PUBLIC GOVERNANCE AND CORPORATE ETHICS: A CROSS NATIONAL ANALYSIS

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ABSTRACT
This study aims to investigate the association of public governance and corporate ethics. Motive of the study was driven by numerous corporate scandals in various countries and practice of good governance both in private and public sector. The study was intended to reveal, whether the country that apply good practice of governance will also lead good practice of corporate ethics in that country.
The study adopted exploratory research design which are public governance and corporate ethics proxied as two independent variables. Public governance was represented by attributes namely public accountability, control of corruption, effectiveness government, regulatory quality, rule of law, regulatory quality and political stability. World Governance Index (WGI) was adopted to measure Public Governance. Meanwhile, data from component measurement of Global Competitiveness Index (CGI) was adopted to measure Corporate Ethics. The study applied bivariate correlation analysis and involved 140 countries member of World Bank Organization.
The results show that all public governance attributes are positively and significantly associated with corporate ethics. Pearson correlation coefficient indicates that all attributes of public governance have strong correlation (Pearson correlation (r) > 0.6), except for public accountability attribute. The result implies that the practice of good governance in governmental sector have potential impact on how private sector running their business organizations.

Keywords: Public Governance; Corporate Ethics; Good Governance; Accountability; Bivariate Correlation

JEL Classifications: M14, G34
INTRODUCTION

In today’s hypercompetitive world, company operates in a complex global market and corporate governance becomes essential to regulate the economic and social relationships (Arrigo, 2006). Ethical issues are a major concern for businesses because they have significant impacts on various stakeholders including the company, customers, employees, shareholders, and society in general (Ekici and Onsel, 2013). Recent corporate scandals have led to public pressure to reform business practices and increase regulation (Coglianese et al, 2004). The collapse of corporate giants such as Enron and Worldcom due to corruption and mismanagement reminded the world of the importance of concepts like corporate governance, social responsibility and business ethics (Tasyir and Pasarcik, 2013). The recent scandals themselves demonstrate that lax regulatory institutions, standards, and enforcement can have huge implications for the economy and for the public (Coglianese et al, 2004).

The public is demanding accountability and responsibility in corporate behavior. The governance of corporations has become a central item on the public policy agenda (Coglianese et al, 2004). The government plays an important role in encouraging businesses to behave in an ethical manner, both by encouragement and coercion, as it cannot be assumed that all businesses will behave ethically without enforcement of regulations (Breslin, 2017). Hurst (2004) considers that continuing examples of questionable behavior by individual employees and executives have given rise to critical questions of how corporate ethics efforts can be improved and can address the underlying causes of misconduct, as well as the growing demands for proactive, socially responsible and sustainable business practices. It is widely believed that it will take more than just leadership by the corporate sector to restore public confidence in our capital markets and ensure their ongoing vitality. It will also take effective government action, in the form of reformed regulatory systems, improved auditing, and stepped up law enforcement (Coglianese et al, 2004).

Although government play an important role in ensuring that business operate in an ethical matter, ultimately, the responsibility to do so lies with the business. It would be impossible for government to oversee all operations to such an extent that they could force all businesses to behave ethically. Such strict supervision would most likely adversely affect the smooth operation of the market. Government agencies hold the duty to promote ethics as
much as possible without unduly restricting businesses (Breslin, 2017). Fundamental role for government to undertake the role of the analyst, seeking to identify the conditions under which to deploy different configurations of regulatory institutions, standards, and enforcement practices (Coglianese et al, 2004). Generally, it seems that corporations follow the lead of the government on equity, social and employment issues and primarily on compliance matters where there is no option (Welsh, 2012)

Public governance refers to the formal and informal arrangements that determine how public decisions are made and how public actions are carried out, from the perspective of maintaining a country’s constitutional values when facing changing problems and environments. The principal elements of good governance consist of accountability, transparency, efficiency, effectiveness, responsiveness and rule of law (OECD, 2011). The greatest current challenge is to adapt public governance to social change in the global economy (OECD, 2011). There are clear links between good public governance, investment and development (OECD, 2011). The greatest current challenge is to adapt public governance to social change in the global economy. Thus, the evolving role of the State needs a flexible approach in the design and implementation of public governance (OECD, 2011).

