

The Indonesian government's coercive pressure on labour disclosures: conflicting interests or government ambivalence?

Author Details

Author 1: Fitra Roman Cahaya*

Accounting Department, Faculty of Economics, Universitas Islam Indonesia, Indonesia

Fitra Roman Cahaya is a Lecturer at Universitas Islam Indonesia in Indonesia.

*Corresponding author. Email: roman.cahaya@uii.ac.id

Author 2: Stacey Porter

School of Accounting, Curtin University, Australia.

Stacey Porter is an Adjunct Associate Professor in the School of Accounting, Curtin University.

Author 3: Greg Tower

School of Accounting, Curtin University, Australia.

Greg Tower is an Adjunct Professor in the School of Accounting, Curtin University.

Author 4: Alistair Brown

School of Accounting, Curtin University, Australia.

Alistair Brown is an Associate Professor in the School of Accounting, Curtin University.

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Abstract

Purpose – This study focuses on corporate social responsibility and workplace wellbeing by examining Indonesian Stock Exchange (IDX) listed companies' labour disclosures.

Design/methodology/approach – Year-ending 2007 and 2010 annual report disclosures of 31 IDX listed companies are analyzed. The widely acknowledged Global Reporting Initiative (GRI) guidelines are used as the disclosure index checklist.

Findings - The results reveal that the overall labour disclosure level increases from 21.84% in 2007 to 30.52% in 2010. The levels of four of the five specific labour disclosures also increase with *Employment* being the exception. The results further show that the Indonesian government does not influence the increase in the levels of the overall labour disclosure or the four categories showing increased disclosure but, surprisingly, does significantly affect the decrease in the level of the *Employment* category.

Research limitations/implications - It is implied that the government is at best ambiguous given that, on one side, the government regulates all corporate social responsibility (CSR) activities and reporting but appears to *coercively* pressure companies to hide *Employment* specific issues.

Practical implications – It is implied that Indonesian companies need to have 'strong and influential' independent commissioners on the boards to counter any possible pressures from the government resulting in lower disclosure levels.

Originality/value – This paper provides insights into the 'journey' of labour-related CSR disclosure practices in Indonesia and contributes to the literature by testing one specific variant of isomorphic institutional theory namely *coercive isomorphism*.

Keywords Social accounting, Developing country, Labour disclosures, *Coercive isomorphism*, Global Reporting Initiative.

Paper type Research paper

Introduction

The Indonesian government has been formally regulating corporate social responsibility (CSR) practices and reporting for all limited companies for more than 5 years. On 16 August 2007, Act No. 40/2007 was released, requiring all companies to communicate their CSR activities in their annual reports (Pemerintah Republik Indonesia, 2007)¹. This Act strengthens the Indonesian Capital Market and Financial Institution Supervisory Agency (Badan Pengawas Pasar Modal dan Lembaga Keuangan)² 2006 regulation which specifically requires listed companies to disclose CSR activities in their annual reports (Badan Pengawas Pasar Modal dan Lembaga Keuangan 2006). Although CSR-related regulations have been further strengthened, the regulations still do not specify the types of CSR disclosures that must be provided and thus it is still left largely to company discretion.

On the surface, CSR practices and reporting in Indonesia have consistently been improving evidenced by the findings in this paper, media articles (newspaper and the online website) and recently published academic articles. During October 2011, for instance, Budiman (2011) notes that some companies such as Astra Toyota provided University scholarships to students in some Indonesian cities with some institutions also organizing CSR-related reporting awards to companies. The Indonesian Institute of Accountants (IAI) now awards points for companies participating in their Annual Report Award which provides CSR disclosure in line with Global Reporting Initiative (GRI) guidelines (Ikatan Akuntan Indonesia, 2012). Another annual report CSR disclosure award is conducted by the National Center for Sustainability Reporting in this emerging country (National Center for Sustainability Reporting, 2011).

Indonesia itself is also now playing an important role in the global arena. The headquarters of the Association of Southeast Asian Nations (ASEAN), for example, is located in Jakarta, the

capital of Indonesia. The US Secretary of State Hillary Clinton highlights Indonesia's recent contribution in ASEAN, particularly in moderating tensions in the South China Sea case³ (Saragih and Ririhena, 2012). Indonesia is also an active member of the East Asia Summit (EAS) as well as the Group of 20 (G20) (Pakpahan, 2012). Unlike many countries which have suffered under the current global financial crisis, the Indonesian economy is booming with the economy continuing to grow at more than 6 % per annum (Allen, 2013). A recent report by the McKinsey Global Institute even predicts that this developing nation will potentially become the world's seventh-biggest economy by 2030 (Allen, 2013).

The Indonesian private sector's contribution to the global market and competition continues to expand through opening foreign branches, having foreign subsidiaries, or exporting their products (Lecraw, 1993, Hill, 2008). The labour market continues to improve with employment rising annually by approximately 3.2% since 2006 (International Labour Organization, 2012). Although Indonesia has benefited economically through globalisation, ironically, there are still complex social problems with evidence of continued violations in the workforce despite Indonesia's labour laws and ratification of the International Labour Organisation (ILO) Core Conventions of labour rights. There remain huge numbers of work accidents, inequality of remuneration, age based discrimination, and child labour (see International Labour Organization, 2012). Caraway (2010) argues that while Indonesia appears to have a high compliance of labour standards with ILO conventions (88.6%), the actual practice is much lower (66.6%), with similar results for labour standards between law and in practice.

