM 7, taken from the original ECI in Table 2, was developed based on the MCCG 2012 recommendation for boards of directors to formalise a code of ethics in their companies. This item can be identified from the corporate governance statements under the code of ethics segment. Scores are given if the company state that they formulate, have or adapt codes of ethics/conduct, either for employees or directors. Meanwhile, ITEM 8 is related to the ethics compliance programme. Whyatt *et al.* (2012) and Garegnani *et al.* (2015) highlight that codes of ethics should not be limited to those in written form, but should also include additional programmes to ensure its compliance. ITEM 9 is the element of ethical commitment related to the periodical review the codes of ethics, a practice recommended by the MCCG 2012. ITEM 10 refers to the availability of the codes of ethics in corporate websites. This item was added based on the views of the prior studies (Ali Khan, 2015; Merchant & White, 2017),

in which transparency and communication of the codes are important to provide the ethical information to stakeholders (Moneva *et al.*, 2007). To analyse all items related to the codes, various segments related to the codes of ethics in the annual reports were examined.

### **Whistle-blowing Policies**

The fourth dimension is related to whistle-blowing policies. ITEM 11 is information on the establishment of whistle-blowing policies, an item that is included based on recommendations by the MCCG 2012. ITEM 12, which is on the availability of an open communication channel, is an item taken directly from the ECI (item 9). The establishment of whistle-blowing policies should be followed by having a safer and open communication channel for stakeholders to raise concerns about ethical issues (Rachagan & Kuppusamy, 2013). For ITEM 13, the reward policy is deemed important to motivate employees to report misconducts (Rachagan & Kuppusamy, 2013). ITEM 14, which is related to whistle-blower protection, is to ensure that employees can be encouraged to report any misconduct without fear of retaliation (Singh, 2011). ITEM 15 is on the availability of whistle-blowing policies on the corporate website. This item was measured by examining the statements from annual reports about the availability of whistleblowing policies on corporate websites. This item was included as disclosing information about whistle-blowing policies reflects a company's readiness to combat misconduct (Dhamija, 2014). All items related to whistle-blowing policies were examined by looking at segments on whistle-blowing in the annual reports.

### **Sustainability Practices**

The fifth dimension is on recommendations to promote sustainability, which is important for companies to achieve for both financial and non-financial benefits (Bezares *et al.*, 2016; Lo & Sheu, 2007). ITEM 16 is on whether a company is committed towards sustainable practice. This item is based on the MCCG 2012 recommendation that a company should put a

strategy to achieve sustainability in every aspect of business operations. ITEM 17 is associated with the promotion of sustainability practices on the corporate website. This item is related to the views of Moneva *et al.* (2007) and Berrone *et al.* (2007) on how it is strategically advantageous for companies to provide information to stakeholders to be perceived as having a good reputation (Ching *et al.*, 2014; Ali Khan, 2015).

### **Results and discussion**

Table 4 presents the mean scores of disclosures for each dimension. The highest score is the sustainability practices dimension (SUST), in which 48.8% of the sample state their commitment. This is followed by the corporate ethical values and philosophy dimension (CEV), where 44.7% of the sample made related disclosures. The lowest score is on the commitment related to the actions to promote ethics and prevent unethical practices (ACT), with a mean score of 16.9%. These findings are in line with those of KPMG in 2016, where the commitment related to the level of code of ethics and whistle-blowing policies is low compared with those related to sustainability practices. On average, the total ECI score of the 250 companies was 32.7%.

In Table 5, descriptive results for each item of the ECI are presented. The results displayed provide more details on corporate commitment towards ethics. Among the notable findings are the most disclosed items where companies indicate their highest ethical commitment. According to Table 5, 86% of the sample commit towards sustainability practices (ITEM 16), 78.0% have codes of ethics in place (ITEM 7), and 62.0% have whistle-blowing policies (ITEM 11). The least disclosed item is ITEM 13 on whistle-blowing policies, in which no company disclosed any reward for employees who report unethical practices.

