CEO Education from Internationally Ranked Universities and Ethics Disclosures

Abstract:

Purpose: Ethics disclosures promote a company's commitment to ethical business practices and reduce the potential for corporate misconduct. This study investigates whether CEOs with degrees from internationally ranked universities are associated with more corporate ethics disclosures.
Design/methodology: Our analysis is conducted in Indonesia, an emerging market where ethics disclosures are voluntary and in their infancy. Based on upper-echelon theory, CEOs are responsible for setting the ethical tone in their companies. We propose that CEOs with degrees from better ranked universities have had more exposure to business ethics and have developed stronger personal reputation capital, leading to a greater motivation to adopt ethical practices in their organizations.
Findings: We find that CEOs with degrees from universities ranked by QS World University Rankings have significantly more ethics disclosures in their annual reports. Furthermore, these ethics disclosures are more extensive for CEOs with postgraduate degrees from better ranked universities.
Originality/value: These findings have implications for CEO appointments in emerging markets, where ethics disclosures are voluntary and emergent. Our findings suggest that in prioritizing the appointment of CEOs with degrees from internationally ranked universities, organizations in emerging markets can enhance their corporate ethics disclosures and practices.

Keywords: Ethics; CEO education; education quality; disclosure; Indonesia; university ranking.

1. Introduction

The occurrence of corporate scandals and collapses, such as the Malaysia Development Berhad case in Asia, brings into question the effectiveness of the various enhancements made to strengthen corporate governance. Each new corporate scandal or collapse is followed by prescriptive regulatory obligations imposed on corporate boards. Yet, as mentioned by Potts and Matuszewski (2004), 'fixing the rules is not fixing the problem' since corporate misconduct continues to result in business failures and public distrust worldwide. Further, companies continue to face growing complexity, such as the aftermath of the COVID-19 pandemic, which poses a significant threat to ethical business conduct (Ernst and Young, 2022). While corporate governance codes do have an underpinning in ethics, there is still a strong need for the 'governance of ethics', such as codes of ethics, rules of conduct, ethics training, and reporting on ethics performance, to ensure companies operate in an ethically responsible manner (Rossouw, 2009). By being ethical, shareholders are assured that the pursuit of profit is undertaken within a framework that incorporates stakeholders' perspectives and through the promotion of ethical norms and behaviour in the management and operation of companies.

Agency theory views that disclosures of ethical commitments better align the interests of shareholders and managers, while legitimacy theory asserts that ethics disclosures allow stakeholders to be assured that companies operate within the boundaries and norms that exist in society. Due to the importance of ethical business practices to capital markets and other stakeholders, there is an ongoing debate about the forces that should be in play in the adoption of ethics disclosures. In the literature that focuses on the role played by boards of directors or other corporate stakeholders in dissecting ethics disclosures, elements of ethics are often found embedded as part of corporate social responsibility (Godos-Díez et al., 2011), corporate governance and/or stock market listing requirements, such as codes of ethics (García-Sánchez, et al., 2013). To add to the existing literature, this study addresses concerns about the lack of research that focuses specifically on ethics disclosures. More specifically, this study examines the relationship between the educational background of CEOs and ethics disclosures in the annual reports of companies in Indonesia. The education of an individual significantly shapes his/her cognitive model, as well as their values and behavioural beliefs (Frank et al., 1993). The question that this study addresses is whether companies with greater ethics disclosures are led by CEOs who have degrees from internationally ranked universities.

The motivations of the research strategy adopted in this study are two-fold. First, corporate ethical disclosures are voluntary but emerging and important to capital markets. In general, the requirements for ethics are set in national codes of corporate governance and stock market listing requirements that state the provisions for the development of codes of ethics and procedures for whistleblowing and anti-corruption. Largely, however, information regarding ethics is still voluntarily disclosed by companies. The ASEAN Corporate Governance Scorecard 2019 (Asian Development Bank, 2021), for example, highlights the disclosure of codes of ethics and conduct as a 'strength' for Thailand and as an 'area of improvement' for Singapore. In the setting of Indonesia, there are no specific rules governing ethical disclosures and these disclosures are mainly voluntary. The Indonesia Corporate Governance Manual (2016), which consists of the non-binding principles and benchmarks for Indonesian companies, highlights the Company Code of Ethics as the guide that imposes duties that a company's officers and employees owe towards its stakeholders. In addition, OJK Regulation No. 8/POJK.04/2015, which covers Websites of Issuers or Public Companies, identifies the provision of corporate codes of ethics, but this regulation is only meant for disclosure on corporate websites. Accordingly, ethics disclosures vary across companies with different strategies adopted to provide ethics information in annual reports. In this sense, ethics disclosures can be used as a corporate strategy for competitive advantage. Further, ethics disclosures are an important element for an emerging market such as Indonesia, where the risk of corporate misconduct is deemed to be higher than in developed markets (Dallas, 2013).

Second, this study focuses on the role played by CEOs, a person who is identified as the most influential decision-maker and has the power to exert managerial discretion in an organization. This highlights the CEO as the person who can set the tone for corporate ethical disclosure. Based on upper echelon theory, this study specifically focuses on the level of education and the international ranking of the university where the CEO obtained their degree(s). We argue that social environments that nurture and develop ethical values, such as those in better ranked universities, can form ethically strong individuals (CEOs) who can set the ethical tone in the companies that they lead and manage. Focusing on internationally ranked universities is relevant due to the growing number of Indonesians studying abroad (UNESCO Institute for Statistics, accessed 2023), especially due to the government scholarships available to Indonesians to enter leading national universities or the world's best-ranked universities. But, at the current time, the limited number of CEOs of Indonesian companies with degrees from internationally ranked universities becomes our basis to explore whether variation in the educational background of CEOs is associated with corporate ethics disclosures.

This study explores whether companies whose CEOs obtained their degrees from internationally ranked universities have more ethics disclosures in their annual reports. Ethics disclosures are measured using the methodology of Loughran et al. (2009) and internationally ranked universities are identified based on QS World University Rankings. We propose that higher ranked universities provide greater exposure to business ethics in the curriculum and CEOs who graduate from higher ranked universities have enhanced reputation capital. In addition, the experiences from their social and educational environment at higher ranked universities and their desire to protect their reputation capital provide CEOs with a greater incentive to adopt ethical practices in their organizations and enhance their companies' ethics disclosures.

Based on our analysis using 4,119 firm-year observations from Indonesia from 2010 to 2022, we find that companies whose CEOs graduated from internationally ranked universities provide more ethics disclosures in their annual reports. Furthermore, these ethics disclosures are more extensive for CEOs with postgraduate degrees and are more extensive for CEOs with degrees from better ranked universities. Thus, this study provides evidence that the quality of the institution that the CEO graduated from plays a role in determining the level of ethics disclosures of companies in the emerging market of Indonesia.

This study is significant for the following reasons. First, this study reinforces the importance of ethical practices by focusing on how companies can embark on ethics disclosures. Prior studies typically focus on ethics disclosures as those embedded in corporate governance (Salin et al., 2019; Merchant & White, 2017), which may not sufficiently capture the various elements of ethical disclosures being used as a strategy to signal corporate ethical practices. The tendency to associate the perspective of ethics with CSR is also inadequate since the regulatory framework is different.