Incorporating Caraway's study, Stalling (2010, p. 136), examined the de jure and de facto scores for labour flexibility and labour standards across four regions and posits that "all kinds

of labor rights are greater on paper than in reality because of lack of enforcement”. This is further reinforced with evidence from Indonesia showing that workers are often employed without any clear contracts, required to work very long hours without enough pay, or fired without any clear reasons (Sprague, 2009; Hadiprayitno, 2010) and there appears to be little recourse under the controversial Manpower Act No. 13/2003 or through the fragmented and relatively weak Indonesian Unions (Collins *et al.*, 2011). This is particularly relevant to domestic workers, who largely “fall outside formal regulatory systems ... [and are] regulated by trust alone” (International Labour Organization, 2006, p. 7). There is also a huge difference in the amount of salary between employees in high and low level positions. In the Indonesian finance industry, for example, the minimum salary for an accounts clerk is 2,000,000 Rupiah/month whereas the minimum salary for a finance manager is ten times higher at 20,000,000 Rupiah/month⁴ (Kelly Services, 2009). Such a gap places workers in a far weaker position *vis á vis* the companies (Indonesia Labour Foundation, 2008).

Theoretically, employees are critical components of CSR and the relationship between employees and their employers is deemed as a key precondition of CSR (Johnston, 2001). However, the continued existence of labour-related problems indicates that Indonesian companies do not undertake labour-related programs as part of their CSR. Instead, they focus on donations and ‘green’ actions ostensibly to mislead stakeholders or to build a good corporate image (see Budiman, 2011). A previous study on labour-related CSR reporting by Cahaya *et al.*, (2012) shows that the level of Labour Practices and Decent Work Disclosures (LPDWD) in 2007 in Indonesia is low. Given that there seems to be an improvement of CSR reporting practices since the issuance of CSR-related regulations it is considered important to examine the ‘journey’ of the level of LPDWD in the last couple of years. This paper focuses on the disclosure of labour standards and labour flexibility in Indonesia. Specifically, this

paper aims to examine the extent of change in the level of Indonesian listed companies' labour disclosures over time and the Indonesian government's influence on the changes in the extent of those disclosures.

This study is important for several reasons. Firstly, it provides insights into the labour-related CSR disclosure practices in a developing country. As reviewed by Stalling (2010, p. 132) studies on labour standards and labour flexibility have focused on "labor market characteristics", specific labour issues and methodological issues and "labor market policies in developing countries". There has been little research on company disclosures of labour issues in developing countries with most previous studies on CSR reporting focusing on the whole set of CSR disclosure components encompassing the environment, human rights, society, and product responsibility (see for example Islam and Deegan, 2010; Othman *et al.*, 2011). Other studies have examined employees as one element of intellectual capital (see for example White *et al.*, 2010; Farooq and Nielsen, 2014), however, the Indonesian government consider employees under their regulations on CSR and this is supported by Gray *et al.* (1995) who argue that workers themselves feature in the mainstream definitions and criteria of CSR. This study is also important as it analyzes the changes in the levels of LPDWD over time, from 2007 and 2010. It is expected that such an analysis best describes the development or the 'journey' of LPDWD practices by Indonesian companies, particularly after the issuance of CSR-related regulations in 2006 and 2007 and the introduction of the first annual green awards in 2011, where were based on 2010 social and environmental performance. Lastly, it contributes to the social accounting literature by testing one specific variant of institutional theory, which is *coercive isomorphism*. Institutional theory is concerned with how organizations structure themselves to gain acceptance and legitimacy with organizations becoming 'isomorphic' in an attempt to achieve legitimacy (DiMaggio and Powell, 1983).

Coercive isomorphism results from both formal and informal pressures exerted by other organizations ... as well as cultural expectations (DiMaggio and Powell, 1983, p.149) and in the context of this study represents the formal pressure of the Indonesian government on listed companies to disclose labour practices. Arguably, such a test can provide deeper insights into the potential pressures of powerful stakeholder groups in this emerging country. In particular, by adopting institutional theory, this study captures the institutional process by which LPDWD adapts and changes in Indonesian companies.

This paper is organized as follows. Section 1 provides an overview of the study, including the importance of the study. Section 2 reviews previous literature and discusses the theoretical framework. The research methodology is presented in Section 3. Section 4 outlines the statistical results. This is followed by Section 5 which discusses the results, the implications, and the conclusions of the results.

Literature review and theoretical framework

Before the 1990s, the emphasis of labour reporting studies (e.g. Pound, 1980; Webb and Taylor, 1980; Craig and Hussey, 1982) focused mainly on the provision of reports by companies to their employees, not on companies' official annual reports. The reports contain information about the companies themselves such as references to organization objectives, simplified balance sheets, and data about shareholders (Webb and Taylor, 1980). Such reports, which are actually not common in Indonesia, are labeled as employee reports (Guthrie and Mathews, 1985).

Most papers in the current social accounting literature do not focus on labour-related disclosures but instead deal with a whole set of social or environmental disclosure issues, including specific issues of carbon and climate change (see for example Jenkins and Yakovleva, 2006; Bebbington and Larrinaga-González, 2008; Kolk *et al.*, 2008; Othman *et al.*, 2011). However, this paper notes four important recent research papers which look at disclosures of companies' policies on employees. These studies include Brown, Tower, and Taplin (2005), Vuontisjärvi (2006), Alvarez (2007)⁵, and Cahaya *et al.* (2012).

Brown *et al.* (2005) investigated human resources disclosure (HRD) practices in 110 annual reports of Pacific Island countries (PIC) and compared and contrasted PIC users and preparers needs of HRD. The countries examined were Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Four independent variables (ethnic background, industry type, entity type, and company size) were tested within the framework of stakeholder theory, legitimacy theory, and contingency theory⁶. HRD was measured by an eight-item-based unweighted disclosure index. The results indicated that the level of HRD was low with a decreasing value from 45% in 1997 to 38% in 1999. The most disclosed item was *Training Initiatives* at 68% while the least disclosed item was *Industrial Relations* at 13%. No proposed independent variables were found to be significant. Interestingly, the users and preparers' perceptions on the importance of HRD, which were obtained from almost 1,000 mailed surveys, were not significantly different.

