HUMAN RIGHTS DISCLOSURE PRACTICES. DOES OWNERSHIP MATTER? (EVIDENCE FROM INDONESIA)

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Abstract

The aim of this study is to determine the extent Human Rights disclosure practices in Indonesia. This study examines the impact of Ownership on Human Rights disclosure. Ownership is characterized by Foreign Ownership, Managerial Ownership, Institutional Ownership, and Public Ownership. This study analyse disclosure by an agregated disclosure index score from Human Rights Disclosure.
This study examines of Human Rights disclosure practices in the annual reports of listed companies in Indonesia. The sample of this study are 328 firm year annual reports listed companies in Indonesia in the period of 2009 to 2012. The technique used is purposive sampling technique. The results show that foreign ownership and size are associated with Human rights disclosure in Indonesian listed companies.

Keywords: Ownership, Human Rights Disclosure, Indonesia

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1 Introduction

Human rights issues now is one of the most important issue in the global economy. There are lot of human rights violations in work practices, because of the defection law on human rights itself. Many issues of human rights that occur in some developing countries, one example is about racism and discrimination in company. For Indonesia, there are still exist companies that commit human rights violations on its employees. Human rights disclosure can be divided into two. First, the disclosure of human rights will be presented irregularly in annual report. Secondly, companies present voluntary disclosure through media exposure, to provide a picture of the good performance of the company.

Islam and McPhail (2011) analyzed the disclosure of human rights based on the regulations according to the International Labor Oragnisation (ILO) on textile and retaill which states that voluntary disclosure is better be disclose for multinationals companies. Zhao et al. (2012) focus on manufacturing companies with Corporate Social Responsibility as the main theme of research, and Human Rights as the part of the main research. Also according to Adnan and Nankervis (2003) stated that government have a great influence over company, because most of the members of the board of directors of company are government employees and also has a high position. Indonesian government have high role in terms of CSR.

In Indonesia, there are only few researcher that study human rights diclosure in Indonesia, because human rights is just a small portion of CSR so it has a little information about it (Global Reporting Initiative, 2009). Cahaya et al (2012) study analyze disclosure about labor workforce in companies which the data are taken from the financial statements of 223 companies listed on the Indonesian Stock Exchange (ISE) and found that government give pressure for a companies to disclose information about human rights in the workplace.

Corporate Governance (CG) is an organized system of governance taking into account of all the factors that influence institutional processes, which there are factors that affect the regulator (Turnbull, 1997). CG is one of the key element in improving growth and efficiency in economic as well as investor confidence. CG involves a set of relationships between the company's management, board, Shareholders and stakeholders. CG also provide a structure for company make an objective and achieve it also for monitoring performance (OECD Principles of Corporate Governance, 2004).

2 Literature review and hypothesis development

2.1 Agency theory

Jansen and Mackling (1976) concluded that *Agency Theory* is a contract relation between one or more parties (*principal)* to other parties (*agent*) to do a service on behalf of the principal's name which involving the delegation decision making to agent. The shareholders (principal) delegate it's authority to the manager (agent) in making decision, which the manager represents the shareholders. However in the implementation of the relation itself there is economical interest which make the agent cannot always make business decision that appropriate with the principal's interest (Warsono *et al.*, 2009).

According to Richardson, (1998), Agency Theory reflected that condition of the company reported by the manager is not compatible with the real condition of the company. It is because there are information differences between the company manager and the shareholders. A condition the manager should know better the real condition of the company compared to the shareholders is called asymmetric information. In terms of agency relationship, asymmetric information that occured between the principal and the agent is because agent has better information than the company (Probohudono 2013).

According to Scott (2000), there are two types of asymmetric information :

1. Adverse selection
   Manager and the other inside people of the company know better about the company condition than outside parties. And perhaps there are facts that not conveyed to the principal.
2. Moral hazard

Some action that done by manager is not all discovered by the investor (shareholders, creditor), so that manager can do something and decides policy without acknowledgment from the shareholders because there is a possibility the policy does not in accorandce with moral and ethics.