The Law on Limited Liability Companies (No. 40 of 2007) in Indonesia has shifted the CSR practice toward mandatory CSR (Andrini, 2016), while ethics disclosures remain a voluntary corporate practice. Further, corporate ethics disclosures have been explored by using different methodologies and contexts (e.g. Verschoor, 1998; Pae and Choi, 2011). In extending the existing literature, ethics disclosures are derived from the main corporate reporting channel, which is the annual report, based on ethics-related terms developed by Loughran et al. (2009) from the integrity model of Erhard et al. (2007). Hence, this study employs a standard measurement of ethics disclosures that can be used to compare levels of ethics disclosures across companies.

Second, this study addresses the forces that can be strengthened if the aim is to improve corporate ethics disclosures. Apart from the emphasis assigned to corporate boards and other stakeholders (García-Sánchez et. al., 2013), this study puts forward an emphasis on the role of CEOs as the ones that can set the tone on ethics disclosures. In response to Velte's (2019) recommendation, a contribution of this study is to examine the educational characteristics of CEOs, measured based on their level of education and the ranking of the university from which they gained their academic qualification. Accordingly, this study extends the existing knowledge on i) CEO education and corporate disclosure practices (e.g. Sun et al., 2021; Malik et al., 2020) and ii) CEO education in Indonesia (Aini et al., 2024; Chua et al., 2022; Harymawan et al., 2020; Ulinnuha et al., 2024) by being the first to associate CEO education quality and corporate ethics disclosure practices. The aspect of education quality is based on the international rankings of universities, which is relevant due to the increased emphasis on university rankings in education (Mussard and James, 2018).

Third, this study offers a perspective from the emerging market of Indonesia. Dallas (2013) indicates that investors are concerned that the benefits of economic growth in emerging markets may be eclipsed by their weak rule of law, pervasive corruption, and emergent institutional frameworks and regulatory oversight. Hence, it is crucial to explore ethics disclosures as an element that could be important for investment decisions in the capital market of Indonesia. Indonesia offers a unique institutional setting to explore ethics disclosures as Pancasila morality (Philipus, 2022) and Islamic ideology could serve in modelling good ethical business practices. However, both precepts may remain an ideal rather than a practice due to the values of loyalty and secrecy embedded among individuals. Aside from the institutional environment of an emerging market, the concentrated, family-owned, and controlled ownership structure (Setiawan et al., 2016) of companies in Indonesia may also mean that ethical values are an important element that could strengthen corporate governance to maximize value for shareholders.

Finally, our results show that companies whose CEOs graduated from better ranked universities have a greater tendency to provide more ethics disclosures. This provides evidence that the quality of the institution that the CEO graduated from plays a role in determining the level of ethics disclosures of companies. Thus, these findings have implications for CEO appointments in Indonesia and other markets where ethics disclosures are voluntary and emergent. In particular, our findings suggest that companies hiring CEOs with degrees (and postgraduate degrees in particular) from internationally ranked universities can enhance their corporate ethics disclosures and practices.

2. Literature Review and Hypothesis Development

Ethical business practices are reflected in companies that establish ethical values and implement ethics programmes (Craft, 2018), with mission statements emphasising ethics, such as integrity and loyalty (Chandler, 2015), and with ongoing training and communication of the code of ethics (Garegnani, et al., 2015). The appraisal system, including disciplinary action, can promote ethical values (Svensson et al., 2010) while ethics-related tools, such as anti-corruption and whistle-blowing policies, are the monitoring mechanisms that strengthen corporate governance (Othman et al., 2012).

The need to commit to ethical business practices is justified by the benefits of such engagement. Prior studies have shown that corporate ethical commitments significantly impact financial performance (Tuan Ibrahim et al., 2020; Abidin et al., 2017) and the market value of companies (Pae & Choi, 2011; Choi & Jung, 2008). Ethically committed companies are deemed to be better able to secure long-term shareholder investments as the market perceives that such companies have a greater ability to utilise resources effectively (Karim et al., 2016) and, thus, have lower risks. Furthermore, a stronger ethical culture is identified to be related to the higher likelihood of detecting and correcting wrongdoings in the workplace (Kaptein, 2011).

Ethical business practices, whether in the aspects of governance structure or stakeholders' relations, can serve as a signalling strategy and a competitive advantage to create long-term value and financial stability (Dyck et al., 2019). Therefore, it becomes vital for companies to disclose their ethical commitment. Karim et al., (2016) assert that disclosure is regarded as a confirmation by the third party regarding corporate compliance to ethical standards. Loughran et al. (2009) propose that the use of ethics-related terms in annual reports creates an implicit assurance and expectation that a company maintains high standards of business conduct.

From the perspective of agency theory, ethics disclosures are needed to align the interests of shareholders and managers. Ethics disclosures communicate about the control mechanisms applied by companies, such as the anti-corruption policy, to assure shareholders that their interests are safeguarded against unethical conduct. Ethics disclosures allow the promotion of the best ethical practices of companies, such as an independent whistleblowing channel, to convey to shareholders the extent to which companies voluntarily commit to prevent corporate failure beyond the governance mechanisms that focus on the strength of corporate boards. Further, ethics disclosures minimize the agency costs associated with the possibility that investment in ethical activities jeopardizes shareholders' value maximation because there would be alignment shown between ethical activities and corporate strategies that contribute to shareholders' wealth. In addition, from the perspective of legitimacy theory, ethics disclosures are prevalent for stakeholders who intend to ensure that companies carry out their activities in accordance with the boundaries and norms that exist in society.

While ethical practices play an important role in business because they form the decisions, behaviour and results in many ways (McLeod et al., 2016), the relative infancy of ethics disclosures hinders our understanding of this important element of corporate practice. Thus, there is ongoing debate on the role of CEOs, boards of directors and other stakeholders in the adoption of ethics disclosures. This study focuses on exploring a specific characteristic of CEOs, their educational background, as the determinant of corporate commitment to ethics disclosures. Evidence from Indonesia shows that CEO education level explains corporate performance (Suherman et al., 2023) since more educated CEOs are those with better ability to deal with challenging intellectual activities. Yet, variation in the educational backgrounds of CEOs means that they have been subjected to different social and educational environments that could influence the way they think, act and behave, including ethical characteristics.

2.1 CEO Education, Internationally Ranked Universities and Ethics Disclosures

As there is no standardised measure of corporate ethics disclosures, the role of CEOs in ethics disclosures can first be learned from the literature that links CEOs and corporate disclosures. A review by Plöckinger et al. (2016) asserts that there is consistent evidence that top management executives exert significant influence on financial reporting decisions, particularly on disclosure quality. From the perspective of upper echelon theory (Hambrick and Mason, 1984), the personal traits of managers, which are due to differences in their experiences, beliefs and values, can lead to various corporate disclosure choices. Bamber et al. (2010) indicate that CEOs exert an economically significant role in corporate disclosure styles, such as on whether the disclosures are conservative or more precise. In support of upper echelon theory, Bassyouny et al. (2020) show that both observed and unobserved CEO characteristics lead to a positive tone in corporate disclosures among companies in the UK.