Vuontisjärvi (2006) explored human resource (HR) reporting practices of 160 biggest Finnish companies. Content analysis was utilized to examine the presence or absence of ten HR themes in those companies' annual reports. As this was a purely descriptive study, no explanatory variables were tested. The author did not explicitly mention any underlying

theory. Vuontisjärvi (2006) found that *Training and Staff Development* was the most disclosed theme with 79% of sample companies disclosing that theme. In contrast, *Work-life Balance* was the least disclosed theme with only 4% of sample companies communicating that theme in their annual reports.

Alvarez (2007) examined human resource practices of 105 Madrid Stock Exchange listed companies and the determinants of those practices. The possible determinants tested were firm characteristics including; company size, leverage, ownership concentration, type of industry, profitability, and intangibles investment. This Spanish-based study employed content analysis for measuring the disclosure practices. The disclosure practices examined included the overall disclosure itself (consisting of three main themes: *Human Capital Information*; *Social Information*; and, *Ethical Information*) and specific examinations on each of the three main human resource disclosure themes. Similar to Vuontisjärvi (2006), the author did not explicitly state the theory. The results indicated that, overall, the level of human resource disclosure was 61.33 sentences⁷. The most disclosed theme was *Human Capital Information* while the least disclosed theme was *Ethical Information*. Company size and leverage were found to be significant predictors of human resource disclosures in a positive direction while intangibles investment was significant in a negative direction.

Cahaya *et al.* (2012) examined the extent of voluntary Labour Practices and Decent Work Disclosures (LPDWD) in Indonesia Stock Exchange (IDX) listed companies' annual reports under the umbrella of isomorphic institutional theory. 223 annual reports for the 2007 financial year were analyzed using the LPDWD component of the 2006 Global Reporting Initiative (GRI) guidelines as the benchmark disclosure index checklist. The descriptive results showed a low level of voluntary disclosure (17.7%). Multiple regression results

revealed that government ownership and international operations are positively significant predictors of 'labour' communication. The overall results suggested that the variability of labour disclosures in Indonesia was partially explained by *isomorphic* institutional theory.

In addition to the above four research papers, there are a number of studies examining intellectual capital (IC) disclosure (e.g. Abeysekera and Guthrie, 2005; White *et al*, 2010; Lee, Neilson, Tower and Van der Zahn, 2007; Singh and Van der Zahn, 2009; Farooq and Nielsen, 2014). Arguably, the categorization between IC disclosure and labour-related CSR disclosure is complex and overlapping. This is evidenced by the fact that some of the disclosure items within the two are similar (see for example training and employee safety in Abdolmohammadi, 2005; Abeysekera, 2007). Vuontisjärvi (2006), however, points out that IC disclosure and labour-related CSR disclosure (which is labeled as Labour Practices and Decent Work Disclosures (LPDWD) in this paper) are essentially different. IC disclosure focuses on information about knowledge and skills of employees (intangible assets) and how these contribute to the performance of the organization whereas employee-related CSR disclosure focuses on information regarding the social impacts of companies' policies on employees (Vuontisjärvi, 2006). This paper examines the latter concept (LPDWD) as this subset of CSR reporting is still under-researched.

This paper adopts one specific variant of *isomorphic* institutional theory namely *coercive isomorphism* as the underlying theoretical framework. *Isomorphic* institutional theory itself is the process by which an organization adapts to particular practices due to institutional pressures (DiMaggio and Powell, 1983). According to DiMaggio and Powell (1983), there are three isomorphic 'pressures' potentially undertaken by organizations in an attempt to

achieve legitimacy, *coercive isomorphism*, *mimetic isomorphism*, and *normative isomorphism*.

Coercive isomorphism refers to a situation in which organizations adapt to an institutional practice (e.g. LPDWD practices) because of formal and informal pressures exerted by influential stakeholders (DiMaggio and Powell, 1983). *Mimetic isomorphism* is a situation in which organizations copy other organizations' institutional practices for the purpose of legitimacy-related competitive advantages (DiMaggio and Powell, 1983). Normative isomorphism is a situation in which organizations adapt to particular practices due to pressures from group norms such as managers (DiMaggio and Powell, 1983). As this paper focuses on the influence of one influential stakeholder group namely the Indonesian government, it is considered appropriate to adopt coercive isomorphism as the underlying theoretical framework of the study.

The Indonesian government has been regulating CSR practices and reporting by listed companies since 2006 and therefore has a direct influence on company reporting. Due to additional government regulations, this paper, not surprisingly, posits that the level of LPDWD by Indonesian listed companies increases between 2007 and 2010. However, this study also predicts that the government has a *coercive* influence on the type of labour disclosures that companies do or do not report.

Research methodology

A total of 62 companies' data are collected consisting of a random sample of 31 Indonesia Stock Exchange (IDX) listed companies' annual reports for each of the 2007 and 2010 financial years⁸. It is considered timely and important to examine the 'journey' of labour

disclosure practices between 2007 and 2010 because Indonesian CSR-related regulations were released in 2006 and 2007. Then, in 2010, some important and influential CSR organizations were established in Indonesia. These organizations include CSR Indonesia Networks and The La Tofi School of CSR (see CSR Indonesia Networks, 2015; La Tofi, 2015). CSR Indonesia Networks, for instance, organized the first and the second CSR Indonesian Summits in 2010. These events were attended by representatives of Indonesian listed companies. The La Tofi School of CSR also organized the first annual green awards in 2011 which used 2010 performance data as the basis for assessing the social and environmental performance of profit and not-for profit organizations. The implications are that in 2010, there were significant ‘movements’ in CSR practices and therefore the use of 2007 and 2010 disclosure data in this study is considered appropriate.

