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CORPORATE GOVERNANCE AND CORRUPTION CONTROVERSIES IN SOUTHEAST ASIA

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ABSTRAK

Serangkaian skandal dan kontroversi praktik korupsi oleh perusahaan telah menimbulkan pertanyaan terkait efektivitas tata kelola perusahaan. Penelitian ini menginvestigasi hubungan antara ketidakefektifan tata kelola terhadap kontroversi korupsi perusahaan di Asia Tenggara. Menggunakan metode arsip, 515 sampel observasi dilakukan di Indonesia, Malaysia, Thailand, dan Filipina antara tahun 2017 dan 2021. Sesuai dugaan, temuan penelitian mengungkapkan hubungan erat antara tata kelola yang buruk dan keterlibatan perusahaan dalam skandal korupsi. Selain itu, tata kelola perusahaan yang lemah juga mengurangi efektivitas upaya anti-korupsi di Asia Tenggara. Konsekuensinya, pemahaman komprehensif mengenai hubungan antara tata kelola perusahaan dan skandal korupsi menjadi penting dalam membangun strategi anti-korupsi yang seimbang. Monitoring terhadap implementasi tata kelola perusahaan diperlukan dalam mendukung upaya global pemberantasan korupsi.

Kata Kunci: Corporate governance, korupsi, kontroversi perusahaan, Asia Tenggara

ABSTRACT

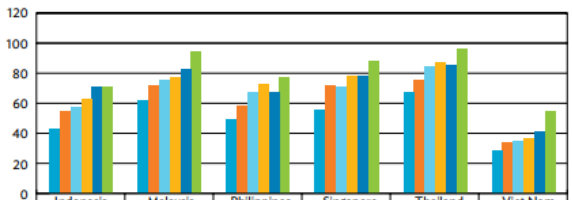
The series of corporate corruption scandals has raised questions about the effectiveness of corporate governance. The focus of this investigation is on the interplay between ineffective corporate governance and corruption controversies among companies in Southeast Asia. Using archival methods, 515 firm-year observations were conducted in Indonesia, Malaysia, Thailand, and the Philippines between 2017 and 2021. As expected, research findings reveal a strong link between poor corporate governance and companies' involvement in corruption scandals. Furthermore, weak corporate governance diminishes the efficacy of anti-corruption initiatives in Southeast Asia. Consequently, a comprehensive understanding of the nexus between corporate governance and corruption scandals is of paramount significance for an equitable anti-corruption strategy. Urgent action is needed to enhance the monitoring of effective corporate governance implementation, which can contribute to the global fight against corruption.

Keywords: Corporate governance, corruption, corporate controversies, Southeast Asia

1. Introduction

Corporate corruption scandals remain a major challenge for business communities in various countries, including the Association of Southeast Asian Nations (ASEAN). Nearly two-thirds of the surveyed companies in the Asia-Pacific region experienced an average annual loss of around $200,000 due to corruption (ACFE, 2020). A string of controversies involving companies like 1Malaysia Development Berhad (Malaysia), Van Thinh Phat Holdings Group (Vietnam), and Garuda Indonesia (Indonesia) have raised public doubts about corporate transparency and accountability. On one hand, anti-corruption policies remain heavily focused on the public sector (Sööt et al., 2016). Furthermore, corruption has become deeply ingrained and institutionalized, resulting in a high degree of individual tolerance for such behavior (Na et al., 2018). Empirical evidence suggests that a significant proportion of companies in Southeast Asia are willing to engage in corrupt practices to secure government contracts (UNDOC, 2018; Transparency International, 2021). The prevalence of corporate corruption scandals highlights the shortcomings of anti-corruption efforts in the ASEAN private sector.

The pervasiveness of corporate corruption is undoubtedly linked to the ineffectiveness of corporate governance (Na et al., 2018; Ramdani & Witteloostuijn, 2012). Figure 1 presents data from the Asian Development Bank (2021) comparing the scores of companies in ASEAN in terms of corporate governance disclosure in annual and sustainability reports.