A related line of study is the literature examining the role of top management and/or CEOs in corporate disclosures from the aspect of corporate social responsibility (CSR), as CSR indicators imply a sense of the ethical perspectives of companies. The empirical evidence suggests that CEOs' managerial decisions on CSR may be affected by their personality traits. Manner (2010) shows that strong or exemplary Kinder, Lydenberg & Domini (KLD) ratings are positively related to CEOs having a bachelor's degree in humanities, having a breadth of career experience, and being female, and negatively related to CEOs having a bachelor's degree in economics and to their level of short-term compensation. In a similar vein, Roach and Slater (2016) reconfirm Manner's (2010) findings as they find that firms with CEOs with a humanities education are those with higher levels of CSR, especially in the dimensions of community and diversity of KLD ratings. Lewis et al. (2013) identify that a CEO's educational background affects corporate environmental disclosure, as those with MBA degrees are more likely to disclose while CEOs with legal degrees are more likely to resist pressures to disclose. In China, Sun et al., (2021) assert that CEOs with MBA degree education have a positive effect on CSR. Utilizing the setting of Pakistani firms, Malik et al. (2020) indicate that CEOs with financial education can better understand the advantages and importance of CSR, and hence the companies they lead would disclose more on CSR. In Thailand, CEO education is shown to be positively associated with SDR disclosure (Lim-U-Sanno, 2021). In this regard, there is evidence to support upper-echelon theory in that the personal traits of CEOs can explain the way corporate disclosure policies are determined.

The role of top management, such as CEOs, in ethics disclosures can also be derived from the literature that examines codes of ethics (García-Sánchez, et al., 2013), whistleblowing (Agnihotri and Bhattacharya, 2015) and anti-corruption (Jaggi et al., 2019), as these are the aspects of ethics identified in national codes of corporate governance and stock market listing requirements. In García-Sánchez et al., (2013), the likelihood of having a corporate code of ethics is not explained by the features of the CEO's duality and quality, but the reputation of CEOs is shown to influence the likelihood of the adoption of an ethics code. When it comes to whistleblowing policy disclosure, limited but important evidence can be seen. In Agnihotri and Bhattacharya (2015), the proportion of independent directors and specific positions, such as the chief ethical officer, are identified as determinants of disclosure of whistleblowing policies in the Indian setting. With respect to anti-corruption policy, Carrillo et al. (2019) find that outside directors and CEO duality are shown to be positively related to corruption disclosures of companies listed in the EuroStoxx 200 index.

More closely related to this study are papers that involve ethics practices and/or disclosures that are examined from various indexes developed by researchers. In Da Silveira (2020), corporate ethical culture is measured based on a text analysis of employee reviews posted on Glassdoor related to 1,400 terms of five ethical dimensions. The study shows partial support that more independent directors and women on boards explain better ethical culture, while the percentage of board members appointed by minority shareholders is associated with a poorer ethical culture. Baselga-Pascual et al. (2018) utilize the EthicalQuote reputation index by Covalence in analysing the association between board characteristics and corporate ethical reputation. The index integrates information about ethical criteria related to environmental, social and governance aspects based on news, reporting and stakeholders' claims. In the analysis involving companies from 13 countries, the evidence supports that corporate ethical reputation is positively related to corporate board size, gender diversity and CEO duality, but is negatively related to the busyness of the board members and a composite index reflecting poor monitoring. In Abdul Rahman et al. (2016), Ethical Identity Disclosure (EID) is developed based on Haniffa and Hudaib (2007) and Zubairu et al. (2011), covering ethical items such as products, Zakāt, charity and benevolent loans, employees and debtors. The results show that the EID of Islamic banks in Malaysia and Bahrain is explained by board size, Shari'ah supervisory board and investment account holders but not the independent directors of the banks.

The findings of this line of literature suggest several gaps to be addressed. As suggested by Velte (2019) in his review of studies on CEO incentives and CSR, there is a tendency of the prior studies to focus on i) CEO incentives and ii) the US capital market. Hence, a major research gap identified is the need to explore other CEO characteristics such as their values, education and experience. This study focuses on the educational background of CEOs in Indonesia. In the context of Indonesia, exploring the role of the CEO in the collectivist culture that surrounds Indonesian workplace behaviour (Chua et al., 2022) is an attempt to identify whether an individual manager, the CEO, is powerful enough to influence strategic decisions within companies on ethical disclosures.

Further, while the educational background of CEOs in Indonesia has been examined from several aspects of 'education' (Chua et al., 2022; Harymawan et al., 2020), the quality of education metric used in this study is sourced from worldwide university rankings, which provides a different aspect of CEO education to explore. Thus, instead of looking at the academic major or focusing on specific qualifications (e.g. MBA or PhD) of CEOs, we examine the quality of education that CEOs received from internationally ranked universities. Recent contemporaneous work has used a similar approach to relate the education quality of CEOs to different corporate outcomes, including company working environments (Aini et al., 2024), corporate capital structure (Madyan et al., 2023), climate change disclosures (Nathalia and Setiawan, 2022) and ESG disclosure (Ulinnuha et al., 2024). In this study, we complement this work by relating the level and quality of CEO education to corporate ethics disclosures.

2.2 Hypothesis Development

Based on the prior literature detailed above, this study proposes a link between the education of CEOs and corporate ethics disclosures. Prior research shows that the education of an individual significantly shapes his/her cognitive model, as well as their values and behavioural beliefs (Frank et al., 1993). Therefore, we propose three reasons to explain the tendency for CEOs with degrees from internationally ranked universities to provide more ethics disclosures.

First, an internationally ranked university provides students with an enhanced learning environment that pays more attention to leading business practices and societal issues. This includes greater exposure to business ethics in the curriculum and an enhanced emphasis on up-to-date practices in governance and business ethics.[1] For example, students at higher ranked universities are connected to the best and latest ethical business practices through case analysis, expert speakers, simulation and collaborative industry projects. The knowledge and exposure derived from these learning environments provide students at these universities with greater exposure to ethics-related terms and the usefulness of ethics codes and values in organizations. Thus, CEOs with degrees from internationally ranked universities are expected to have more knowledge of business ethics and make more disclosures about ethics in their corporate reporting.

Second, studying at internationally ranked universities has exposed CEOs to a good social environment, which could also lead to the formation of good ethical values and behaviours. The social environment may be in the form of accessibility to educational resources and privileged facilities, and activities or programs that would provide the opportunities to meet, communicate with and learn from highly educated people, which helps broaden one's view and develop social skills. Hence, CEOs with degrees from higher ranked universities are predicted to have greater consideration for ethical decisions and ultimately increase ethical disclosure.

Third, graduating from an internationally ranked university provides CEOs with greater personal reputation capital. Thus, CEOs would want to both protect and enhance their image and reputation (Li et al., 2018; Barnea and Rubin, 2010). Plaksina et al. (2019) highlight the level of university prestige as proxying for the CEO’s ascribed status, which becomes a motivation to CEOs to avoid taking risks that can harm that high social status. To protect their reputation, CEOs are likely to make strategic decisions that lower the risk of adverse corporate outcomes. In addition, CEOs would tend to enhance their reputation by being a leader in governance and ethical practices. In achieving these two purposes, ethics disclosures are necessary to convey to stakeholders the commitments made by companies to preserve ethical values in their management and operations.