### **Corporate Ethical Values and Philosophy**

For the dimension 'corporate ethical values and philosophy', only 18.8% (47 companies)

Table 3: The modified ECI

Item	Descriptions	Sources
<b><i>Corporate ethical values and philosophy</i></b>		
1*	Top managers of this company regularly emphasise the importance of business ethics	Grojean <i>et al.</i> (2004); Melé <i>et al.</i> , (2006); Choi & Jung, (2008); Pae & Choi (2011); Yozgat & Karatas, (2012); MCCG (2012)
2*	Ethical behaviour based on a formal business philosophy is the norm of this company	
3	This company is committed towards the highest standards of business practices	
<b><i>Actions to promote ethics and prevent unethical behaviour</i></b>		
4*	This company has a disciplinary system through which unethical behaviour is strictly punished	Melé <i>et al.</i> (2006); Choi & Jung, (2008); Pae & Choi (2011); Whaytt <i>et al.</i> (2012);
5*	In this company, ethics education, training, or workshops are in place to enhance the business ethics of employees	
6	This company has employee appraisal programmes to promote ethical conduct	
<b><i>Codes of ethics</i></b>		
7*	This company has formulised code of ethics	Melé <i>et al.</i> (2006); Choi & Jung, (2008); Callaghan <i>et al.</i> (2008); Pae & Choi (2011); Whaytt <i>et al.</i> (2012); Salin & Ismail (2015); Vig & Dumičić (2016); Ali Khan (2015); MCCG 2012
8	This company has implemented a system to ensure compliance with the code of ethics	
9	This company has revised periodically its code of ethics	
10	The code of ethics is available on the company’s website	
<b><i>Whistle-blowing policies</i></b>		
11	This company establishes whistle-blowing policies	Choi & Jung (2008); Pae & Choi (2011); Singh (2011) MCCG 2012; Rachagan & Kuppusamy (2013); Lee and Fragher (2013); Salin & Ismail (2015) Ali Khan (2015); Stikeleather (2016); Vig & Dumičić (2016)
12*	This company has an open communication channel or ethics hotline for employees to get assistance on ethical issues	
13	This company has motivation and reward policies towards employees who report unethical conduct	
14	This company has whistle-blower protection measures	
15	This company provides its whistle-blowing policies on its website	
<b><i>Sustainability practices</i></b>		
16	This company is committed to sustainability practices	Lo & Sheu (2007); Choi & Jung (2008); Pae & Choi (2011); MCCG 2012; Ali Khan (2015); Bezares <i>et al.</i> (2016)
17	The sustainability practice report of this company is available on the corporate website	

Note: \* Items adapted from original ECI



Table 4: Commitment towards ethics according to dimensions

Dimension	Observation	Mean	Std. Deviation	Min	Max
CEV	250	0.447	0.2588	0	1
ACT	250	0.169	0.280	0	1
CODE	250	0.384	0.255	0	1
WBP	250	0.238	0.230	0	0.8
SUST	250	0.488	0.249	0	1
<i>Total ECI score</i>					
ECI	250	0.327	0.146	0.059	0.824

Note: CEV (Corporate ethical values and philosophy); ACT (Actions to promote ethics and prevent unethical behaviour); CODE (Codes of ethics); WBP (Whistle-blowing policies); SUST (Sustainability practices)

Table 5: Commitment towards ethics according to items

Dimension	N=250 Item	Disclosed		Not Disclosed	
		Freq.	Percent	Freq.	Percent
Corporate ethical values and philosophy (CEV)	1	47	18.8	203	81
	2	80	32.0	170	68
	3	208	83.2	42	17
Actions to promote ethics and prevent unethical behaviour (ACT)	4	19	7.6	231	92
	5	88	35.2	162	65
	6	20	8.0	230	92
Codes of ethics (CODE)	7	196	78.4	54	22
	8	36	14.4	214	86
	9	39	15.6	211	84
	10	113	45.2	137	55
Whistle-blowing policies (WBP)	11	144	57.6	106	42
	12	31	12.4	219	88
	13	0	0.0	250	100
	14	57	22.8	193	77
	15	66	26.4	184	74
Sustainability practices (SUST)	16	213	85.2	37	15
	17	31	12.4	219	88

from the total sample have a statement by top management regarding the importance of business ethics (ITEM 1). They highlight how ethical business conducts are significant towards the companies' relationships with stakeholders. The following statement, for example, signifies the importance of corporate

ethics being understood by management and employees for the purpose of maintaining trust (of stakeholders):