There are three clear reasons for focusing the research on listed companies. Firstly, in the Indonesian economy, listed companies dominate and play an important role as well as gain considerable interest from key stakeholders such as investors and creditors (Nurhayati, 2005; Okuda and Take, 2005). Secondly, the reporting practices of those companies are much more regulated than unlisted companies. This is because listed companies’ reporting practices must comply with not only the general accounting regulations (accounting standard) but also IDX and Badan Pengawas Pasar Modal dan Lembaga Keuangan reporting regulations. Such a regulatory phenomenon indicates that listed companies produce more refined data than non-listed companies do and provide a more comprehensive overview of the companies’ profile (see Okuda and Take, 2005). Thirdly, data for the listed companies is easier to obtain as listed entities’ annual reports can be accessed directly from the IDX’s website.

Although other CSR research has used separate stand-alone sustainability reports as the source of disclosure data, this medium is not uniformly used by most companies in Indonesia (see Baker and Naser, 2000; Chambers *et al.*, 2003). Although there is a growing number of companies in this developing country producing stand-alone sustainability reports the number is still small⁹ (see Jayaningrat, 2012) and less disclosure information would be available from these limited reports than that available in companies' annual reports.

This paper employs a disclosure index to measure the dependent variable, which is the extent of labour disclosure. It has been noted in a number of studies that a disclosure index is a more suitable technique to be used for measuring the level of disclosure in developing nations (see for example Brown *et al.*, 2005; Nurhayati, Brown and Tower, 2006). This is because the economic, political and social conditions in those nations are very different from those of developed nations (Brown, Tower and Taplin, 2004). The index also avoids penalizing companies for a non-disclosed item when it is not relevant to them (Cooke, 1991; Meek, Roberts and Gray, 1995) and is considered objective¹⁰. Moreover, a disclosure index arguably enables researchers to best gain insight into the level of information disclosed by companies (Cooke and Wallace, 1989; Hossain, Perera and Rahman, 1995). This is because this measurement approach can capture pictures and graphics, which are potentially powerful and highly effective methods of communication (Haniffa and Cooke, 2005). As such, it is considered suitable to employ a disclosure index in this paper.

In a disclosure index, the contents of each annual report are compared to the items listed on a benchmark checklist and coded as 1 or 0, depending upon whether or not the content conforms to the items listed on the checklist (Meek *et al.*, 1995). The benchmark checklist can be generated based on checklists employed in earlier studies using particular accounting

and reporting standards, guidelines, regulations, and discussions with practitioners and experts (Hossain *et al.*, 1995; Meek *et al.*, 1995). A disclosure index for every company is then calculated as the ratio of total score awarded to the company divided by the maximum number¹¹ of items that are applicable to the entity (Meek *et al.*, 1995). As such, the level of disclosure is treated as a continuous variable when it is measured by a disclosure index. To minimize subjectivity, the employed index is unweighted. Each disclosure item in the checklist is therefore deemed equally important to all sample companies.

GRI *Labour Practices and Decent Work* indicators are adopted in this research as the disclosure index checklist. The 2006 GRI *Labour Practices and Decent Work* performance indicators consist of five main categories (*Employment, Labor/Management Relations, Occupational Health and Safety, Training and Education, and Diversity and Equal Opportunity*) and, for the purpose of this paper, are sub-categorized into thirteen items¹². The disclosure indices are developed based on these thirteen items (The details of the items can be found in Appendix A).

The GRI guidelines have been developed by a network-based organization¹³, through a dialogue-based process with global stakeholders from business, investors, community, labour, civil society, accounting, academia, and others (Global Reporting Initiative, 2006, 2010). The guidelines encompass three components of sustainability reporting, which are economic, environmental and social indicators (Global Reporting Initiative, 2010). All of these indicators are subject to testing and continuous improvement (Global Reporting Initiative 2010). The first version of the guidelines was published in 2000 while the most recent version was released in 2013¹⁴ (Global Reporting Initiative, 2013). Data from the GRI

website reveals that there are now more than 4,000 organizations across the globe using the GRI guidelines (see Global Reporting Initiative, 2013).

GRI performance indicators are considered one of the most widely accepted international reporting guidelines (Adams, 2004; Fraser, 2005; Moneva, Archel and Correa, 2006; Crane, Matten and Spence, 2008). The guidelines are also considered applicable and relevant to all organizations, regardless of not only location but also size and type (Global Reporting Initiative, 2010). However, it has been argued that GRI guidelines may not capture all important sustainability reporting items in all countries because there may be different complexities of economic, environmental, and social problems across nations (see O'Neill and Deegan, 2009; Gray, 2010). This argument might have some merit but prominent efforts have been made by GRI to capture all sustainability issues potentially arising in all parts of the world (Crane *et al.*, 2008; Global Reporting Initiative, 2013)¹⁵. As stated previously, the GRI guidelines themselves are continuously improved in accordance with the global stakeholders' feedback and tested. Importantly, these guidelines have been deemed successful in standardizing CSR reporting given the fact that many organizations worldwide use GRI sustainability indicators. It is important to remember that GRI sustainability indicators are only guidelines, not standards. Their application is voluntary. They are considered crucial guidelines given that the other main source for accounting guidance, the International Financial Reporting Standards (IFRS), has been criticized for its silence on important CSR issues such as environmental disclosure requirements (see Porter, Brown, Purushothaman and Scharl, 2006 ; Suhardjanto *et al.*, 2008a).