The voice of directors and top management regarding companies' mission and vision, core values, ethical philosophies and objectives reflect top management's commitment to setting the tone on corporate ethical values, culture and practices. As the most powerful person in a corporation, CEOs are the ones who set strategic decisions and policy choices. By considering the educational characteristics of CEOs from the view of upper echelon theory, this study is motivated to investigate whether CEOs make these strategic decisions related to ethics disclosures. This relation can be, at least partially, explained by the good social and educational environment at the university where CEOs obtained their degree(s), which would inspire them to pay more attention to norms and ethics. CEOs who have studied at better quality universities are deemed to be more responsive to the corporate ethical landscape and have a better understanding of the importance of ethics disclosures, especially as a strategic opportunity that can improve corporate reputation and value. Accordingly, CEOs with degrees from internationally ranked universities are expected to be more committed to ethics disclosures. And this relationship is expected to be even stronger for CEOs who obtained their degrees from better ranked universities. Thus, our two hypotheses are stated as follows:

Hypothesis 1: CEOs with degrees from internationally ranked universities are associated with higher levels of corporate ethics disclosures.

Hypothesis 2: CEOs with degrees from better ranked universities are associated with higher levels of corporate ethics disclosures.

3. Data and Methodology

3.1 Sample

The initial sample consists of all companies listed on the Indonesian Stock Exchange (IDX) for the period of 2010-2022. Sources of data in this study include corporate annual reports, the OSIRIS database, and the QS World University Rankings website. Companies in the financial, insurance and real estate industries (SIC 6) are excluded from the sample because of the different nature of their financial statements. Companies where annual reports cannot be located from the stock exchange or corporate websites are excluded as ethics disclosures and governance variables are not available for these companies. Companies with missing financial data on OSIRIS are also excluded, resulting in a final sample of 4,119 firm-year observations. Table 1 shows the sample selection and the distribution of the sample by industry and year. The sample increases from a low of 193 observations in 2010 to a high of 463 observations in 2022. The highest number of observations come from the SIC 2 Construction (1,098) and SIC 3 Manufacturing (685) industries.

Table 1. Distribution of Data

Panel A: Sample Selection

Description	Sample Size
The total observed population of the research (2010-2022)	9,134
(-) Financial firms with SIC 6	(2,196)
(-) Missing Ethics Term and Ethics Code Data	(1,819)
(-) Missing Governance Data	(712)
(-) Missing Control Variable Data	(288)
Final Sample (N)	**4,119**

Panel B: Distribution of Data by Industry

Industry (SIC)	Observations	
	N	%
(SIC 0) Agriculture, Forestry and Fisheries	283	6.87
(SIC 1) Mining	619	15.03
(SIC 2) Construction	1098	26.66
(SIC 3) Manufacturing	685	16.63
(SIC 4) Transportation, Communications and Utilities	628	15.25
(SIC 5) Wholesale & Retail Trade	381	9.25
(SIC 7) Service	329	7.99
(SIC 8) Health, Legal, Educational Services and Consulting	96	2.33
Total	**4,119**	**100%**

Panel C: Distribution of Data by Year and Industry

Year	Industry (SIC)								
	0	**1**	**2**	**3**	**4**	**5**	**7**	**8**	**Total**
2010	11	23	60	39	23	17	19	1	193
2011	12	31	61	43	30	21	18	3	219
2012	12	40	74	44	38	23	20	4	255
2013	14	47	81	49	44	26	21	4	286
2014	15	50	89	59	51	32	25	5	326
2015	16	50	89	59	52	32	27	7	332
2016	16	51	88	60	55	33	31	8	342
2017	14	49	90	54	54	34	28	7	330
2018	13	55	90	57	58	40	30	8	351
2019	86	59	89	55	61	35	30	8	423
2020	11	42	83	37	58	26	22	11	290
2021	27	44	90	50	41	24	22	11	309
2022	36	78	114	79	63	38	36	19	463
Total	**283**	**619**	**1098**	**685**	**628**	**381**	**329**	**96**	**4,119**

3.2 Variables

Table 2 provides a summary of the variables used in this study. The dependent variables are measured by the frequency of ethics-related terms and ethics-related terms used in a code context in corporate annual reports, based on Loughran et al. (2009). ETHICS_TERM is the total number of ethics-term words found in the annual report (e.g. ethic, ethics, ethical, ethically, corporate social responsibility, social responsibility, socially responsible). ETHICS_CODE is the total number of ethics-code words found in the annual report (e.g. code of business conduct, code of ethics, code of professional ethics, code of business ethics, ethics code, principles of professional ethics, etc).

The independent variables used in our analysis are based on CEO education data and QS World University Rankings. CEO education data (undergraduate and postgraduate degrees) are sourced from corporate annual reports. Rankings for the universities that the CEOs graduated from are sourced from the QS World University Rankings website. To test our two hypotheses, we use an indicator variable and a continuous variable in our analysis. CEO_EDU_RANKD is a dummy variable equal to one if the CEO's education is from a university indexed by the QS World University Rankings. This is roughly the top 1000 universities in the world, but the total number has varied over time. CEO_EDU_RANKC is a continuous variable of the university's ranking, divided by the total number of rankings and multiplied by -1. For example, if the CEO completed their education at MIT (ranking of 1 out of 1000), CEO_EDU_RANKC would equal -0.001 (-1/1000). If the CEO completed their education at Universitas Airlangga (ranking of 651 out of 1000), CEO_EDU_RANKC would equal -0.651 (-651/1000). If the CEO completed their education at a university that is not ranked by the QS World University Rankings, then CEO_EDU_RANKC is set to -2. This allows us to include all universities in our analysis with unranked universities at a level lower than those ranked by QS. If a CEO has degrees from multiple universities, we include the university with the best QS ranking.

Control variables used in our analysis include the education level of the CEO (CEO_EDU), age of the CEO (CEOAGE), tenure of the CEO (CEOTENURE), gender of the CEO (CEOGENDER), size of the board (BOARDSIZE), board independence (INDCOMSIZE), board diversity (DIVERSITY), firm size (FIRMSIZE), firm leverage (LEV), firm performance (ROA), cash holdings (CASHTA), and indicator variables for firms incurring a loss (LOSS) and firms that have a Big4 auditor (BIG4). More details of these variables and other variables used in our additional analysis are provided in Table 2.

Table 2. Variable Definitions

Variable	Definitions	Sources
Dependent Variables		
ETHICS_DISC	Total ethics-term words (ETHICS_TERM) in the annual report according to Loughran, T., McDonald, B., & Yun, H. (2009) or Total ethics-code words (ETHICS_CODE) in the annual report according to Loughran, T., McDonald, B., & Yun, H. (2009)	Annual Report
Independent Variables		
CEO_EDU_RANKD	Dummy variable equal to 1 if the CEO's education comes from a university indexed by QS World University ranking, 0 otherwise.	Annual Report, QS WUR Website
CEO_EDU_RANKC	Continuous variable ranking of CEO university in year t according to QS WUR divided by total ranking indicators in year t, and then multiplied by -1. Not ranked is scored at -2.	Annual Report, QS WUR Website
Control Variables		