“...The Group ensures that our top management takes a clear position on the central importance of corporate ethics and legal compliance in corporate

*management. It is a principle that we uphold to ensure everyone in the Group advocates responsibility, fairness and high ethical standards, and to always act in accordance with the law to maintain trust...*" (Frontkent Corporations Berhad, 2016, pp.20)

For ITEM 2, 32% (80 companies) of the sample have ethical values or philosophy that aim to shape an ethical culture. Companies recognise that ethical values act as a pillar in practising good business ethics (Craft, 2018). Elements of values, including integrity, commitment, responsibility, honesty, respect, passion and trust, are commonly communicated by companies as their core values and philosophy. Providing those elements or principles also suggests that companies are aware of the importance of those values as a competitive advantage (Melé *et al.*, 2006). An example of a company highlighting ethical values and philosophy can be seen from the following statement:

*"...We believe that the principles of honesty, ethical practices, integrity and fairness are the cornerstones of a respectable and successful business. These principles are the heart of the Company's philosophy and values..."* (Boon Koon Group Berhad, 2016 pp.19)

Although the scores for ITEMS 1 and 2 are rather low, it is worth noting that the majority of companies (83.2% or 208 companies) disclose their commitment towards the highest standards of ethical practices (ITEM 3). This evidence shows that majority of the companies adhere to the recommendations of the MCCG 2012 by providing statements showing their commitment towards upholding high standards of business practices. The following is an example:

*"...The Board will continuously review the principles and practices in corporate governance in achieving the high standards of corporate governance throughout the Group and to the high level of integrity and ethical standards in all its business dealings..."* (B.I.G Industries Sdn. Bhd, 2016 Annual Report, pp.19)

These findings on corporate ethical values and philosophy imply that companies prefer to disclose ethics-related content if recommended by regulators. Moreover, complying with laws and regulations is among the ethical principles that are important to maintain trust and a relationship with other stakeholders.

### ***Actions to Promote Ethics and Prevent Unethical Behaviour***

For the dimension 'actions to promote ethics and prevent unethical behaviour', 7.6% (19 companies) of the sample have taken disciplinary actions towards unethical behaviour (ITEM 4). This result indicates that only a small number of companies emphasise action against wrongdoings involving the violation of corporate policies. Those doing so can be explained to be heavily committed due to several reasons. They are companies with a high reputation and more dispersed businesses that face great pressure from stakeholders to display ethics, and thus, are more disciplined in their operations to gain their trust. Another reason is that some of the companies operate in an environment that need highly trained and disciplined personnel. For example, Alam Maritime Resource Berhad takes strict actions against employees violating their policy on drugs and alcohol.

*"...Employees found to be in possession or under the influence of drugs and alcohol are subjected to disciplinary action that includes immediate termination of employment with the Company..."* (Alam Maritim Resources Berhad, 2016 Annual Report, pp.25)

Meanwhile, 88 companies (35.2% of the sample) state that they provide ethics-related training (ITEM 5). Ethics training are important for companies to inculcate good behaviour among employees when dealing with stakeholders. An ethical culture can be formed effectively through continuous training (Whyatt *et al.*, 2012). As illustrated by the following examples, training is conducted through induction programmes, online courses or workshop sessions.