Prior CSR reporting studies in Indonesia suggest that these guidelines are appropriate to be used in an Indonesian context (see for example Suhardjanto, Tower and Brown, 2008a;

Suhardjanto, Tower and Brown, 2008b). Research has indicated that as there are no clearly detailed CSR guidelines from the Indonesian government or from the Indonesian Institute of Accountants (IAI), that a number of Indonesian companies adopt the GRI guidelines (Lako, 2011; Jalal, 2012). GRI guidelines themselves are currently deemed as the best sustainability guidelines in Indonesia as they offer a comprehensive benchmark for corporations (Lako, 2011; Jalal, 2012). Importantly, in relation to labour disclosures, GRI LPDWD indicators have been developed based on internationally recognized standards including ILO's standards (Global Reporting Initiative, 2013). This paper therefore adopts GRI performance indicators as the benchmark disclosure checklist.

As this study focuses exclusively on the changes in the labour disclosure level over time and the influence of the Indonesian government on those changes, only one independent variable namely government ownership is employed and examined. While ownership and enforcement of regulations are not necessarily synonymous, there is no delineation in Indonesia. There are currently 31 ministries and all are answerable to the Indonesian President. However, government ownership of listed companies remains with the national government, and not any of the individual Ministries. These agencies can apply pressure on companies to undertake particular actions, for example, the Ministry of Manpower may want listed government owned entities to provide internationally certified employee training programs for their works, but this will only happen with the agreement of the President. Although advice from the other Ministries may be taken into account, the President does have veto powers. Various agencies are responsible for monitoring compliance with certain regulations such as the Ministry and Manpower who is responsible for employers' compliance on labour-related regulations (see Pemerintah Republik Indonesia, 2014). On behalf of the national government, particular government agencies (such as the courts) implement and impose

penalties for any breach of compliance as determined by the applicable Acts. Thus, the national government is the owner of government listed companies and, albeit indirectly, the enforcer of regulations such as labour related practices.

In prior literature, government ownership can be measured using a dichotomous scale, coded as 1 (one) if there is an existence of government ownership in a company or 0 (zero) if otherwise, or the percentage of government ownership (Firer and Williams, 2005; Cheng and Courtenay, 2006; Amran and Devi, 2008; Isack and Tan, 2008). This paper adopts the former because, in Indonesia, government ownership often does not exist in every company (see Adnan and Nankervis, 2003; Cahaya *et al.*, 2012).

Having presented the sample, the data collection, the period of examination, and the measurement techniques, the following section reports the results of the statistical data analysis. To answer the research questions, this paper uses descriptive statistics and *t*-test¹⁶.

Statistical results

Table 1 shows the levels of LPDWD by IDX listed companies in 2007 and 2010, the changes in the extent of LPDWD from 2007 to 2010, and the results of the *t*-Test. It can be seen from Table 1 that the overall LPDWD level increases from 21.84%¹⁷ in 2007 to 30.52% in 2010, an overall increase of 8.68%. Such a result indicates that IDX listed companies appear to be responding to the government's CSR reporting regulations after their issuances in 2006 and 2007.

[Insert Table 1 Here]

Further analysis shows that the levels of all LPDWD specific categories are rising except for *Employment*. The levels of *Labour/Management Relations*, *Occupational Health and Safety*, *Training and Education*, and *Diversity and Equal Opportunity* disclosures have risen from 2007 to 2010 as much as 12.9%, 4.84%, 23.66%, and 6.46% respectively. This again signals that Indonesian listed companies are providing more labour-related information within each specific LPDWD categories in their annual reports after the issuance of the 2007 CSR reporting-related regulations.

Interestingly, the level of *Employment* disclosures decline from 37.1% in 2007 to 29.03% in 2010. One possible explanation for this decline is that a lot of companies tend to hide employment contract information so that they can avoid potential conflicts with some stakeholder groups such as workers. As detailed in Appendix A, employment contract is one of the issues that should be disclosed under the Employment category. This issue is considered sensitive in Indonesia given that most labourers in this developing country disagree with the contract employment model (Asosiasi Pengusaha Indonesia, 2008). They argue that, in a contract employment, there is no future job certainty, no social protection, no health and safety assurance, no gratuities for fired workers, no pension payments, and no other welfare allowance (Asosiasi Pengusaha Indonesia, 2008). Therefore, each year, on the 1st of May World Labour Day, workers in Indonesia conduct a large demonstration demanding the government completely remove the contract employment system from Act No. 13/2003¹⁸ (Asosiasi Pengusaha Indonesia, 2008; Jakarta Globe, 2013).

A closer analysis on the disclosure by companies for each LPDWD items is presented in Table 2. As displayed in this table, the number of disclosing companies for all of the items increases except for LA1, *Total Workforce by Employment Type, Contract, and Region*, and

LA9, *Health and Safety Topics Covered in Formal Agreements with Trade Unions*. The decrease in the number of companies disclosing LA1 is 29.03% (from 61.29% in 2007 to 32.26% in 2010) and the decline in the number of companies communicating LA9 is 3.23% (from 3.23% in 2007 to 0% in 2010). The finding is consistent with the explanation on the results presented in Table 1, on the falling of the Employment disclosure level. Given the sensitive nature of this issue in Indonesia it appears that companies' low disclosures of LA1 is to avoid communicating sensitive contract employment issue. Through such an avoiding strategy, the management of the companies possibly assume that they can avoid the potential conflict with some stakeholder groups such as labour unions.

[Insert Table 2 Here]

One explanation for the decrease in the number of companies disclosing LA9 is that Indonesian listed companies discontinued their formal health and safety agreements with trade unions in the period after 2007, cooperating instead directly with their employees. This is evidenced by the 9.68% increase in the number of companies disclosing LA6 *Percentage of Total Workforce Represented in Formal Joint Management-Worker Health and Safety Committee* as well as the 10% increase in the number of companies communicating LA8 *Health and Safety Program*.