	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
2012	43.26	62.29	48.90	55.67	67.66	28.42
2013	54.95	71.69	57.99	71.68	75.39	33.87
2014	57.27	75.22	67.02	70.72	84.53	35.14
2015	62.68	76.91	73.09	78.14	87.53	36.75
2017	70.59	82.40	67.61	78.45	85.73	41.30
2019	70.80	94.31	77.24	88.27	96.60	54.55

Figure 1: Corporate Governance Disclosure Scores
Source: Asian Development Bank (2021)

Despite year-on-year improvements, a significant gap remains between commitments and the actual implementation of corporate governance practices (Razook, 2015). This can be seen in the case of Garuda Indonesia, which had a very high corporate governance disclosure score of 93.85 in 2018 (Garuda Indonesia, 2019), but was later found to have engaged in corrupt practices. This suggests that the ineffectiveness of corporate governance in combating corruption stems from the fact that it is still at a systemic level and has not yet been implemented effectively (Pratiwi, 2014).

The relationship between corporate governance and corporate corruption controversies is more pronounced and relevant in developing countries such as ASEAN. Corporate governance is often perceived as a hurdle to comply with, resulting in its implementation merely being a formality (CRMS, 2022). The ineffective regulation and oversight of companies, coupled with the complexity of ownership structures in Asia, further fuel corrupt practices (Rama, 2012). Moreover, the culture of ASEAN countries is characterized by high power distance and a collectivist orientation, which, in the context of ineffective corporate governance, reinforces individuals' legitimacy to pursue personal goals through nepotism and clientelism (Boateng et al., 2021).

From the agency theory perspective, when a company's environment lacks transparency and has weak oversight, agency conflicts between managers and owners become more pronounced. This situation creates fertile grounds for opportunistic and corrupt behavior (Hirsch & Watson, 2010; Na et al., 2018). Previous research has consistently highlighted that weak corporate governance features, such as concentrated ownership structure (Na et al., 2018; Ramdani & Witteloostuijn, 2012), inadequate external auditing (Na et al., 2018), and specific CEO characteristics (Na et al., 2018; Ramdani & Witteloostuijn, 2012) contribute to increased corruption. In essence, weak governance fosters corruption, whereas a robust governance system promotes better monitoring and transparency, ultimately limiting conflicts of interest. Therefore, strong corporate governance plays a crucial role in disrupting the corruption cycle by reducing information asymmetry, enhancing performance, and curtailing corporate misconduct.

The urgency of this research is underscored by the rapid growth in investment in the ASEAN countries. However, the recent spate of corporate corruption scandals, coupled with the weak implementation of corporate governance, serves as a stark reminder to the business world. This study contributes to the enhancement of transparency, eradication of corruption, and promotion of sustainable corporate practices with the foundation of good governance. This research builds upon the work of Na et al. (2018), which examined the components of corporate governance, namely ownership concentration, external auditing, and CEO experience, concerning corruption cases in Brazil, Russia, India, and China. The novelties offered by this study include the following: First, the use of the institutional setting of developing countries in ASEAN, namely Indonesia, Malaysia, Thailand, and the Philippines. These four countries contribute to an increase in investment flows and economic growth in ASEAN, thus representing the need for transparency in the region

Second, this study utilizes the 2017-2021 period due to the average corruption scores of ASEAN countries fall below the 50th percentile, coupled with the prevalence of major corporate corruption scandals, making it crucial to examine the underlying factors. Third, while previous research has primarily focused on country-level corruption variable (Hirsch & Watson, 2010; Wu, 2005) and corporate governance attributes in isolation (Na et al., 2018; Ramdani & Witteloostuijn, 2012), this study contributes to the literature by employing the composite scores of corporate governance variables and corporate corruption practices obtained from the Thomson Reuters database. Consequently, it is essential to investigate whether the ineffectiveness of corporate governance is linked to the corporate corruption controversy in the ASEAN region.

2. Theoretical Framework and Hypothesis Development

Agency theory underpins the relationship between corporate governance and corporate corruption, highlighting the conflict of interest between agents and principals (Ramdani &

Witteloostuijn, 2012; Wu, 2005). Information asymmetry between stakeholders and corporations provides fertile grounds for corruption. Therefore, corporate governance monitoring can reduce agents' opportunistic behavior. Companies with good corporate governance are characterized by the drive to behave ethically, transparently, and responsibly. In addition to improving operational performance, guidelines such as accountability and transparency can also reduce corruption levels by implementing more restrictions on corruptors from both the public and private sectors (Wu, 2005).