CEO_EDU_LEVEL	Education level measured by 1 if CEO education is undergraduate, 2 if master, 3 if doctoral, and 0 if the data missing.	Annual Report
CEOAGE	Natural logarithm of the CEO's age.	Annual Report
CEOGENDER	Dummy variable equal to 1 if the CEO is female, and 0 otherwise.	Annual Report
CEOTENURE	Number of years the CEO has been working as CEO of the company.	Annual Report
BOARDSIZE	Natural logarithm of the total membership of the board of directors (BoD) and board of commissioners (BoC).	Annual Report
INDCOMSIZE	Proportion of independent commissioners on the BoC.	Annual Report
DIVERSITY	Proportion of female members on the boards (BoD and BoC).	Annual Report
FIRMSIZE	The logarithm of total assets.	Osiris
LEV	The ratio of total debt to total assets.	Osiris
ROA	The ratio of net income to total assets.	Osiris
LOSS	Dummy variable equal to 1 if the company in year t experiences a loss, 0 otherwise.	Osiris
CASHTA	The ratio of cash and equivalents to total assets.	Osiris
BIG4	Dummy variable equal to 1 if the company auditor is BIG4, 0 otherwise.	Annual Report
Additional Variables		
CEO_D_UNDER	Dummy variable equal to 1 if the CEO's undergraduate level education comes from a university indexed by QS WUR ranking, 0 otherwise.	Annual Report, QS WUR Website
CEO_D_POST	Dummy variable equal to 1 if the CEO's postgraduate level education comes from a university indexed by QS WUR ranking, 0 otherwise.	Annual Report, QS WUR Website
CEO_C_UNDER	Continuous variable ranking of CEO university for undergraduate degree in year t according to QS WUR divided by total indicators in year t, multiplied by -1. Not ranked is scored at -2.	Annual Report, QS WUR Website
CEO_C_POST	Continuous variable ranking of CEO university for postgraduate degree in year t according to QS WUR divided by total indicators in year t, multiplied by -1. Not ranked is scored at -2.	Annual Report, QS WUR Website
MEAN_RANK	The average of the CEO education from internationally ranked university variables (CEO_EDU_RANKD or CEO_EDU_RANKC) in each industry.	Annual Report, QS WUR Website

3.3 Methodology

The main models in this study use ordinary least square (OLS) regressions with fixed year and industry effects. Standard errors are clustered at the firm level.

$$\begin{aligned}
\boldsymbol{ETHICS_DISC_{i,t}} \\
&= \boldsymbol{\beta_0 + \beta_1 CEO_EDU_RANKD_{i,t} + \beta_2 CEO_EDU_LEVEL_{i,t} + \beta_3 CEOAGE_{i,t}} \\
&+ \boldsymbol{\beta_4 CEOGENDER_{i,t} + \beta_5 CEOTENURE_{i,t} + \beta_6 BOARDSIZE_{i,t}} \\
&+ \boldsymbol{\beta_7 INDCOMSIZE_{i,t} + \beta_8 DIVERSITY_{i,t} + \beta_9 FIRMSIZE_{i,t} + \beta_{10} LEV_{i,t}} \\
&+ \boldsymbol{\beta_{11} ROA_{i,t} + \beta_{12} LOSS_{i,t} + \beta_{13} CASHTA_{i,t} + \beta_{14} BIG4_{i,t} + YEAR_{i,t}} \\
&+ \boldsymbol{INDUSTRY_{i,t} + \varepsilon_{i,t}} \qquad \qquad \boldsymbol{(1)}
\end{aligned}$$

$$\begin{aligned}
\boldsymbol{ETHICS_DISC_{i,t}} \\
&= \boldsymbol{\beta_0 + \beta_1 CEO_EDU_RANKC_{i,t} + \beta_2 CEO_EDU_LEVEL_{i,t} + \beta_3 CEOAGE_{i,t}} \\
&+ \boldsymbol{\beta_4 CEOGENDER_{i,t} + \beta_5 CEOTENURE_{i,t} + \beta_6 BOARDSIZE_{i,t}} \\
&+ \boldsymbol{\beta_7 INDCOMSIZE_{i,t} + \beta_8 DIVERSITY_{i,t} + \beta_9 FIRMSIZE_{i,t} + \beta_{10} LEV_{i,t}} \\
&+ \boldsymbol{\beta_{11} ROA_{i,t} + \beta_{12} LOSS_{i,t} + \beta_{13} CASHTA_{i,t} + \beta_{14} BIG4_{i,t} + YEAR_{i,t}} \\
&+ \boldsymbol{INDUSTRY_{i,t} + \varepsilon_{i,t}} \qquad \qquad \boldsymbol{(2)}
\end{aligned}$$

These models test our two hypotheses by relating ethics disclosures (*ETHICS_DISC*), measured by ethics-term words (*ETHICS_TERM*) and ethics-code words (*ETHICS_CODE*) in annual reports, to the education of CEOs. CEO education at internationally ranked universities is measured by *CEO_EDU_RANKD* and *CEO_EDU_RANKC* in the two models. Based on our hypotheses, we expect the coefficients on *CEO_EDU_RANKD* and *CEO_EDU_RANKC* to be significant and positive, indicating that CEO education from internationally ranked universities and CEO education from better ranked universities are positively related to ethics disclosures.

The other variables in the models control for other CEO characteristics, governance characteristics and firm characteristics. We control for the level of CEO education, CEO age, CEO tenure and CEO gender to ensure we are more cleanly measuring the relationship between CEO education from internationally ranked universities and ethics disclosures. Therefore, it cannot be the case that our results are due to the education level of the CEO, whether the CEO is young or old, whether the CEO is new or experienced in the firm, or whether the CEO is male or female. As prior studies have shown relationships between corporate governance and ethics disclosures, we include board size, board independence, board diversity and the use of Big4 auditors to control for the governance characteristics of firms (Loughran et al., 2009; Persons, 2009; Waweru, 2020). Consistent with prior studies, we also control for firm characteristics, including firm size, leverage, performance and cash holdings (Loughran et al., 2009; Persons, 2009; Waweru, 2020).

In addition to the above models, our robustness tests use Coarsened Exact Matching (CEM), Propensity Score Matching (PSM), Generalized Method of Moments (GMM) and Heckman Two-stage Models to confirm our results. We also conduct additional analysis where we examine the level of CEO education at internationally ranked universities (undergraduate versus postgraduate degrees).

4. Empirical Analysis

4.1 Descriptive Statistics and Univariate Tests

Table 3 provides descriptive statistics of the sample companies. Ethics disclosures in annual reports contain an average of 36.02 ethics-terms and 3.06 ethics-code words. *ETHICS_TERM* ranges from 0 to 535, with a median of 13 and 86% of sample firms providing ethics-term disclosures. *ETHICS_CODE* ranges from 0 to 56, with a median of 1 and 52% of sample firms disclosing ethics-code words in annual reports. For comparison purposes, Loughran et al. (2009) show that over 62% of US companies in their sample disclosed ethics-code words in 10-K reports during 2004-2006. This would suggest that corporate ethics reporting in Indonesia still has room to develop.

The mean of 0.40 for *CEO_EDU_RANKD* indicates that 40% of CEOs have degrees from internationally ranked universities (those ranked by QS World University Rankings). The maximum of -0.002 for *CEO_EDU_RANKC* indicates that the highest ranked university for CEO education in our sample is 2. For reference, some of the top 100 ranked universities in our sample are Harvard University, Stanford University, University of Chicago, London Business School, University of Toronto, Nanyang Technological University, Imperial College London, University of Edinburgh, University of Tokyo and University of Melbourne.

The mean of -1.37 for *CEO_EDU_RANKC* confirms that most CEOs obtained their education from unranked universities (scored at -2). The universities with the most observations for CEO education in our sample are the Bandung Institute of Technology, University of Indonesia, Gadjah Mada University, Bogor Agricultural University and Sepuluh Nopember Institute of Technology.