Where agreements still exist between companies and trade unions, the items within those agreements are not detailed or are not broken down into specific health and safety topics. Instead, the points that the companies and trade unions agree are presented or written in a general topic such as the agreement about companies' overall health and safety program with

an emphasis on a statement of the rights and the obligations of the management of companies as well as the rights and the obligations of the labour unions in that program.

Surprisingly, the *t*-test results show that there are no significant government influences on the increase in the level of overall LPDWD and all LPDWD specific categories, except for *Employment* specific disclosures. As shown in Table 3, government ownership does significantly influence the changes in the level of *Employment* specific disclosures over time but does not significantly influence the changes in the overall LPDWD and the other specific categories. Interestingly, the significant association between government ownership and the disclosure or *Employment* specific category shows a negative relationship, as confirmed by the value of Spearman Correlation coefficient -0.482. One explanation is that the Indonesian government *coercively* press companies to reduce the level of *Employment* specific disclosure. The detailed discussion on this finding is presented in the next section.

[Insert Table 3 Here]

Discussion

In summary, there is an overall 8.68% increase in the level of LPDWD from 2007 to 2010, from 21.84% in 2007 to 30.52% in 2010, with an increasing trend in all specific LPDWD categories except for the *Employment* specific category. Compared to labour-related disclosures in Pacific Island countries (PIC), which shows a decreasing trend in the level of human resource disclosures in Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu, from 45% in 1997 to 38% in 1999 (Brown *et al.*, 2005), the trend of LPDWD in Indonesia appears to be increasing, but remains relatively low.

This increasing trend in LPWD practices seems to indicate that IDX listed companies are responding to the CSR reporting regulations issued in 2006 and 2007. However, the insignificant association between government ownership and overall LPDWD, *Labor/Management Relations, Occupational Health and Safety, Training and Education, and Diversity and Equal Opportunity* disclosure practices indicates that companies in Indonesia are not reporting labour related information through government enforcement or pressure. It is noted in the literature that regulatory enforcement in Indonesia is weak (see Rusmin and Brown, 2008; Waagstein, 2011). Corporate social responsibility disclosures actually remain voluntary because the regulations in Indonesia do not specify which CSR items must be undertaken and communicated. The CSR-related regulations (e.g. Act No. 40/2007) do mention penalties for companies' failures to disclose CSR-related information but they do not clearly articulate the specific consequences or the penalties that will be imposed (see Badan Pengawas Pasar Modal dan Lembaga Keuangan 2006; Pemerintah Republik Indonesia 2007; Pemerintah Republik Indonesia 2012). This shows that there are still weaknesses in Indonesian CSR-related regulations. It is therefore logical that Indonesian companies are not communicating labour-related information through government enforcement.

It may be that companies in Indonesia are in the process of 'learning' how to be good 'citizens' in this developing nation's business environment. In particular, it seems that those companies appear to be understanding how to socially 'treat' their employees and communicate this in their annual reports. Alternatively, there may be other influences, which have not been tested in this study, and therefore it can only be speculated that the overall growth in LPWD disclosures is a combination of Indonesia's strengthening labour laws and external influences such as the application of SA8000¹⁹ by many Indonesian companies

(Aspiring Innovative Management Services, 2013), ratification of the ILO core labour conventions and increased economic globalisation (Caraway, 2010).

Another explanation for the increasing trend in LPWD disclosures may be tied in with the decreased disclosure of the *Employment* specific category. This category is significantly impacted by the Indonesian government but in a negative direction. This result highlights that the Indonesian government, as one of the influential stakeholder groups, may be *coercively* pressuring companies to reduce the level of *Employment* specific disclosures between the 2007 and 2010 financial years with companies disclosing more information on other LPWD categories to deflect unwanted attention on what is considered a sensitive issue in Indonesia. This supposition can be explained by the fact that the government does have an interest in protecting the image of companies from the eyes of labourers as well as labour unions, and interested external global parties such as the United Nations (unfair contracts and dismissals for example) and potential investors. From a macroeconomic perspective, it can be argued that the Indonesian government expects companies to make profits so that they can contribute to improving the Indonesian economy. Ironically, such profit making could be achieved by decreasing labour costs through contract labour and a worker outsourcing system which is strongly supported by the government particularly through Act No. 13/2003 (Asosiasi Pengusaha Indonesia, 2008).

The decrease in the number of companies disclosing LA9 may also be explained by the fact that Indonesian listed companies discontinued their formal health and safety agreements with trade unions in the period after 2007, cooperating instead directly with their employees. This is evidenced by the 9.68% increase in the number of companies disclosing LA6 *Percentage of Total Workforce Represented in Formal Joint Management-Worker Health and Safety*

Committee as well as the 10% increase in the number of companies communicating LA8 *Health and Safety Program*.

The findings indicate that the Indonesian government weakens the position and the future of Indonesian workers by supporting companies to continue using and increasing the number of contracted workers. While companies may be voluntarily not disclosing *Employment* specific issues in an effort to disguise the nature of labour contracts and to avoid potential conflict, the significant government ownership may also imply tacit agreement from the government to ‘turn a blind eye’ to the lack of disclosure on this issue, or at the very least that the government is ambiguous.

The findings of this research support Collins *et al.* (2011, p. 372) argument that globalisation and a “less powerful government in terms of political and economic interventions” are major factors in challenges facing Indonesian workers. Further research needs to be undertaken on whether the government does in fact support or even motivates companies to not disclose information regarding outsourced workers in their annual reports, or on whether this is a company decision and to determine their motivations for doing so, or if there are other outside influences on the content and reporting levels of LPDWD. The results of this study can therefore be used as the start of a more detailed investigation on the reasons why more extensive reporting is not undertaken in Indonesia.