Business ethics or corporate ethics is related to moral norms and values (Tasyir and Pasarcik, 2013) and unfortunately, companies do have moral duties in a secondary sense (Valquez, 2002). Factors influencing ethical behavior can be grouped into individual characteristics of the decision maker, organizational factors, situational and contextual factors, social and cultural environment, business/industry environment, and governmental and legal environments (Ekici and Onsel, 2013). The actual ethical performance of individuals and the companies they represent differs among and between countries, often significantly and these variations can in large part be explained by the differences in political, economic, and social institutions (Sullivan, 2009). Underlying the very roots of corporate governance, and providing its moral compass, is ethics (Sullivan, 2009).

Even though potential impacts of political and legal environments of business on ethical behavior of firms have been conceptually recognized, not much evidence has been produced to clarify their role (Ekici and Onsel, 2013). La Porta et al. (1999) have explored the determinants of the quality of government. They verified that rich countries have better
government than poor ones and that there is clear evidence that the historical circumstances (measured by ethnos linguistic, heterogeneity, legal origins and religion) affect government performance. Systems of corporate governance diverge significantly between different countries (Lashgari, 2004). Therefore, understanding public governance cross countries and analysis its association with practice of corporate ethics among private sector in that country will be valuable to answer the role of government in facilitating good business practice.

In general, this study investigates the relationship of good public governance practice and the good corporate governance practice. Specifically, the study tries to reveal the relationship of public governance attributes namely public accountability, control of corruption, effectiveness government, regulatory quality, rule of law, regulatory quality and political stability with corporate ethics. The study involves countries listed as member of world bank and adopts exploratory research approach. Empirical analysis using statistic correlation is applied in this study to justify the relationship of public governance attributes and corporate ethics.

LITERATURE REVIEWS AND HYPOTHESES DEVELOPMENT

Public Accountability and Corporate Ethics

Public accountability is the hallmark of modern democratic governance (Boven, 2003). Public accountability which measures capacity of government to ensure proper responsiveness to society and includes different aspects of the political process, civil liberties and political rights, measuring the extent to which citizens are able to take part in the selection of their governments (Bota-Avram, 2014). Public accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media (Kaufmann et all, 2010). Public accountability enables the citizen as stakeholder being part of the big organization called as a country. Every activity done by the countries on behalf of the citizen, it must be a subject government’s accountability to public.

The public outcry over the recent scandals has made it clear that the status quo is no longer acceptable, the public is demanding accountability and responsibility in corporate
behavior. Business ethics can help a manager make his/her company more accountable and transparent (Tasyir and Pasarcik, 2013). The rise of worldwide democracy, accountability, and transparency has reduced the tolerance for corrupt behavior, and raised governance standards for both companies and nations as a whole (Sullivan, 2009). Good practice of public accountability by the government will create conducive environment both in public and private sector. Business entities will have tendency to adopt what that government already practiced in terms of implementation of good governance. Therefore, the hypothesis can be formulated as follows:

**Hypothesis 1:** Public accountability is positively and significantly associated with corporate ethics

**Regulatory Quality and Corporate Ethics**

Some degree of legislation is necessary to ensure that businesses comply with their ethical obligations and the public does not suffer as a result of dishonest business practices (Breslin, 2017). General understanding, regulatory quality is quality of state to manage the resources and the rules of the game for the general interest (Rhodes, 1997). Regulatory quality is designed to provide estimates over the effects of the policies which are perceived as market-unfriendly, such as price controls or inadequate bank supervisions, or excessive regulation which might affect business development (Bota Avram, 2014). Regulatory quality encourages the entry of foreign investors by eliminating market unfriendly policies such as price controls, government intervention, and restrictions on capital movement (Fazio and Talamo, 2008).