Wu (2005) used country-level corruption data to find that the effectiveness of corporate boards plays a crucial role in preventing accounting irregularities and reducing corruption. Hirsch & Watson (2010) used the New Zealand context to find that a poor corporate structure can contribute to corporate involvement in corrupt behavior. Na et al. (2018) show that governance attributes such as ownership concentration and external auditors are negatively related to corporate bribery practices in the BRIC region. Ramdani & Witteloostuijn (2012) used World Bank Enterprise Survey data from 2002-2005 to show that the larger the equity share held by the largest shareholder, the lower the likelihood of a company engaging in corrupt practices. Therefore, companies with good corporate governance play an important role in corporate involvement in corruption.

Ineffective corporate governance implementation drives corporate involvement in corruption scandals. Such governance practices show that companies have a poor prospect of monitoring and preventing negative actions such as corruption, which can threaten managerial inefficiency. Additionally, corruption is a sensitive issue and concerns public expectations; therefore, managers in companies with good governance will be careful to avoid illegal practices such as corruption. Conversely, poor governance practices tend to create distrust among stakeholders and allow managers to behave opportunistically. Based on this description, the hypotheses formulated:

H_1: a negative relationship exists between corporate governance and corporate corruption controversies.

3. Research Method

This study employed a quantitative approach to investigate the influence of corporate governance on corporate corruption controversies. The sample of countries consists of Indonesia, Malaysia, Thailand, and the Philippines, based on the similarity of corruption ranking from Transparency International. The selection of sample companies used the following criteria: non-financial companies listed on the stock exchange of each country with complete data according to the research needs. The final sample of this study comprises 103 companies, and the details of the sample are presented in Table 1.

Table 1: Country-Specific Sample Breakdown

Country	Number of Samples	% Samples
Indonesia	30	29,13%
Malaysia	31	32,04%
Philippines	12	11,65%
Thailand	30	27,18%
Total	103	100,00%

The dependent variable of corporate corruption controversies represents the number of scandals publicized in the media related to illegal practices, such as corruption, bribery, money laundering, and other frauds (Passas et al., 2022). Corporate corruption scandals are measured using bribery, corruption, and fraud scores issued by the Thomson Reuters database to represent corruption at the company level. These scores range from 0 to 100 (no controversy). To facilitate understanding and computation, these scores are then rescaled so that the higher the corruption controversy score, the higher the company's involvement in illegal practices. Referring to Dorfeitner et al. (2020), the corporate corruption controversy variable was calculated as follows:

$$Corruption\ Controversies\ = 100 - \ bribery, corruption, and\ fraud\ scores$$

The independent variable of corporate governance reflects the systems and processes that ensure that management or corporate governance structure acts in the best interests of shareholders. Corporate governance was measured using the corporate governance pillar scores published by Thomson Reuters, with components for management, CSR strategies, and shareholder pillars. These scores reflect the company's effectiveness in following the best governance principles, implementing CSR in decision-making, and treating shareholder interests equally (Thomson Reuters, 2022). Corporate governance scores are measured on a scale of 0 to 100 (best); the higher the score, the better the corporate governance performance, and indicates that the company is managed by aligning shareholder interests.

The control variables are profitability, leverage, firm size, press freedom, and country governance. Companies with high profitability (ROA) tend to receive greater public scrutiny and, therefore, strive to avoid illegal practices that can damage their corporate image (Nguyen, 2021)**. C**ompanies with higher leverage tend to be more cautious in their daily operations to reduce stakeholder concerns as they are assumed to have a higher risk due to unhealthy financial conditions (Nguyen, 2021). Large companies are assumed to have more adequate resources and ease obtaining funding sources, thus reducing fraudulent practices within the company (Nguyen, 2021; Wu, 2005)**.**

This study also involves control variables at the country level, namely press freedom and country governance. Press freedom reflects the independence of the media from government or other influences, and is therefore measured using the Press Freedom Index by Reporters Without Borders (RWB). It is expected that companies from countries with greater press freedom tend to have fewer corruption scandals because high media attention puts pressure on directors and managers to act in accordance with acceptable social values such as honesty and integrity (Binhadab et al., 2021). In addition, companies are also more involved in corporate social responsibility activities and thus have a lower risk of corruption.