CEO_EDU_LEVEL has a mean of 1.23, with the highest education of CEOs being 56% at the undergraduate level, 29% at the master's level and 3% at the doctoral level. The average age of CEOs is 53 years and the average tenure of CEOs is 7.95 years. The mean of 0.07 for CEO gender indicates that 7% of the CEOs in our sample are female. The average sample firm is 2.58 trillion Indonesian Rupiahs (approximately US$153 million) in size, leverage of 0.58, return on assets of 6%, board size of 7.32, board independence of 39%, board diversity of 11% and cash holdings of 12%. Of the sample firms, 36% have a Big4 auditor and 26% incurred a loss.

Table 3. Descriptive Statistics

	Mean	Median	Minimum	Maximum
ETHICS_TERM	36.02	13.00	0.00	535.00
ETHICS_CODE	3.06	1.00	0.00	56.00
CEO_EDU_RANKD	0.40	0.00	0.00	1.00
CEO_EDU_RANKC	-1.37	-2.00	-2.00	-0.002
CEO_EDU_LEVEL	1.23	1.00	0.00	3.00
CEOAGE	3.97	3.99	3.47	4.45
CEOGENDER	0.07	0.00	0.00	1.00
CEOTENURE	7.95	5.00	0.00	52.00
BOARDSIZE	1.99	1.95	0.00	3.43
INDCOMSIZE	0.39	0.33	0.00	0.75
DIVERSITY	0.11	0.00	0.00	1.00
FIRMSIZE	28.58	28.57	17.98	39.57
LEV	0.58	0.49	0.00	2.91
ROA	0.06	0.03	-0.91	0.96
LOSS	0.26	0.00	0.00	1.00
CASHTA	0.12	0.07	0.00	0.99
BIG4	0.36	0.00	0.00	1.00

Table 4 shows the results of mean tests between companies whose CEOs obtained their education from internationally ranked universities and companies whose CEOs earned their degrees from unranked universities. The average values for *ETHICS_TERM* and *ETHICS_CODE* are significantly higher (p<0.01) in companies whose CEOs were educated at internationally ranked universities (46.83 vs 28.86 and 3.83 vs 2.55). These differences are consistent with Hypothesis 1 and, in fact, show that ethics disclosures are over 50% higher in companies whose CEOs graduated from internationally ranked universities. These figures, however, do not control for other differences in CEO and firm characteristics. For example, the table shows that CEOs who graduated from internationally ranked universities have a higher level of education, are younger, are more likely to be female and have shorter tenure in their roles. Their firms are bigger, have bigger boards, are more likely to hire a Big4 auditor and have higher cash holdings. Differences in other variables are not significant. These differences will be controlled for in our multivariate analysis to more cleanly measure the effect of CEO education from internationally ranked universities on company ethics disclosures.

Table 4. Mean T-tests of CEO Education from Internationally Ranked Universities

	CEO education from internationally ranked university	**CEO education from non-ranked university**	**Difference**
ETHICS_TERM	46.83	28.86	17.97^{***}
ETHICS_CODE	3.83	2.55	1.28^{***}
CEO_EDU_LEVEL	1.46	1.08	0.38^{***}
CEOAGE	3.95	3.99	-0.04^{***}
CEOGENDER	0.09	0.06	0.03^{***}
CEOTENURE	6.52	8.90	-2.37^{***}
BOARDSIZE	2.02	1.98	0.04^{***}
INDCOMSIZE	0.39	0.39	0.00
DIVERSITY	0.11	0.11	0.00
FIRMSIZE	28.84	28.40	0.44^{***}
LEV	0.58	0.58	0.00
ROA	0.06	0.06	0.00
LOSS	0.27	0.26	0.01
CASHTA	0.13	0.11	0.02^{***}
BIG4	0.42	0.33	0.09^{***}
N	1,639	2,480	

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

4.2 Main Results

In Table 5 we present the results of our main models, relating ethics disclosures to CEO education from internationally ranked universities. In the first specification, examining ethics term disclosures, we find a significant positive coefficient on CEO_EDU_RANKD (4.66, $p<0.05$). Consistent with Hypothesis 1, this result shows that disclosure of ethics terms in annual reports is significantly higher in firms whose CEOs graduated from universities ranked by the QS World University Rankings. For comparative purposes, this would suggest that the ethics term disclosures of the median firm in our sample would increase by 4.66/13.00 = 36% if the CEO was educated at an internationally ranked university. In the second specification, examining ethics-code word disclosures, we find a significant positive coefficient on CEO_EDU_RANKD (0.35, $p<0.05$). This confirms that CEOs who graduated from universities ranked by QS World University Rankings also disclose more ethics-code words in their annual reports. For comparison, this result suggests that the ethics-code word disclosures of the median firm in our sample would increase by 0.35/1.00 = 35% if the CEO was educated at an internationally ranked university.

In the third specification, we find a significant positive coefficient on CEO_EDU_RANKC (2.17, $p<0.10$). This result is consistent with Hypothesis 2 and indicates that ethics-term disclosures in annual reports are higher when CEOs obtained their degrees from better ranked universities. In specification 4, we also find a significant positive coefficient on CEO_EDU_RANKC (0.21, $p<0.05$). This confirms our hypothesis and shows that ethics-code word disclosures in annual reports are also higher when CEOs obtained their degrees from better ranked universities.

Thus, we find support for both Hypothesis 1 and Hypothesis 2. We find that ethics disclosures in annual reports in Indonesia are significantly higher in firms whose CEOs graduated from universities ranked by the QS World University Rankings, compared to firms whose CEOs graduated from non-ranked universities. We also find that ethics disclosures in annual reports in Indonesia are higher when CEOs obtained their degrees from better ranked universities. This confirms that there is also variation within internationally ranked universities, with better ranked universities having a stronger relationship with ethics disclosures.

These results add to the literature by showing it is not just the level of CEO education that is related to corporate ethics disclosures, but the quality of that education matters as well. Our results also complement other recent research which finds that CEO education quality is also important in climate change and ESG disclosures (Nathalia and Setiawan, 2022; Ulinnuha et al., 2024).

Together, these findings indicate that CEO experiences during their undergraduate and postgraduate education, particularly at better ranked universities, have a lasting impact and are reflected in their strategies and decision-making as CEOs. This is an important factor to consider when companies are making CEO hiring decisions in markets such as Indonesia.

The results for the control variables show that education level of the CEO is also positively related to ethics disclosures. This indicates that for CEOs, both the level of education and the ranking of the institution granting the degree are important in explaining ethics disclosures. We pursue more analysis of this in section 4.4. For the other control variables, we find positive coefficients on FIRMSIZE and CASHTA, and negative coefficients on CEOTENURE, INDCOMSIZE, LEV and LOSS. The coefficients on BOARDSIZE and ROA are mixed. These results indicate that bigger firms and firms with more cash holdings have more ethics disclosures. However, firms making a loss, firms with higher leverage, firms with more independent boards and firms with longer CEO tenure have less ethics disclosures. These results are largely consistent with previous studies conducted by Loughran et al. (2009), Persons (2009), and Waweru (2020). For instance, the finding that larger companies exhibit a greater inclination to adopt ethical practices can be linked to prior research results that indicate that companies with greater resources tend to be more proactive in implementing ethical practices. Similarly, the finding that companies experiencing losses or with long-tenured CEOs tend to have different priorities in ethical practices aligns with Persons' (2009) study. Furthermore, the negative relationship between board independence and ethical disclosure mirrors a similar pattern to the findings reported by Loughran et al. (2009), suggesting that poorly governed companies are inclined to use ethical disclosures to enhance their reputation.