A sound regulatory environment for public and for the business sector economic activity, sound institutions, and government authority accountable to citizens are considered to be crucial to successful economic development (Bota Avram, 2014 and Kray and Tawara (2010). Good corporate governance practices cannot be imposed by fat, even if promulgated by the highest levels of leadership. Similarly, companies will find it hard to comply with corporate governance regulations if there are no initiatives to improve the overall legal and regulatory climate in a country (Sullivan, 2009). Besides the legal characteristics of each
country, stakeholders also assume an important role in corporate governance (Vieira et al, 2010). Therefore, the hypothesis can be formulated as follows:

**Hypothesis 2:** Regulatory Quality is positively and significantly associated with Corporate ethics

**Rule of Law and Corporate Ethics**

Rule of law includes some indicators that estimate the extent to which public and citizens have confidence in and abide by the rules of society, including the effectiveness of the judiciary system and the security of property rights (Bota-Avram, 2014). It also measures the extent to which agents have confidence in and abide by the rules of the society, including the effectiveness and predictability of the judiciary, and the enforceability of contracts. Judicial independence is the driving force behind managers’ perceptions of business ethics (Ekici and Onsel, 2013)

The government has a supervisory role in terms of building good practice of business ethics. Sustainable business depends much on the quality of institutions, such as contract enforcement, rule of law and property rights, as well as, business ethics (Sullivan, 2009). Anti-competitive behavior can occur when large organizations merge or are taken over, and when a large organization has a very substantial market share or a monopoly, there is always the temptation for it to act in an unethical manner, which will be detrimental to the public. The government must monitor and supervise such mergers, which are subject to antitrust law and to ensure that they are acting ethically and are not abusing a position of dominance (Breslin, 2017)

On the issue of regulatory design, decision makers need to understand better what makes different degrees of specificity and generality “right” for particular types of regulatory problems (Coglianese et al, 2004). Each business sector has different characteristic that lead different treatment of business ethics rules and regulation. However, the legal and regulatory framework within a national context sets the minimum standards of acceptable conduct in doing business, and reflects what society holds as fair and appropriate behavior by all types
and sizes of firms. Thus, compliance with national laws is the starting point for doing the right thing by private sector organizations (Sullivan, 2009).

Business ethics, in some sense, can be thought of as a means of ensuring that individuals working in organizations act in a positive way consistent with rule of law and other principles underpinning market economies and democratic governance (Sullivan, 2009). Laws and regulations of the countries in which companies operate constitute one of the values can values can be derived business ethics (Sullivan, 2009). In weak rule of law environments where a legal system to ensure ethical behavior cannot be relied on, there are few guarantees that other market players will behave transparently and fairly (Sullivan, 2009). Therefore, the hypothesis can be formulated as follows:

**Hypothesis 3: Rule of Law is positively and significant associated with corporate ethics**

**Effectiveness Government and Corporate Ethics**

Government effectiveness evaluates the perception over the inputs necessary for effective governance, such as the quality of public service provision, the competence of civil servants, the level of bureaucracy, the independence of the civil services from political influences and the credibility of government (Bota Avram, 2014). Government effectiveness facilitates foreign investors’ activity through the reduction of heavy bureaucracy, procedures and the overall time it takes for any agent to complete them (Inter American Development Bank, 2001). The effectiveness of government activity is meant to serve the interest of the general population and the cooperation between public and private sectors is crucial for ensuring the good of the society (Bota Avram, 2014). Effective governance matters and, even more, it is a determinant factor for the effectiveness of the business environment.