*“...Employees are introduced to the ethical corporate culture of the Group during employee induction and thereafter, employees are constantly monitored...”* (Atlan Holdings Berhad, 2016 Annual Report, pp.22)

*“...Trainings and workshops are conducted regularly to ensure that working environments are in compliance with the rules and regulations...”* (Damansara Realty Berhad, 2016, Annual Report, pp. 34)

For the last items in this dimension, only 20 companies (8.0% of the total sample) provide appraisal programmes (ITEM 6) by including ethics as criteria for performance measure. Those companies recognise that employees with a good record of both discipline and performance will be rewarded either in the form of bonuses, retirement packages, or promotions. Incorporating ethics as performance measurement criteria will encourage and motivate employees (Schwartz, 2013) to behave ethically when performing daily tasks. An example of such a practice can be seen in the following:

*“...Employees on mandatory retirement may receive a retirement ex-gratia based on their last drawn basic salary. This benefit is received by employees with a minimum of ten years of continuous employment and a clean disciplinary record for the last two years of their employment...”* (Cahaya Mata Sarawak Berhad, 2016 Annual Report, pp.39)

In summary, the findings for this dimension imply that actions to promote ethics and prevent unethical conduct are less favourable for companies, signalling that Malaysian companies still lack supportive mechanisms to promote ethical practices within their organisation. The lack of commitment on ethics, especially related to ITEMS 4 (disciplinary actions) and 6 (appraisal program), indicates a lack of efforts in promoting a corporate ethical culture.

### **Codes of Ethics**

In the third dimension, which is the Code of Ethics, there are 196 companies (78.4% of the total sample) indicating that they have formalised the use of the code of ethics (ITEM 7). A code of ethics or conduct plays an important role in a company to ensure that all business operations and dealings are conducted with high standards of ethical practices. A code of ethics acts as a source for any personnel in the company to perform better with ethical principles, including integrity, honesty, and responsibility (Merchant & White 2017). An example on the use of the code of ethics can be illustrated as follows:

*“...The Group has formalized ethical standards through a Code of Conduct as a framework which is applicable to all employees and Directors of the Group. The framework provides work environment where honesty, integrity, mutual respect, fairness and accountability prevail.”* (Metronic Global Berhad, 2016 Annual Report, pp.19)

Although most companies have formulated their own codes of ethics, only 36 companies (14.4 %) disclosed the implementation of a system to ensure compliance with the code (ITEM 8). The findings are in line with the MSWG’s report in Malaysia-ASEAN Corporate Governance Scorecard in 2017 that there is a lack of implementation of codes of ethics among Malaysian companies. Moreover, most of the companies explain the implementation with no further details as per the two examples provided here:

*“...The Board has implemented appropriate processes and systems to support, promote and ensure its compliance...”* (Country View Berhad, 2016 Annual Report, pp.23)

*“...The Board will implement appropriate processes and systems to support, promote and ensure its compliance...”* (BTM Resources Berhad, 2016 Annual Report, pp.20)

Further, only 39 companies (16.0%) stated that they will revise, or had revised, their codes

of ethics periodically (ITEM 9). Among the reasons stated is to ensure that the codes meet current market changes or policies. Periodical revisions to the codes will allow them to remain up to date with current developments. An example of such a statement is as follows:

*“...The Board will review the Code of Conduct and Ethics when necessary to ensure it remains relevant and appropriate...”* (Destini Berhad, 2016 Annual Report, pp.46)

For the last item in this dimension, ITEM 10, 113 companies (43.0%) had published their codes of ethics on their websites (ITEM 10). One of those is as stated in this statement:

*“...A copy of the Code of Ethics and Conduct can be viewed at the Company’s website, www.ecofirst.com.my ...”* (Ecofirst Consolidated Berhad, 2016 Annual Report, pp.31)

Overall, the results for the Codes of Ethics dimension significantly highlight that there is a low disclosure for ITEM 8, implementation of the codes, and ITEM 9, periodical review of the codes. The findings indicate that Malaysian companies are not fully ready to disclose their codes of ethics in detail, and seldom revise their codes. These suggest that the codes of ethics are only taken lightly by companies, indicating that the disclosures may only be intended to meet the recommendations by the MCCG.