Country governance is the quality of government governance related to all state resources for social welfare. The better the country's governance, the lower the companies' involvement in corruption practices because it has better institutional quality (Nguyen, 2021). Therefore, this variable was measured using six World Governance Indicator (WGI) indices sourced from the World Bank: voice and accountability, political stability and absence of terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. A summary of the variables and their measurements is presented in Table 2.

Table 2. Variables Measurement

Variables	Measurement	Source
Corporate Corruption Controversies	CC = 100 – Bribery, corruption & fraud score	*Thomson Reuters Database*
Corporate Governance	Corporate governance pillar score	
Profitability	ROA = Profit After Tax / Total Assets	
Leverage	DAR = Total Debt / Total Assets	
Firm Size	Ln of Total Assets	
Press Freedom	Press Freedom Index	http://www.rsf.org/
Country Governance	World Governance Index	https://databank.worldbank.org/

This study employs regression analysis techniques to test the relationship between corporate governance and corporate corruption using the following research model:

$$CC = \alpha + \beta_1 CG + \beta_2 ROA + \beta_3 DAR + \beta_4 SIZE + \beta_5 PF + \beta_6 WG + \sum\beta\, IDUM + \sum\beta\, YDUM + \sum\beta\, CDUM + \varepsilon \quad (1)$$

Notes:
(α: Constant; β: Regression Coefficient; CC: Corporate Corruption Controversies; CG: Corporate Governance; ROA: Profitability; DAR: Leverage; SIZE: Firm Size; PF: Press Freedom; WG: Country Governance; IDUM: Industry Dummy; YDUM: Year Dummy; CDUM: Country Dummy; ε: Error)

4. Results and Discussion

Table 3 presents 515 observations from 103 companies conducted during the period 2017-2021. The corporate corruption scandal variable has an average of 41.1743 with a standard deviation of 9.1106, with the lowest value being 38.9895 and the highest value being 100. This means that the number of cases of corporate corruption and bribery exposed in the media is relatively high. As for the corporate governance variable, the ASEAN sample is still low because it has a score below 50, namely 48.7612, with a standard deviation of 21.6070.

Table 3. Descriptive Statistics

	N	Mean	Standard Deviation	Minimum	Maximum
CC	515	41,1743	9,1106	38,9895	100
CG	515	48,7612	21,6070	2,9610	94,8175
ROA	515	0,0695	0,0950	-0,6762	0,7998
DAR	515	0,5081	0,2107	0,0005	1,6162
SIZE	515	15,2087	1,2545	10,0412	18,3384
PF	515	58,6612	4,1982	52,5900	66,8800
WG	515	-0,0182	0,2942	-0,3467	0,4500

The control variable ROA (profitability) shows an average of 0.0695 with a range of the lowest value of -0.6762 because the company profits have a deficit value, and the highest profitability value is 0.7998. The leverage variable (DAR) shows that the observed companies have an average debt level of 0.5081 with a standard deviation of 0.2107. In addition, the SIZE variable shows that the majority of company sizes are ln 15.2087. At the country level, the control variable press freedom has an average of 58.6612, with the lowest value of 52.5900 owned by Malaysia (2018) and the highest value of 66.8800 owned by Malaysia (2020). Finally, the data of the country governance variable varies considerably between countries because it has an average index of -0.0182 with a standard deviation of 0.2942.

Multicollinearity testing uses the criteria of VIF and tolerance (1/VIF) values. The test results show that each variable has a VIF value of less than 10 and a 1/VIF value of more than 0.1, indicating that the research model is free from multicollinearity. Furthermore, heteroscedasticity testing in the research model uses the Breusch-Pagan test to ensure that it is free from the problem of heteroscedasticity (non-constant residual variance). The test results show a Prob>Chi^2 value of 0.000 < 0.05, indicating heteroscedasticity. This study addresses the problem of unequal residual variance and produces more accurate standard errors using the robust standard error method without changing the estimated model (Gujarati & Porter, 2009), thus minimizing errors in hypothesis testing.

Table 4. Classical Assumption Tests

Panel A. Multicollinearity Test		
Average VIF		Conclusion
2.40		No multicollinearity
Panel B. Heteroscedasticity Test		
Chi^2	*Prob>Chi^2*	Conclusion
583.44	0.0000	Heteroscedasticity occurs

The regression test results after performing the robust standard error procedure in Table 5 show that the CG (Corporate Governance) variable has a negative coefficient and significance value of 0.03 < 0.05, supporting the main hypothesis in this study. The control variable, ROA, has been proven to influence the relationship between the CG and CC variables because the coefficient is negative and sig. value is below 0.05.