An important implication of the above results is that independent commissioners need to use their authority and power within the corporate governance structure for pushing companies to consistently undertake good labour-related CSR activities and communicate these activities in

annual reports. This need is considered critical due to the apparent ambiguity of the government, which results in low levels of disclosure and the decreasing level of *Employment* disclosures. In addition, companies with significant government ownership need to have ‘strong’ independent commissioners on the board to counter any pressures from the government to hide *Employment* specific issues. This seems to be the most reasonable solution for companies to ‘guarantee’ continuous corporate transparency and the achievement of corporate sustainability.

A positive implication of the overall increase in labour disclosures is that companies potentially are improving workers’ quality of life. A company, for instance, may have started providing a work safety program because the corporate commissioners push the company to provide such a program and disclose information regarding the establishment of that program in the annual report. The positive impact of the establishment of the safety program on workers is clear, as their safety at work is now well addressed by the company. However, there remains the possibility that increased labour-related CSR disclosures are simply ‘window dressing’ to make the company look good and give the appearance of conforming to CSR regulations. This, of course, is another aspect that requires further research.

As with all research, this study has limitations. Firstly, companies having a direct government ownership are considered as those having a proportion of government ownership. This is because Indonesian listed companies usually do not clearly provide information in their annual reports regarding whether they directly belong to the government or indirectly through government-owned enterprises. Secondly, the sample size in this research is relatively small. However, given that the differences in disclosures between the 2007 study (Cahaya et al, 2012) and the 2010 disclosure level reported in this paper show an

increasing upward trend, but are not significantly different, it therefore lends credence to the results as reported. It is also suggested that a more comprehensive study is undertaken incorporating other independent variables and including potential control variables. Future studies might also examine a bigger sample size and look at possible pressures from other stakeholder groups such as societal pressures on labour disclosures. Incorporating a qualitative approach may also overcome any inherent deficiencies in using a disclosure index, addressing for example why companies may not disclose a particular item. While the results appear to support the assumption made in this study that the government does influence companies to not report *employment* issues, a qualitative approach might also more thoroughly investigate the assumption in this study that in Indonesia there is a connection between government ownership (government enforcement) and labour disclosures in Indonesia.

Appendix A: The 2006 Global Reporting Initiative (GRI) Labour Practices and Decent Work Indicators

Category		GRI code	Indicator ^a
A.1.	Employment	LA1	Total workforce by employment type, employment contract, and region.
		LA2	Total number and rate of employee turnover by age group, gender, and region.
		LA3 ^b	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.
A.2.	Labor/Management Relations	LA4	Percentage of employees covered by collective bargaining agreements.
		LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.
A.3.	Occupational Health and Safety	LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.
		LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.
		LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.
		LA9	Health and safety topics covered in formal agreements with trade unions.
A.4.	Training and Education	LA10	Average hours of training per year per employee by employee category.
		LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
		LA12	Percentage of employees receiving regular performance and career development reviews.
A.5.	Diversity and Equal Opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.
		LA14	Ratio of basic salary of men to women by employee category

Source: Global Reporting Initiative (2006). Note: a). If an indicator has several subparts, a score of 1 will be awarded when any of the subparts is disclosed. This is due to the possible sparsity of information within the annual report. In LA1, for example, a score of 1 will be awarded if the company discloses any of the three subparts: total workforce by employment type, employment contract or region; b) LA3 is excluded from the disclosure index checklist of this study because, under PSAK No. 24, this item is considered as a mandatory item. Accordingly, in the statistical analysis, only thirteen items are used to measure LPDWD practices (refer Section 3).

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Table 1: Labour Disclosure Practices over Time

Labour Disclosure Categories	2007	2010	Trend over time	Delta
Employment	37.1%	29.03%	Falling	-8.07%
Labor/Management Relations	6.45%	19.35%	Rising	12.9%
Occupational Health and Safety	11.29%	16.13%	Rising	4.84%
Training and Education	30.1%	53.76%	Rising	23.66%
Diversity and Equal Opportunity	30.64%	37.1%	Rising	6.46%
Total LPDWD Index	21.84%	30.52%	Rising	8.68%

Table 2: The 13 Items of Voluntary LPDWD (2007 and 2010)

Category	GRI code	Indicator	Disclosing Companies in 2007	Disclosing Companies in 2010	Trend over time
A.1 Employment	LA1	Total workforce by employment type, contract, and region	61.29%	32.26%	<i>Falling</i>
	LA2	Total number and rate of employee turnover by age, gender, and region	12.9%	25.81%	<i>Rising</i>
A.2 Labor/Management Relations	LA4	Percentage of employees covered by collective bargaining agreements	0%	12.9%	<i>Rising</i>
	LA5	Minimum notice period regarding operational changes	12.9%	25.81%	<i>Rising</i>
A.3 Occupational Health and Safety	LA6	Percentage of total work force represented in formal joint management-worker health and safety committee	0%	9.68%	<i>Rising</i>
	LA7	Rates of injury	6.45%	9.68%	<i>Rising</i>
	LA8	Health and safety	35.48%	45.16%	<i>Rising</i>

			education, training, counselling and risk-control program			
		LA9	Health and safety topics covered in formal agreements with trade unions	3.23%	0%	<i>Falling</i>
A.4	Training and Education	LA10	Average hours of training per year per employee by employee category	3.23%	19.35%	<i>Rising</i>
		LA11	Programs for skills management and lifelong learning	80.65%	83.87%	<i>Rising</i>
		LA12	Percentage of employees receiving regular performance reviews	6.45%	58.06%	<i>Rising</i>
A.5	Diversity and Equal Opportunity	LA13	Breakdown of employees per category	61.29%	70.97%	<i>Rising</i>
		LA14	Ratio of basic salary of men to women by employee category	0%	3.23%	<i>Rising</i>