According to Siallagan and Machfoedz (2006) in agency theory perspective stated that risk adverse agent and tend to attach importance of him/her self will allocate resource (investing) that not improve the company value.

In the relation with corporate governance, according to Jansen and Meckling (1976) more revealing how the exposure of an information whether it will reduce the agency conflict between shareholder with manager. And based on a research from Rustiarini (2011) Corporate Governance is a company response to the conflict.

2.2 Corporate governance and ownership

Definition of *Corporate Governance* from *Forum for Corporate Governance* (FCGI) using *Cadburry Committee* definition as, "a set of rules that ruled relation between shareholders, company caretaker (management), creditor party, government, employees and all internal stakeholders and other external which is related with their rights and obligations, or in other word it is a system that rule and control the company." There is other definition from Sternberg (2004), which stated that in *Corporate Governance,* agent and asset are directed so that can achieve the company purpose which has been set by *shareholders.*

Harshbarger and Holden (2004) stated that there are problems about government issues those are familiar to company owners, like firmer law implementation in governing practice implementation, proposal from shareholders which addressed seriously and how the court system which getting better. And there are many other factors just like globalization, technology, and market competition.

2.3 Human right disclosure

Disclosure embrace availability financial information and non financial which related with organization activity with social and the environment (Guthrie and Parker, 1990)

According to Hendriksen (1986) there are three disclosure concepts, they are:

a. Adequate disclosure

A concept that commonly used is the adequate disclosure, means minimum disclosure which is hinted by the applicable rules, where numbers are served can be correctly interpreted by investor.

b. Fair disclosure

Fair disclosure indirectly is an ethic purpose so that gives same treatment to all report users by providing proper information to potential readers.

c. Full disclosure

Full disclosure concerns completeness information presentation which disclosed relevantly.

Darrough (1993) revealed two types of disclosure in relation with requirements which set by default; they are mandatory disclosure and voluntary disclosure. Mirfazli (2008) defined mandatory disclosure as revealable information as consequences of the provisions of the laws, stock exchange market, stock exchange commission or accounting rules from the authority.

Voluntary disclosure is one of ways to improve company annual report transparency and credibility and helps investor to understand the company business strategy (Healy and Palepu, 2001).

According to Gallhofer et al. (2011) relation between human rights and accounting are transparency and accountability. Transparency in the accounting is appropriate with transparency in relation with human rights. It is explained that transparency role in accounting can push the company so it can reveal more information related with human rights.

3 Hypothesis development

3.1 Foreign Ownership

Ginglinger and L'Her (2002), say that the existance of foreign institute investor has major positive effect to reactions related to the program announcement of the purchase price back in France. The attenandce of foreign institute investor is a good signal to fix company reputation through revealing extra information voluntarily. Based on explanation above, hypothesis that can be developed in this research:

H1: *foreign ownership* has positive effect to *human rights disclosure* in listed companies in Indonesia

3.2 Managerial Ownership

Jansen and Meckling (1976) said that one option of internal controlling mechanism to equal the rights of shareholders and manager is long terms incentive contract, means by giving incentive to manager if the company value or shareholders prosperity increase, one of the way by giving shareholding to manager or we usually called managerial ownership. With the increasing of *managerial ownership* is expected the company will increase *voluntary disclosure* level. With the increasing of managerial ownership the company is able to increase the voluntary disclosure level (Barros et al., 2013; Barako, 2007; Chakhroun and Mtoussi, 2012). According to the explanation, the hypothesis can be developed is:

H2: Managerial ownership has positive effect to human rights disclosure in listed companies in Indonesia

3.3 Institutional Ownership

Cornett et al., (2006) concluded that company supervising action by the institutional investor party can push manager to focusing more attention to company performance so that can decrease opportunistic action or selfish. Based on the research from Patton and Makhija (2000) level of company voluntary disclosure will be higher if the dominant group of shareholders comprised of parties outside the company.

H3: *Institutional ownership* has positive effect to *human rights disclosure* in listed companies in Indonesia

3.4 Public Ownership

Baroko (2007) in his research found that there is positive relation between disclosure level and *public ownership* as variable that can be used in that research. Susanto (1992) in his research stated that the higher public ownership led to the higher pressure to provide better disclosure.