Table 5. CEO Education from Internationally Ranked Universities and Ethics Disclosures

	(1) *ETHICS_TERM*	(2) *ETHICS_CODE*	(3) *ETHICS_TERM*	(4) *ETHICS_CODE*
CEO_EDU_RANKD	4.66^{**}	0.35^{**}		
	(2.45)	(1.98)		
CEO_EDU_RANKC			2.17^{*}	0.21^{**}
			(1.95)	(2.02)
CEO_EDU_LEVEL	6.64^{***}	0.41^{***}	6.79^{***}	0.40^{***}
	(5.40)	(3.53)	(5.54)	(3.52)
CEOAGE	-5.54	0.16	-5.59	0.18
	(-1.41)	(0.41)	(-1.42)	(0.47)

CEOGENDER	2.02	0.53	2.03	0.52
	(0.55)	(1.36)	(0.55)	(1.34)
CEOTENURE	-0.43***	-0.01	-0.43***	-0.01
	(-5.03)	(-0.20)	(-5.07)	(-0.23)
BOARDSIZE	5.75*	-0.66**	5.87*	-0.66**
	(1.87)	(-2.16)	(1.90)	(-2.16)
INDCOMSIZE	-15.65**	-0.71	-15.75**	-0.70
	(-2.52)	(-1.19)	(-2.54)	(-1.18)
DIVERSITY	-5.25***	-0.13	-5.28***	-0.12
	(-3.29)	(-0.62)	(-3.31)	(-0.62)
FIRMSIZE	8.44***	0.42***	8.43***	0.42***
	(11.62)	(7.22)	(11.60)	(7.21)
LEV	0.01	-0.01***	0.01	-0.01***
	(0.71)	(-3.85)	(0.75)	(-3.80)
ROA	0.01*	-0.01***	0.01	-0.01***
	(1.69)	(-2.94)	(1.63)	(-2.96)
LOSS	-4.32**	-0.11	-4.30**	-0.11
	(-2.22)	(-0.58)	(-2.21)	(-0.59)
CASHTA	17.24**	0.21	17.44**	0.21
	(2.48)	(0.33)	(2.51)	(0.33)
BIG4	1.38	0.43**	1.44	0.42**
	(0.62)	(2.15)	(0.65)	(2.14)
Constant	-229.62***	-11.44***	-224.60***	-11.06***
	(-9.70)	(-5.51)	(-9.57)	(-5.36)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
r2	0.19	0.17	0.18	0.17
N	4,119	4,119	4,119	4,119

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

4.3 Robustness Tests

To ensure the robustness of our results, we repeat our analysis using Coarsened Exact Matching (CEM), Propensity Score Matching (PSM), Generalized Method of Moments (GMM) and Heckman Two-stage Models. These approaches help to address selection issues and omitted variable bias. CEM and PSM reduce the differences in observable (and potentially unobservable) characteristics between companies with and without CEOs with degrees from internationally ranked universities. GMM helps to separate the estimation bias caused by endogeneity, ensuring the accuracy and robustness of our results. The Heckman Two-stage Model uses an instrumental variable and a two-stage approach to help alleviate selection bias. These robustness tests are important as it may be the case that companies do not randomly select their CEOs. For example, companies with more ethics disclosures may be more (or less) likely to hire CEOs with degrees from internationally ranked universities. These robustness tests are run using the full models, with only the results for our main variables of interest presented in the tables below.

Table 6 provides the results for CEM. This approach reduces our sample size (to 4,013 observations) to better match our sample and control observations. In specifications 1 and 2, the coefficients on CEO_EDU_RANKD are positive and significant at the 1% and 5% levels. In specifications 3 and 4, the coefficients on CEO_EDU_RANKC are positive and significant at the 5% level. Therefore, these results are consistent with those previously reported.

Table 6. Robustness Tests using Coarsened Exact Matching (CEM)

	(1) *ETHICS_TERM*	*(2)* *ETHICS_CODE*	*(3)* *ETHICS_TERM*	*(4)* *ETHICS_CODE*
CEO_EDU_RANKD	5.17^{***}	0.35^{**}		
	(2.66)	(1.97)		
CEO_EDU_RANKC			2.41^{**}	0.22^{**}
			(2.12)	(2.04)
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
r2	0.185	0.169	0.184	0.169
N	4,013	4,013	4,013	4,013

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 7 provides the results for PSM. This approach substantially reduces our sample size to ensure there are no significant differences in other characteristics between our sample and control observations. In specifications 1 and 2, the coefficients on CEO_EDU_RANKD are positive and significant at the 5% level. In specifications 3 and 4, the coefficients on CEO_EDU_RANKC are positive and significant at the 1% and 5% levels. Thus, these results are also consistent with those previously reported.

Table 7. Robustness Tests using Propensity Score Matching (PSM)

	(1) *ETHICS_TERM*	*(2)* *ETHICS_CODE*	*(3)* *ETHICS_TERM*	*(4)* *ETHICS_CODE*
CEO_EDU_RANKD	4.75^{**}	0.14^{**}		
	(1.98)	(2.53)		
CEO_EDU_RANKC			8.42^{***}	0.14^{**}

			(3.22)	(2.58)
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
r2	0.16	0.10	0.15	0.10
N	2,246	1,214	1,812	1,214

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 8 provides the results using GMM. GMM is a robust and efficient estimation method, particularly when dealing with endogenous variables. In specifications 1 and 2, the coefficients on CEO_EDU_RANKD are positive and significant at the 10% and 5% levels. In specifications 3 and 4, the coefficients on CEO_EDU_RANKC are positive and significant at the 10% and 1% levels. Thus, these results are also consistent with our hypotheses.

Table 8. Robustness Tests using Generalized Method of Moments (GMM)

	(1) *ETHICS_TERM*	*(2)* *ETHICS_CODE*	*(3)* *ETHICS_TERM*	*(4)* *ETHICS_CODE*
CEO_EDU_RANKD	2.87^{*}	0.44^{***}		
	(1.82)	(3.19)		
CEO_EDU_RANKC			1.66^{*}	0.28^{***}
			(1.75)	(3.41)
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	4,119	4,119	4,119	4,119

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 9 provides the results of the Heckman two-stage model. The instrumental variable (MEAN_RANK) is the industry-average of the CEO education from internationally ranked universities variable. We believe that this is a valid instrument as we expect a positive correlation between a CEO's education and the education of competitor CEOs in the same industry. However, we do not expect the education of competitor CEOs in the same industry to be related to the corporate ethics disclosures of the CEO's particular firm. The results of the first stage shows that MEAN_RANK is positive and significant at the 1% level, indicating that it is a valid instrument. The coefficients on the second stage models for CEO_EDU_RANKD and CEO_EDU_RANKC are all positive and significant, and consistent in size and significance with the previous results.