Table 3: Results of T-Test

	Trend over Time from 2007 to 2010	P value of Government Ownership
Employment	<i>Falling</i>	0.010**
Labor/management relations	<i>Rising</i>	0.377
Occupational health and safety	<i>Rising</i>	0.857
Training and education	<i>Rising</i>	0.516
Diversity and equal opportunity	<i>Rising</i>	0.232
Total LPDWD Index	<i>Rising</i>	0.408

**significant at 5% level

Notes

¹ More recently, Government Regulation No. 47/2012 was released on 4 April 2012, explaining in a more detail how companies must implement or fulfil the CSR-related requirements in Act No. 40/2007 (Pemerintah Republik Indonesia, 2012).

² Badan Pengawas Pasar Modal dan Lembaga Keuangan is now named as Financial Service Authority (OJK)(Darwin, 2013).

³ At the time of writing this paper, there is a territorial dispute in the South China Sea between China and several ASEAN countries (such as Malaysia and the Philippines) (Al Jazeera, 2012). This issue attracts an attention from countries around the globe particularly because there is even no consensus solving this problem from the ASEAN members themselves. Such a disagreement never happened during the 45-year of the ASEAN's existence (Al Jazeera, 2012).

⁴ The minimum wage level in Indonesia is even lower than in other developing countries in Asia such as Thailand and the Philippines (International Labour Organization, 2008)

⁵ Brown *et al.* (2005), Vuontisjärvi (2006), and Cahaya *et al.* (2012) are refereed journal articles whereas Alvarez (2007) is a refereed conference paper which was presented at the Thirtieth Annual Congress of the European Accounting Association.

⁶ Stakeholder theory postulates that companies disclose information to manage their relationship with influential stakeholder groups or because they assume that all stakeholder groups have the rights to be provided with information (Harrison and Freeman, 1999; Guthrie, *et al.*, 2004; Deegan, 2009). Legitimacy theory explains voluntary disclosure practices in terms of how companies behave to close a legitimacy gap (Henderson *et al.*, 2004). Contingency theory explains voluntary disclosure practices in terms of how organizations respond to the demand of their environment in which they interact and seek to control that environment in order to survive (Burrell and Morgan, 1979; Thomas, 1986).

⁷ The number of sentences has been used as a unit of measure within the method of content analysis in a number of studies. Arguably, this is not an accurate measure of the extent of disclosure because it is often dependent on how an author of the document being examined expresses and emphasises that information, with potentially different sentence numbers arising to address the same theme. Accordingly, the number of sentences is not used for measuring the extent of voluntary LPDWD in this study.

⁸ As a random sampling is adopted, this paper does not consider the industry classification and the size of each sample. The sample listed companies which are randomly selected range across a variety of industry types as well as company sizes.

⁹ In the 2007 and 2010 data set examined in this study, there were only 2 sample companies (out of 31 sample companies) producing stand-alone sustainability reports. As such, it is considered impractical to incorporate the sustainability reports of those companies in the disclosure analysis.

¹⁰ An alternative technique to measure the level of disclosures is content analysis. This technique is not employed in this study because it introduces an element of subjectivity in deciding what constitutes certain types of disclosure (Zeghal and Ahmed, 1990). Thus, this measurement technique is considered as having a major problem with reliability (see Milne and Adler, 1999).

¹¹ While a disclosure index may be less subjective and arguably more accurate than other methods, such as content analysis, it is not without its own deficiencies. Although the method does not penalize company for not reporting an item that is not applicable, a company may not report an item because they do not have the information or choose not to disclose the item. Therefore, a disclosure index cannot measure or reflect on the facts behind the zero disclosure score.

¹² There are actually fourteen items within the GRI *Labour Practices and Decent Work* category (see Appendix A). However, Under the Indonesian accounting standard (PSAK) No. 24, one of the fourteen items, labelled as LA3 in the GRI lexicon, is regarded as a mandatory disclosure item. In this paper, the focus of the examination is on the extent of voluntary LPDWD and therefore LA3 is excluded from the statistical analysis.

¹³ GRI is the result of a project of the Coalition for Environmentally Responsible Economies in a partnership with the United Nations Environmental Program (Moneva *et al.*, 2006).

¹⁴ The latest version of GRI guidelines is labelled as G4 and was recently launched on 22 May 2013 (Global Reporting Initiative, 2013). This paper uses the 2006 GRI guidelines (G3) instead of G4 because G3 is considered relevant to be used as a disclosure benchmark for the paper sample frame of 2007 and 2010 annual reports.

¹⁵ It is argued in the literature that the most prominent effort to standardize CSR reporting internationally has been done by the GRI (see Global Reporting Initiative, 2013).

¹⁶ The *T*-test is “a parametric test to determine the statistical significance between a sample distribution mean and a population parameter” (Cooper and Schindler, 2006, p. 719).

¹⁷ In Cahaya *et al.* (2012) the results found a low level of 17.7% for voluntary labour related disclosures. The different finding in the current paper (21.84%) is due to the sample size, 31 in the current study compared to 223 in the earlier study.

¹⁸ Recruitment for a fixed period worker is legally supported by the Indonesian government through Act No. 13/2003 (Manning and Roesad, 2007). Through this legislative support, the government expects continuous growth in the business sector which can further improve the Indonesian economy (see Asosiasi Pengusaha Indonesia, 2008). Because of cost reduction considerations and the present government’s support, many companies in Indonesia now use contracted workers.

¹⁹ SA8000 is a management standard concerning companies’ accountability to their employees (PortalHR, 2006).