H4: Public ownership has positive effect to human rights disclosure in listed companies in Indonesia

4 Method

4.1 Population, sample and sampling technique

The population of research included all of Indonesian companies enlisted in Indonesian Stock Exchange during 2009-2012. The sampling technique employed is purposive sampling one with judgment sampling type. In this study, the criteria intended are companies listed in Indonesian Stock Exchange that delivered their report completely from 2009 to 2012 and provided data needed for research variable.

In this study there are 469 companies enlisted in Indonesian Stock Exchange. Out of them, 82 companies each period (82 x 4 years = 328 annual reports) are selected as the sample of research with the following criteria:

a) The companies enlisted in Indonesian Stock Exchange during 2009-2012 and delivering annual report.
b) The companies in Indonesian Stock Exchange delivering report completely in 2009-2012.
c) The companies displaying the data for the clearly measurement of ownership structure variable.

4.2 Data and data source

The data used in this research is secondary data obtained through website internet access of the related companies or from. The data source of research is taken from the annual report of companies enlisted in Indonesian Stock Exchange during 2009-2012.

4.3 Variable measurement

The dependent variable of research is Human Rights disclosure and the independent are public ownership, foreign ownership, Institutional Ownership,

Managerial Ownership. In addition, this research also employed control variables including leverage, profitability, size, and auditor. The variable is explained further in the table below.

Table 1. Variable and Variable Measurement

Name	Acronym	Measurement
Dependent variable		
Human Rights Disclosure (HRDISC)	HRDISC	HRDISCscore achieved/maximum HRDISCscore
Independent variable		
Foreign Ownership	FOROWN	Number of shares the foreign holds/the company's total shares
Public Ownership	PUBOWN	Number of shares the public holds/the company's total shares
Institutional Ownership	INSTOWN	Number of shares the institution holds/the company's total shares
Managerial Ownership	MANOWN	Number of shares the Managers holds/the company's total shares
Size	SIZE	Log total aset
Leverage	Leverage	Total liability/total aset.
Profitability	Profitability	Net profit/total aset
Auditor	Auditor	Dummy Variable, score 1=big four, score 0=non big four

5 Data analysis and discussion

The data analysis in this research employed a multiple regression analysis model. The regression equation used is as follows:

$$HRDISC = \alpha + \beta_1 FORON + \beta_2 MANON + \beta_3 INSTOWN + \beta_4 PUBOWN + \beta_5 PROFIT + \beta_6 LEV + \beta_7 SIZE + \beta_8 AUDIT + \mathcal{E}$$

Notes:
HRDISC : *Human Rights Disclosure*
β1, β2, β3,…, β8 : Coefficient of regression
ε : Errors
MANOWN : Managerial Ownership
INSTOWN : Institutional Ownership
PUBOWN : Public Ownership
FOROWN : Foreign Ownership
SIZE : Size of Company
LEV : Leverage
PROFIT : Profitability
AUDIT : Auditor

5.1 Descriptive statistic

Descriptive analysis gives general view about the data and data deployment that is used in research. Descriptive analysis in this research is conducted to find out minimum, maximum, and mean value and deviation standard from the research variables. The result of descriptive statistic is shown by table 2.

Table 2. Descriptive Statistic

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
MANOWN	328	0	.7926	.029668	.0966066
INSTOWN	328	0	1	.413213	.3425299
PUBOWN	328	0	1	.274092	.1980823
FOROWN	328	0	.9900	.240545	.3058529
SIZE	328	4.3273	8.8032	6.477423	.9105490
PROFIT	328	.0057	27.1341	.726726	1.7013274
LEV	328	-.4480	6.1628	,.097011	.3786095
AUDIT	328	0	1	.43	.495
HRDISC	328	0	.2143	.074804	.0475468
Valid N (listwise)	328				

Information : FOROWN = *foreign ownership*, MANOWN = *managerial ownership*, INSTOWN = *institutional ownership*, PUBOWN = *public ownership*, SIZE = *company size*, AUDIT = auditor, PROFIT = *profitability*, LEV = *leverage*, HRDISC = *human rights disclosure*.