Role of government in solving societal issues bases for ensuring a normative function of social and economic institutions (Kooiman, 1999). It refers the quality of public service provision, the quality of bureaucracy, and the credibility of the government’s commitment to policies (Kaufmann, 2010). In other words, government effectiveness captures the capacity of the state to implement sound policies (Rammal and Zurbruegg, 2006). On the issue of enforcement, state and federal officials should analyze why some individuals and
organizations adhere responsibly to regulatory standards and why others do not. Such analysis would help enhance government’s ability to pursue optimal enforcement, instead of under or over enforcement (Coglianese et al, 2004). It is obvious that concerns about the protection of property rights, ethics and corruption, undue influence, and government inefficiencies lead to an institutional environment that does not support a well-served economy (Ekici and Onsel, 2013). Government effectiveness can be also measured based on its successful to regulate good corporate governance proactive among business entities. It will be reflected on business ethic conduct practiced by private sector. Therefore, the hypothesis can be formulated as follows:

**Hypothesis 4:** Effectiveness government is positively and significantly associated with corporate ethics

**Political Stability and Corporate Ethics**

Political stability and absence of violence refers to the possibility of violent changes in government’s structure and combines several indicators which express the potential likelihood that the government in power could be overthrown through unconstitutional or violent changes (Bota Avram, 2014). Investor keeps many factors while doing investment at any country and political stability is one of them. Whenever there are instable political conditions, industries get affected by many ways and one of them is quality due to employee behavioral changes. In instable political conditions, employee is affected with respect to society as well (Aslam and Sajid, 2008). Political stability may not directly influence the good practice of corporate governance of private sector, however, it facilitates at least with good atmosphere for business entities doing the right things. Conducive political situation enables the business entities applying corporate governance principles.

The close link between economy and the nation state constitutes one of the most prominent features of the industrial era, with political power significantly surpassing economic power (Coyle, 1999; Schwartz and Gibb, 1999). Into a global corporate code of conduct, tractates initiated by United Nations Universal Declaration of Human Rights (1948), the European Convention on Human Rights (1950), the Helsinki Final Act (1975), the OECD
Guidelines for Multinational Enterprises (1976), the International Labor Office Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977, and the United Nations Code of Conduct on Transnational Corporations (1972) showed how political aspect determining business practices. The tractate in general covers five major business areas: employee practices and policies; basic human rights and fundamental freedoms; consumer protection; environmental protection; and political involvements (Ferrell and Fraedrich, 1997). Therefore, the hypothesis can be formulated as follows:

**Hypothesis 5:** Political stability is positively and significantly associated with corporate ethics

**Control of Corruption and Corporate Ethics**

The government and business entities are two parties that are mutually benefits each other. Government’s rules and regulation are aimed to regulate business practices of private sector. However, the private sector also has a contribution how the government must develop a rules and regulations. The private sector can be a force in developing solutions to the corruption problem, and companies around the world are taking charge. They are doing it in a multiplicity of ways. Some engage in collective action to reform the business climate to make it more transparent. Others push for ethical standards and fair practices in dealing with the government, as is the case with industry initiated integrity pacts (Sullivan, 2009). An important factor in dealing with corruption is the establishment of strong public and private regulating institutions (Sullivan, 2009).

Many researchers concluded that corruption whether in public or in private sector is not good for a business practice. Corruption will increase cost of transaction and at the end it will decrease competitiveness. The results of the research suggest that irregular payments and bribes are the most influential factors affecting managers’ perceptions of business ethics in relatively more advanced economies, whereas intellectual property protection is the most influential factor affecting managers’ perceptions of business ethics in less-advanced economies (Ekici and Onsel, 2013). To control corruption in the private sector context, a variety of legal and regulatory tools are often proposed (Sullivan, 2009).

In that situation, role
of government in terms of combatting corruption practice is significant. Therefore, the hypothesis can be formulated as follows:

**Hypothesis 6:** Control of corruption is positively and significantly associated with corporate ethics

**METHODOLOGY**

**Population and Sample**

Population of this research is countries registered officially as member of world Bank. Until today (2017), total number of members in world bank is 214 countries (Population). Meanwhile, the sample was involved in this research is 140 countries of world bank members. Purposive sampling method was applied in this research. It refers to the purpose of availability the data in certain period of time of research investigation. The sample represents five continents namely Europe, America, Asia, Australia and Africa

