

A dilemma between firm survivability and business ethic in Indonesia

Ari Kuncoro, author

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Abstrak

ABSTRACT

For a private firm the primary concern of stakeholders from management, employees and shareholders is sustainability. Not so much about ethics, particularly if survival is at stake. Business environment however is not always friendly. Uncertainty could come from government regulations. Many regulations are created to correct for negative externalities from private firm operation. Facing the possibility of business stoppage, many firms would have no choice but to pay grease money to speed up the process.

One example of regulation that may have adverse impact on manufacturing is import restriction or import licensing on vital imported inputs. In order to produce high quality product firms often have import critical inputs simply because the domestic industry is unable to meet the quality or simply it does not exist.

Particularly so is an export-oriented firm that has to compete in the global market.

Interestingly, import bans, import restrictions and other types of quantitative restrictions may not be binding. The execution of prohibitive regulations is mainly in the hand of lower level bureaucrats. With weak supervision from the upper echelon, private firms with their survivability at stake may have to forego "ethics" by bribing lower level bureaucrats in order to obtain vital inputs.

Using the annual survey of Indonesia manufacturing we examine the behaviour of manufacturing in the post-commodity boom era after 2012 when the country is becoming more protectionist. The initial hypothesis suggests that exporting firms use imported inputs proportionally higher than non-exporters. As a result, when the government restricted import in the post commodity boom era, the proportion of bribe and representation expense is higher than their non-exporting counterparts. This behaviour is also observed when instead, FDI versus non FDI firms are compared. Overall there is no increase on the firm export orientation.