Source: Data Tabulation Result

The result of descriptive statistic in table 2 showed that this research is using 328 samples. The average of *human rights disclosure* in the companies that listed in Indonesia Stock Exchange (BEI) is 7% where the disclosure level can be said low because the average disclosure of companies about 3 from 51 items can be said that *human rights disclosure* is an unnecessary thing to be reported for companies in Indonesia. For the highest disclosure level is on level 21%, whereas there are eight companies in lowest level of disclosure, on level 0%. Based on Douglas research et al (2004), revealed that company social and environmental reporting level is influenced by a country the company is operating. If the company that operates in developed countries tend in informing social and environmental reporting wider. Whereas for developing countries is less pay attention in informing social and environmental reporting.

Managerial ownership has 2% average and highest ownership is 79%, whereas the lowest achieved by some companies that has not *managerial ownership. Institutional ownership* has 39% in average and highest ownership is 100%. *Public ownership* has 28% in average and highest ownership is 100%. *Foreign ownership* has 24% and highest foreign ownership is 99%.

In this study, the dependent variable used is human rights disclosure measured with Human Rights disclosure index (HRDISC) adapted from Islam (2011), Haque & Deegan (2011) dan *Global Report Initiative* (GRI) eliminated again in presence of Indonesian mandatory disclosure included into the Bapepam/ Indonesian Security Exchange commission obligatory regulation. The Human Rights disclosure index (HRDISC) in this study is divided into 9 sub categories: Forced and compulsory labour, Security practices , Non-discrimination, Freedom of Association and Collective bargaining, Elimination of child labour, Physical and verbal abuse, Fair wage and decent living, Right to safe and healthy working conditions , and Women and family life . Total index produced consists of 56 items. The statistic descriptive for voluntary nonfinancial disclosure can be seen in Appendix 1.

5.2 Discussion

The hypothesis testing in this research employed a multiple regression model with the result of test presented in the table below.

Table 3. Result of Multiple Regression test

Independent Variable	***HRDISC*** ***Coefficient***	***Probability***
(Constant)	,008	.782
MANOWN	-,033	.246
INSTOWN	-,009	.521
PUBOWN	,027	.144
FOROWN	,031	.037**
SIZE	,011	.003*
LEV	-,003	.335
PROFIT	-,021	.187
AUDIT	,003	.666
R-squared		.144
Adj. R-squared		.120
Prob. (F-statistic)		.000

Notes: FOROWN = *foreign ownership*, MANOWN = *managerial ownership*, INSTOWN = *institutional ownership*, PUBOWN = *public ownership*, SIZE = *company size*, AUDIT = auditor, PROFIT = *profitability*, LEV = *leverage*, HRDISC = *human rights disclosure*.
**significance = 1%*
***significance = 5%*

Source: Processed Secondary Data

Table 3 above indicates that the probability (sig.) value of 0.000 is less than 5% the regression model is fit to be used as the model in this research. The adjusted R^2 value of 0.120 indicates that 12% of voluntary nonfinancial disclosure (VND) variable can be explained by independent variables including FOROWN, PUBOWN, MANOWN, and INSTOWN, while the rest of 88% is explained by other variable excluded from the model of research. Considering the table 3 above, the hypothesis testing shows that foreign ownership and size affect the voluntary nonfinancial disclosure level.

Based on table 3, significancy value of *foreign ownership* is 0.037, it is smaller than 0,05 and can be concluded that *foreign ownership* has significant effect to *human rights disclosure.* Regression coefficients of *foreign ownership* is 0.031, because showing positive value it can be said that *foreign ownership* has positive effect to *human rights disclosure.* Based on the significancy value can be concluded that **hypothesis 1 is accepted**. This research is in accordance with (Abdul Samad, 2002 and Haniffa and Cooke, 2005). There is significant result between the effect of *foreign ownership* and *human rights disclosure*. It is in step with this research which reveals for Indonesian companies that there is significant effect between *foreign ownership* and *human rights disclosure.*