### **Whistle-Blowing Policies**

For the whistle-blowing policies (WBP) dimension, there are 144 companies (57.6%) that report the establishment of whistle-blowing policies (ITEM 11). The result suggests that more than half of the sample supports the MCCG recommendation by having such a policy to promote transparency and combat misconducts. The mention of whistle-blowing policies can be illustrated as follows:

*“...The Board has also formalized a Special Complaint Policy (“Policy”), which is equivalent to whistle-blowing*

*policy, which serves as an avenue for raising concerns related to possible breach of business conduct...”*(APM Automotive Holdings Berhad, 2016 Annual Report, pp.26)

Despite more than half of the sample having such a policy, only 31 companies (12.4%) stated that they provide an ethics hotline or open communication channel for employees and stakeholders to address their concerns regarding unethical behaviour (ITEM 12). Whistle-blowing policies would be ineffective without a safe or open communication channel (Rachagan & Kuppusamy, 2013). The mention of the availability of the communication channel is shown in the following example:

*“...There is an anonymous ethics and fraud e-mail, under the administration of the Group Chief Internal Auditor (GCIA), as a mechanism for internal and external parties to channel their complaints or to provide information in confidence on fraud, corruption, dishonest practices or other similar matters by employees of the Group...”* (Axiata Group Berhad, 2016 Annual Report, pp.100)

As recommended by Rachagan and Kuppusamy (2013) and Stikeleather (2016), providing a reward (ITEM 13) to those who report misconducts is one of the tools to promote a whistle-blowing culture. It is interesting to note that the results of the analysis indicate that no company in the sample mentioned about the implementation of a reward system to encourage whistle-blowing. The findings show that the reward system may not be relevant as it might incur additional costs. Meanwhile, 57 companies (22.8% of the sample) mentioned having whistle-blower’s protection mechanisms (ITEM 14). One of the companies state:

*“...All staff are accorded the opportunity to report via the whistle-blowing mechanism with the assurance that the report will be dealt with confidentiality and that the reporter’s identity will be protected...”* (Datasonic Group Berhad, 2016 Annual Report, pp. 53).

Only 26.4% (66 companies) of the sample, in their annual reports, stated the provisions of whistle-blowing policies on their website (ITEM 15). The finding implies that companies are still struggling to use different types of channels to disclose their policies. Moreover, companies do not take advantage of the current technology to reach their stakeholders, leading to a possible loss of stakeholder confidence on companies' readiness to fight against misconduct (Dhamija, 2014). An example of a company that uses its website to provide information about its whistle-blowing policy is as follows:

*"...A summary of the Code of Ethics and Integrity (whistle-blowing) policy are made available on the Company's website www.eupe.com.my ..."* (Eupe Corporation Berhad, 2016 Annual Report, pp. 22)

In sum, for the whistle-blowing dimension, the low disclosures of ITEMS 12 and 14 signify concern over the effective implementation of whistle-blowing policies in companies. Without a safer communication channel, whistle-blowers will be exposed to retaliation from colleagues or management (Rachagan & Kuppusamy, 2013; Nawawi & Salin, 2019). With lower protection for whistle-blowers, potential whistle-blowers will be demotivated and they will lack the confidence to report misconducts (Valentine & Godkin, 2019).

### ***Sustainability Practices***

For the sustainability practices dimension (SUST), a majority of the sample (213 companies; 85.2%) declared their commitment towards sustainability practices (ITEM 16). The findings show that Malaysian companies are now aware of the importance of sustainability practices towards companies, stakeholders, and the environment. They acknowledge the need to ensure the long-term benefits for all parties. One of the examples of the pledge towards sustainability practices is as follows:

*"...The Group is committed in its business strategies and businesses promote sustainability by adopting and applying*

*environmental responsible practices, sound social policies and governance structures to minimize risks and volatility and to enhance the long-term development impact of corporate activities..."*(B.I.G Industries Berhad, 2016 Annual Report, pp.20)

However, for ITEM 17, only 31 companies (13.0% of total sample) stated that they are providing a sustainability report on their corporate websites. The findings show that the commitment towards sustainability practices is preferably disclosed in annual reports. Thus, rather than stating their sustainability practices separately on the website, they upload the annual reports that contain those information.