**Variable, Measurement and Data**

This research involved two independent variables namely public governance and corporate ethics. Those variables were proxied as two independent variables due to the research’s design is exploratory. Public governance attributes are represented by independent variable public accountability, government’s regulatory quality, government’s rule of law, effectiveness of government, country’s political stability and government’s control of corruption. Meanwhile, variable independent corporate ethics is attributes of countries’ competitiveness. Attributes of public governance was measured using Corporate Governance Index (CGI) issued by World Bank. CGI is performance of public governance of countries around the world and globally adopted as international standard to measure public governance performance. Meanwhile, country’s corporate ethics was measured using corporate ethics value as part of measurement countries’ Global Competitiveness Index (CGI). CGI is published by World Economic Forum as performance indicator to measure countries’ competitiveness. The data was used in this research is secondary data, which is
official publication of Worldwide Governance Index (WGI) and Global Competitiveness Index (GCI) from World Bank and World Economic Forum. The data was an open publication and downloaded directly from official websites of sources data. Time period of the data was used in this research is year 2015, which is the latest official publication available from the sources of data.

Analysis

Descriptive statistics analysis and bivariate correlation analysis were applied in this research. Descriptive statistics analysis was intended to describe the basic features of the data used in the study. They provide simple summaries about the sample and the measures. Meanwhile, bivariate correlation analysis in this study was used to test the degree of correlation between two independent variables. Furthermore, bivariate correlation analysis was used to justify the acceptance of proposed hypothesis. Pearson Correlation method was chosen in this research due to the data is categorized as interval scale.

RESULTS

Descriptive Statistic

World Bank Releases Worldwide Governance Indicator in interval value from minimum value of -2.5 (Weak governance performance) to +2.5 (strong governance Performance). Measurement of public governance is using six aggregate indicators are based on 31 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. As shown in Table 1, public governance attributes of 140 sample’s countries show that the score is at moderate value (average value of Mean 0.10955). Standard deviation is also indicating that the sample’s countries have homogeneity characteristics in terms of performance of public governance. It is supported by the statistic descriptive that the average value of standard deviation that shows relatively small in terms of the amount (0.929945). Even though there were always outliers with extreme performance (weak or strong), however in general we can conclude that
the samples are relatively have the same characteristic in terms of public its governance performance.  

**Table 1. Descriptive statistic of public governance**

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Accountability</td>
<td>14</td>
<td>-1.76</td>
<td>1.70</td>
<td>0.043</td>
<td>0.91321</td>
</tr>
<tr>
<td>Country’s Political Stability</td>
<td>14</td>
<td>-2.54</td>
<td>1.49</td>
<td>0.041</td>
<td>0.84361</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>14</td>
<td>-2.00</td>
<td>2.25</td>
<td>0.179</td>
<td>0.94776</td>
</tr>
<tr>
<td>Government Regulatory Quality</td>
<td>14</td>
<td>-1.86</td>
<td>2.26</td>
<td>0.192</td>
<td>0.92550</td>
</tr>
<tr>
<td>Government Control of Corruption</td>
<td>14</td>
<td>-1.33</td>
<td>2.29</td>
<td>0.076</td>
<td>0.98802</td>
</tr>
<tr>
<td>Government Rule of Law</td>
<td>14</td>
<td>-1.99</td>
<td>2.07</td>
<td>0.123</td>
<td>0.96157</td>
</tr>
<tr>
<td>AVERAGE</td>
<td></td>
<td>0.1095</td>
<td>0.095</td>
<td></td>
<td>0.929945</td>
</tr>
</tbody>
</table>

World Economic Forum developed countries’ competitiveness index using interval scale from 1 (worst) to 7 (the best). One of the indicator of countries competitiveness index is corporate ethics value. Corporate ethic value is also measured using seven scale interval value (1 = worst and 7 = the best). Table 2 indicates that mean value of corporate ethics of 140 countries as sample is 4.1123 (Mean). With consideration 1 is the worst and 7 is the best, therefore, we can conclude that performance of country’s corporate ethics is on moderate level. Information generated from Table 2 shows that standard deviation value is on low level mode (0.88333). It indicates that the variation value of the corporate ethics among samples is relatively low. Low standard deviation explains that the samples have relatively homogeneity
in terms of country’s corporate ethics performance. The outliers were always present, however, the samples that have extreme value (worst or the best) are relatively small in terms of the number. Low value of standard deviation also indicates that the samples are in distribution normal mode.