Table 9. Robustness Tests using Heckman Two-stage Models

	First-stage	***Second-stage***			
	(1)	*(2)*	*(3)*	*(4)*	*(5)*
	CEO_EDU_RANK	*ETHICS_TERM*	*ETHICS_CODE*	*ETHICS_TERM*	*ETHICS_CODE*
MEAN_RANK	0.31^{***}				
	(3.98)				
CEO_EDU_RANKD		4.67^{**}	0.35^{**}		
		(2.44)	(2.02)		
CEO_EDU_RANKC				2.18^{*}	0.22^{**}
				(1.94)	(2.06)
Controls	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
r2	0.22	0.21	0.15	0.21	0.15
N	4,119	4,119	4,119	4,119	4,119

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

4.4 Additional Analysis

Our main results in Table 5 indicate that the education level of the CEO and the quality of the institution that the CEO graduated from are both related to ethics disclosures. This result raises the question as to whether there may be differences in our results for CEOs who obtained their undergraduate and/or postgraduate degrees from internationally ranked universities. We therefore split our independent variables by the level of education. CEO_D_UNDER and CEO_D_POST are dummy variables to identify CEOs who obtained their undergraduate and postgraduate degrees from internationally ranked universities, respectively. CEO_C_UNDER and CEO_C_POST are continuous variables of the university rankings for the institutions where CEOs obtained their undergraduate and postgraduate degrees, respectively.

Table 10 provides the results of this analysis. In the first specification, the coefficient on CEO_D_UNDER is 4.58 ($p<0.05$) and the coefficient on CEO_D_POST is 8.44 ($p<0.01$). These results are consistent with Hypothesis 1 and show that both CEO undergraduate and postgraduate education from internationally ranked universities are associated with more ethics disclosures in annual reports. However, the magnitudes of these effects are different. For our median firm, CEO undergraduate education from an internationally ranked university is associated with 35%

(4.58/13.00) higher ethics disclosures. CEO postgraduate education from an internationally ranked university is associated with 65% (8.44/13.00) higher ethics disclosures.

The results for specifications 2 to 4 also confirm that the relationship between CEO postgraduate education from internationally ranked universities and ethics disclosures is larger and more significant than the relationship for undergraduate education. The coefficients on CEO_D_POST and CEO_C_POST are positive and significant in all specifications. Thus, our analysis suggests that ethics disclosures in annual reports are the highest for companies whose CEOs obtain their postgraduate education from internationally ranked universities and better ranked universities.

Table 10. Additional Analysis using Undergraduate and Postgraduate Education of CEOs

	(1) *ETHICS_TERM*	*(2)* *ETHICS_CODE*	*(3)* *ETHICS_TERM*	*(4)* *ETHICS_CODE*
CEO_D_UNDER	4.58^{**}	0.31^{*}		
	(2.23)	(1.68)		
CEO_D_POST	8.44^{***}	0.78^{***}		
	(2.96)	(3.02)		
CEO_C_UNDER			2.10	0.23^{**}
			(1.60)	(2.02)
CEO_C_POST			5.09^{***}	0.45^{***}
			(2.83)	(2.82)
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
r2	0.18	0.17	0.19	0.16
N	4,119	4,119	4,119	4,119

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

5. Conclusion

Ethics disclosures are important to capital markets, yet they remain in their infancy in many countries due to a lack of specific regulatory requirements. This means companies have substantial latitude in when, where and how much they choose to disclose about the ethics practices in their organizations. In this voluntary setting, it is important to understand the characteristics of companies and company leadership that are related to ethics disclosures. Therefore, in this study we examine whether the level and quality of a CEO's education is related to corporate ethics disclosures.

More specifically, we examine whether CEOs with degrees from internationally ranked universities are associated with more ethics disclosures in annual reports. Higher ranked universities provide greater exposure to business ethics in the curriculum and CEOs who graduate from higher ranked universities have enhanced reputation capital. The experiences from their social and educational environment at higher ranked universities and their desire to protect their reputation capital provide CEOs with a greater incentive to adopt ethical practices in their organizations and enhance their companies' ethics disclosures. The results of our analysis using a sample of Indonesian companies from 2010 to 2022 show that companies whose CEOs graduated from higher ranked universities have more corporate ethics disclosures. Furthermore, these ethics disclosures are more extensive for CEOs with postgraduate degrees from better ranked universities.

The findings of this study offer several implications. Our findings support upper echelon theory with regards to the role of top management in influencing corporate willingness on ethics disclosures. We progress the literature by showing that both the level of education and the quality of the universities that CEOs graduate from do matter in explaining corporate ethics disclosures. This result complements other contemporaneous work that has found connections between the education quality of CEOs and other corporate outcomes, including company working environments (Aini et al., 2024), corporate capital structure (Madyan et al., 2023), climate change disclosures (Nathalia and Setiawan, 2022) and ESG disclosure (Ulinnuha et al., 2024). Together, these results indicate that CEO experiences during their undergraduate and postgraduate education, particularly at better ranked universities, have a lasting impact and are reflected in their strategies and decision-making as CEOs. Also, by focusing specifically on disclosures of ethics-related terms in annual reports, this paper adds to the disclosure literature and enhances our understanding of the breadth and depth of corporate ethics disclosures in Indonesia.

In terms of practical implications, our findings highlight an important selection criterion for CEO appointments in companies in Indonesia, which may also be relevant to other emerging markets, where ethics disclosures are voluntary and business ethics practices are developing over time. Our findings suggest that internationally ranked universities produce graduates with strong ethical values, through their curriculum and their social environment, and hence the universities where CEOs graduate from should be considered an important CEO selection criterion. Furthermore, this is an easily identifiable characteristic of CEOs. It simply involves checking where the CEO graduated from and looking up the ranking of that institution. Our findings are also an important input to national regulators and professional bodies in the enhancement of policies associated with ethical corporate conduct, including corporate governance and stock market listing requirements or other forms of regulatory mechanisms that can assure the commitment of companies to ethics disclosures. We find that better educated CEOs, in terms of education level and quality, are beneficial in these areas.

Several limitations of our study provide valuable suggestions for future research. While we believe the ethics disclosures provided by companies in our sample are genuine and represent a commitment to ethical business practices, we cannot rule out the possibility that they are simply window-dressing. If this is true, education at higher ranked universities may also have enhanced the ability of CEOs to use ethics disclosures to distract and mislead stakeholders. Future research can help to tease out these competing explanations. Further, we employ the ethic-related terms of Loughran et al., (2009) to measure ethics disclosures. Future research could attempt to develop their own ethics disclosure index, such as the approach undertaken by Abidin et al., (2017) and Joseph et al., (2022), to measure ethics disclosures that relate to the institutional setting and the current landscape in business ethics practices.

Finally, this study employs the institutional setting of Indonesia, a market where ethics disclosures are important but remain voluntary. Indonesia also provides an important testing field to explore ethics due to it being an emerging market with a high risk of corporate misconduct. For future research, an approach can be made for comparative analysis among the ASEAN countries and other emerging markets with the aim of identifying collaborative policy that could nurture commitments towards corporate ethics disclosures. Attempts can also be made to investigate ethical commitments among small and medium size enterprises (SMEs), since SMEs are major contributors to the economy in most emerging countries and incidences of misconduct can have severe impacts on them and the entire national economy (Zainal et al., 2022).

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Endnotes

[1] To confirm a positive link between higher ranked universities and business ethics in the curriculum we compared the number of business ethics classes/subjects in the curriculum at different institutions. We found an average of 4.9 business ethics classes in the top 10 ranked universities by QS World University Rankings, an average of 1.6 ethics classes in universities around the top 100, and an average of 0.6 ethics classes in universities around the top 500.