Findings on the dimension 'sustainability practices' show that Malaysian companies are highly supportive of being committed towards sustainability practices as per recommendations from the MCCG. In addition, companies are aware of the need to disclose sustainability practices, as a competitive advantage, in meeting stakeholders' expectations, building a corporate image and improving their financial positions (Abidin et al., 2017; Rivera et al., 2017).

Based on the findings of ethical commitment from the annual reports of 250 companies, it can be concluded that the highest disclosures are those on the commitment towards high standards of ethical practices (ITEM 3), formulating codes of ethics and whistle-blowing policies (ITEM 7 and 11) and commitment towards sustainability practices (ITEM 16). These four items are recommended by the MCCG 2012 for companies to disclose in their annual reports. Thus, the findings are expected as the items are part of the disclosure requirements for companies. Other items are less disclosed since they are not related to the MCCG's recommendations. These findings show that there is a lack of awareness among companies in Malaysia on the importance of having ethical values and that promoting them can be a competitive advantage (Chandler, 2015).

In addition, low information regarding how codes of ethics and whistle-blowing practices are



implemented indicate that Malaysian companies are not ready to be fully committed towards ethical practices and the fight against corruption (Joseph *et al.*, 2016). The findings also imply that Malaysian companies are facing challenges, such as a culture of collectivism, that makes it difficult to implement those practices efficiently (Rachagan & Kuppusamy, 2013; Nawawi & Salin, 2019).

## Conclusion

The MCCG highlights the importance of upholding high standards of ethical business practices as companies that do so can gain a competitive advantage in the marketplace. In the quest to understand the level of corporate commitment towards ethical conduct in Malaysia, this paper analyses disclosures related to ethical practices made by Malaysian publicly listed non-financial companies. Corporate annual reports were analysed and scored using a 17-disclosure item in Ethical Commitment Index (ECI). By examining the annual reports of 250 non-financial companies for the year 2016, this paper provides details of the disclosures related to the companies' ethical commitment. This paper offers several theoretical and practical implications. In terms of theoretical implications, this paper contributes to the expansion of literature by focusing on commitment towards ethical practices by companies, rather than just being limited to CSR disclosures as commonly done by prior studies. The development of the Ethical Commitment Index, which was based on prior studies, as well as the standards/guidelines and practices related to the Malaysian corporate setting, is a theoretical contribution of this paper. In terms of practical implications, findings related to disclosures on ethical practices provide significant input to regulators in promoting ethical practices in the Malaysian corporate sector. First, the results related to the low disclosure of ethical commitment signal the lack of awareness and emphasis on upholding ethical conduct among companies in Malaysia. This is alarming given the numerous corporate

scandals reported to have happened during the period of this paper, especially those involving large corporations. Second, the results highlight several parts of ethical practices that need to be improved by companies. Among areas of concern and areas that can be the focus of policy formulation or revisions are those on the implementation of the codes of ethics, actions to promote ethics and whistle-blowing policies.

This paper is subject to several limitations. First, this paper only focuses on Malaysian companies as it is our aim to provide evidence from the Malaysian corporate sector. Second, this paper focuses only on the descriptive analysis of corporate ethical commitment. To our knowledge, this is among the earliest attempt to explore corporate ethical commitment in the Malaysian setting by considering recent developments in ethical practices, such as those on whistle-blowing. Third, the corporate ethical commitment in this paper was scored using a binary approach and thus, may undermine the quality of disclosure. Fourth, our study only focuses on non-financial companies and, accordingly, the results may not be generalised to the financial companies. Future studies can attempt a comparison of the ethical practices between companies of different countries to provide a comprehensive understanding on corporate ethical commitments, especially countries with a similar culture and institutional environments. Nevertheless, the findings of this paper can assist future researchers in examining commitment to ethics in other corporate settings, such as by using interviews or questionnaires, to explore the behavioural aspects of ethical commitment in companies. Future studies can also explore the factors leading to a higher commitment towards corporate ethical conduct and the implications of being committed towards ethical practices. Future research is recommended to employ other types of scoring, such as a 4-point (0 to 3) scoring method, for the purpose of exploring the quality of the disclosures and enhancing the reliability of the study.

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