Table 2. Descriptive statistic of corporate ethics

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country’s Corporate Ethics</td>
<td>140</td>
<td>2.40</td>
<td>6.30</td>
<td>4.112</td>
<td>0.88333</td>
</tr>
</tbody>
</table>

Correlation Analysis

Correlation is another way of assessing the relationship between variables. To be more precise, it measures the extent of correspondence between the ordering of two random variables. Correlation denotes the interdependency among the variables for correlating two phenomena. This research was developed to identify the relationships between two independent variables. Since the purpose of the research is investigating the relationship between two independent variables, bivariate correlation statistical analysis is believed as the right one. The results of the correlation analysis are presented in Table 3 bellow:

Table 3. Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Accountability</th>
<th>Political Stability</th>
<th>Government Effectiveness</th>
<th>Regulatory Quality</th>
<th>Control Corruption</th>
<th>Rule of Law</th>
<th>Corporate Ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political Stability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rule of Law</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Ethics</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
In this research, design of the correlation analysis is one way in term of the direction of correlation, which is a positive correlation. The argumentation of using one-way correlation analysis test is due to strong literature supporting the direction of the relationship between two variables. Pearson Correlation Matrix as presented in Table 3 indicates that among attributes of public governance (public accountability, government’s regulatory quality, government’s rule of law, effectiveness government, country’s political stability and government’s control of corruption) has strong correlation ($r > 0.6$). It implies that attributes of public governance constitute as integral indicator measurement and show linearity of association. Integrality and linearity have implication that performance of one attribute of public government will predict performance of other attributes of public governance. If one attribute get high score, it will also lead to high score the rest of public governance attributes.

<table>
<thead>
<tr>
<th></th>
<th>Political Stability</th>
<th>Government Effectiveness</th>
<th>Regulatory Quality</th>
<th>Control Corruption</th>
<th>Rule of Law</th>
<th>Corporate Ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Stability</td>
<td>0.649**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>0.710**</td>
<td>0.730*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>0.738**</td>
<td>0.701*</td>
<td>0.933**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Corruption</td>
<td>0.732**</td>
<td>0.762*</td>
<td>0.921**</td>
<td>0.884**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Rule of Law</td>
<td>0.762**</td>
<td>0.759*</td>
<td>0.951**</td>
<td>0.938**</td>
<td>0.963**</td>
<td>1</td>
</tr>
<tr>
<td>Corporate Ethics</td>
<td>0.481**</td>
<td>0.601*</td>
<td>0.801**</td>
<td>0.760**</td>
<td>0.872**</td>
<td>0.834**</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (1-tailed).
Hypothesis Testing

In this research, there were six hypotheses proposed and the summary of the hypothesis is presented in Table 4. Generally, the hypotheses predicted that public governance has positive and significant association with corporate ethics. Specifically, the hypothesis proposes that attributes of public governance namely public accountability, government’s regulatory quality, government’s rule of law, effectiveness government, country’s political stability and government’s control of corruption are positively and significantly associated with country’s corporate ethics. The summary of the hypothesis testing is presented in Table 4 as follows:

Table 4. Summary of Hypothesis Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Pearson Correlation Coefficient</th>
<th>Conclusion of Proposed Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Public accountability is positively and significantly associated with corporate ethics</td>
<td>0.481**</td>
<td>Supported</td>
</tr>
<tr>
<td>H2: Government’s regulatory quality is positively and significantly associated with corporate ethics</td>
<td>0.760**</td>
<td>Supported</td>
</tr>
<tr>
<td>H3: Government’s rule of law is positively and significantly associated with corporate ethics</td>
<td>0.834**</td>
<td>Supported</td>
</tr>
<tr>
<td>H4: Effectiveness government is positively and significantly associated with corporate ethics</td>
<td>0.801**</td>
<td>Supported</td>
</tr>
<tr>
<td>H5: Country’s political stability is positively and significantly associated with corporate ethics</td>
<td>0.601**</td>
<td>Supported</td>
</tr>
<tr>
<td>H6: Government’s control of corruption is positively and significantly associated with corporate ethics</td>
<td>0.872**</td>
<td>Supported</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (1-tailed).
Based on information summarized in table 4, it concludes that all proposed hypotheses are supported. All public governance attributes show positive and significant correlation with corporate ethics. However, there is a note for correlation between public accountability and corporate ethics. Even though the correlation is positively and significantly, however the degree of correlation is moderate ($r = 0.481$). It means that public accountability as attribute of public governance has no convincing power to predict corporate ethics performance. However, in general we can still rely on public governance attribute overall to predict corporate ethic performance. The argumentation is supported by statistics results that the rest of public governance attributes show strong correlation with corporate ethics ($r > 0.6$).

Based correlation analysis as depicted in table 4, it implies that the country that has high score of public governance, therefore, corporate ethics score of that country will be also high. It means that good practice of public governance will have impact on good practice of corporate governance among private sectors in that country. Efforts of the government in terms of implementing principles of good public governance have contribution on how private sector organizations run their business based on good corporate governance principles. Therefore, the government has significant roles in creating good atmosphere that facilitates good practice of business among private sector organization.

**CONCLUSION**

The research concludes that public governance namely public accountability, government’s regulatory quality, government’s rule of law, effectiveness government, country’s political stability and government’s control of corruption are positively and significantly associated with country’s corporate ethics. In general, the degree of correlation of public governance and corporate ethics is strong, even though there is attribute of public governance indicates moderate correlation. Referring to the result of the research, it implies that performance of the public governance correspondence with the performance of corporate ethics. It supports the theoretical framework that application of good government principles in governmental institution will affect to practice of good corporate governance in private sector.
Government plays important role in terms of conditioning infrastructure of business environment that practice good governance. Efforts of the countries in achieving good public governance will attract practice of business in private sector in the same direction. Private sector will follow the government actions in terms of implementing good practice of governance. Even though the linearity between public governance and corporate ethics was proven, however, motive of private sector adopting good governance practice is still questionable. Private sector may follow the government implementing good governance practice due to self-consideration. However, good practice of public governance also has possibility to forces the private sector to implement good corporate governance practice (not in private sector self-consideration mode). Therefore, it is suggested to do further research in order understand more detail the adoption of good practice of corporate ethics among private sector organization.

In order achieving good practice of corporate ethics, the state’s must have commitment to combat corruption practice. By eradicating corruption behavior among state’s officials, possibilities for in appropriate business practice that destruct and endanger the business environment can be minimized. Regulatory quality determines the achievement of the goal of regulation itself. By having law and regulations that truly consider business ethics and has power to force obedience among stakeholder, good practice of corporate ethics can be achieved. Domestic political stability enables the state to continue of national development program without any interferer. The state will have attention to develop the nation related good business practice if the domestic political condition is stable. Government effectiveness enables developing infrastructure of good business practice among private sector. Lastly, public accountability forces private sector behave positively in terms of responsibility toward stakeholder.

For further research, extension of time period of investigations is suggested. Longitudinal data panel with more countries involved is recommended. Furthermore, micro level analysis of adoption of corporate ethics is potential object of the research to be conducted. By conducting more details investigation of adoption good practice of corporate ethics among private sector, we will get more specific information about the role of public governance. since this research is explorative study, which is considered the association...
among independent variables, in the future model of analysis using multiple regression analysis is recommended. Using multiple regression analysis, the accumulative impact of public governance attributes toward corporate ethics will be discovered. Therefore, analysis impact of good public governance practice toward good corporate governance practice is relevance to be investigated.

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