Table 5 shows that corporate governance has a negative relationship with corruption. This is consistent with previous findings that attributes such as ownership concentration and external audits (Na et al., 2018), the relationship between managers and shareholders (Ramdani & Witteloostuijn, 2012), and the structure of the board of directors (Hirsch & Watson, 2010) contribute to the existence of corruption and other illegal practices in companies. In addition, these findings are consistent with the explanation of agency theory, namely that good governance can reduce corruption because it can overcome the conflict between agents and principals, while poor governance tends to encourage opportunistic behavior, such as corruption and bribery.

Table 5 Hypothesis Testing Results

Variable	Direction	Coefficient	t	*Sig.*
Cons		244,273	4,05	0,000
CG	-	-0,239	-2,15	0,032
ROA		-194,761	-4,53	0,000
DAR		14,919	1,30	0,195
SIZE		-19,154	-5,42	0,000
PF		0,934	1,07	0,285
WG		3.31e+07	12,30	0,000
N		515		
R square		0,743		
Prob>F		0,000		
Industry Fixed Effect		Yes		
Year Fixed Effect		Yes		
Country Fixed Effect		Yes		

The controversy surrounding corruption reflects companies' involvement in actions that negatively affect stakeholders and the companies themselves. Increasing publicity and media attention towards companies foster skepticism among stakeholders, which in turn affects the company's reputation (Agnese et al., 2023). The findings of this study show that corporate governance helps reduce exposure to corporate corruption controversies in the media and vice versa. Additionally, effective governance can facilitate better risk management in the face of corporate controversies (Shakil et al., 2021). Governance structures can identify corruption risks and implement strategies to mitigate them. For example, independent board members are more willing to replace management or revise strategies that lead to corporate controversy (Zattoni et al., 2023). Therefore, companies' actions to follow corporate governance practices help them manage their exposure to corruption controversies.

The test results show that the average score of corporate corruption scandals and controversies in ASEAN is 41%. The increasing number of corporate corruption cases exposed to the public is certainly not unrelated to the ineffectiveness of corporate governance. Several significant corruption cases in companies with adequate corporate governance disclosures evidence the gap between the system and its implementation. This is driven by several factors, such as weak law enforcement, human resource capabilities, commitment, and the political will to eradicate corruption (Saptono & Purwanto, 2022). Poor governance gives managers opportunities to gain from bribery practices, such as winning projects, to obtain incentives. Moreover, companies that operate in an environment with a low need for transparency tend to encourage high levels of individual acceptance of corrupt practices. Thus, corporate governance has proven essential in eradicating the corruption cycle (Wu, 2005).

5. Conclusions, Implications, and Limitations

This study empirically proves the role of corporate governance in corporate corruption. The results show that a company’s governance is negatively related to its involvement in corruption. The worse a company's corporate governance, the more likely it is to be involved in a corruption scandal, and vice versa. Good corporate governance helps reduce exposure to corruption controversies in the media and facilitates better risk management when facing controversies.

This study enriches the literature on the role of corporate governance in controversies involving companies. Governance that has not been effective in limiting corrupt practices shows that there is still room for improvement in the implementation of corporate governance in the ASEAN region because poor governance also weakens the effectiveness of ASEAN companies' anti-corruption campaigns. A deeper understanding of the relationship between corporate governance and corruption scandals can help enforce anti-corruption efforts in ASEAN countries. Regulators and the anti-corruption community in the region need to find ways to strengthen the sustainability of corporate anti-corruption practices, including strengthening supervision and regulations to improve the quality of corporate governance. Additionally, this study provides essential information for investors to consider the quality of corporate governance in their investment decision-making.

This research only focuses on companies in the ASEAN region. To enrich the perspective, further research could use more diverse and broad institutional settings, for example, by comparing developed and developing countries. In addition, it can also enhance the findings by involving variables at the company level, such as diversity aspects and board behavior, and variables at the country level, namely culture, and level of corruption towards corporate corruption scandals that are exposed to the public.

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