Managerial ownership has significancy about 0.246 so it can be said that is bigger than 0.05 and can be concluded that *managerial ownership* has no effect to *human rights disclosure*. Based on the significancy value can be concluded that **hypothesis 2 is not accepted**. That result is not accordance with the research that had been conducted by Chakhroun and Mtoussi, 2012; Barako, 2007; Jensen and Meckling, 1976. But this research is in step with research that had been conducted by Mckinnonn and Dalimunthe, 1993; Malonee et al., 1993;

Ruland et al., 1990. If managerial ownership is low, so it will bring out big agency problems. Means, manager will get bigger intensive to consume allowances and decrease the intensive to maximize the performance.

Institutional ownership has significancy value about 0.521 so it can be said it is bigger than 0.05 and can be concluded that institutional ownership has no effect to *human rights disclosure.* Based on the significancy value can be concluded that **hypothesis 3 is not accepted**. The result of this research is not in step with research had been conducted by Carson and Simnett, 1997; Bushee and Noe, 2000; Barako, 2007. If *Institutional ownership* is low, so there are needs that will increase in terms of monitoring, it is because the ownership becomes spread because it is low. Because of investment from *Institutional ownership* tend short terms and less worry about social information of the company.

Public ownership has significancy value about 0.144 so it can be said that it is bigger than 0.005 and can be said that *public ownership* has no effect to *Human Rights disclosure.* Based on this significancy value can be concluded that **hypothesis 4 is not accepted.** Comprehensive disclosure need bigger cost (Fathimiyah et al., 2012). Comprehensive disclosure will need huge cost and management will only disclose important information and will not exceed than the cost has been budgeted.

6 Concluscion

Regarding the result of research, it can be concluded that foreign ownership and size affect the human rights disclosure level. This research also shows that the prediction model developed in this study is fit to be used as the research model to define the determinants of human rights disclosure in the companies in Indonesia. Larger companies disclose more human right disclosure perhaps because they have more resource to do monitoring and control for organization especially in human right communication. Foreign ownership affect human rights disclosure can be conclude that foreign investor push company to disclose human right issue to make company reduce the agency cost and monitoring cost.

The mean level of human rights disclosure in indonesia is about 7% which is lower than any developed countries. Becasue indonesia is still developing country which seemingly the awareness of disclosing information especially human rights is not their main action.

The implication of research shows the low levels of Human Rights disclosure in the companies listed in Indonesia Stock Exchange. The company will attempt to increase the Human Rights disclosure to obtain good value of company in order to attract the investor (foreign and domestic). Investor will also look at social report other than financial report only.

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Appendix 1. Human Rights Disclosure Item Index

Human Rights Disclosure Item
A. Non-discrimination
Discriminate race
Discriminate origin
Discriminate on disability
Incidents of discrimination
Fair on promotion and termination
Equal pay
Disability Action Plan and Reconciliation Action Plan
Agreements that includenon-discrimination clauses
Suppliers undergo screening on non-discrimination
Employee training on non-discrimination
B. Freedom of Association and Collective bargaining
The right of association
The right to organize
Engaging in collective bargaining
C. Elimination of child labour
Risk for incidents of child labor and maeasure taken
No engaging children
Consider the best interests of child as they out of work
D. Physical and verbal abuse
Work environment free from any harrasment
Not committing cruelty in workplace
Abstaining from using verbal or physical abuse
Employee training on aspects of physical and verbal abuse
E. Security practices
Security personnel trained
Security services are trained in responsible use of firearms
F. Right to safe and healthy working condition
Company has work safety policy
Has a safety policy throughout the supply chain
Minimising the risk of accidents
Identifying hazards and unsafe behaviours
Providing adequate sanitary facilities
Ensuring workers have the skill on safety
Providing details on the effects of harmful substances
Providing protective equipment
Investigating work-related accidents
Providing measures to deal with emergencies
Allowing workers to remove them from unsafe workplace
auditor to monitor health and safety
Suppliers undergone screening on health and safety
Employee training on health and safety

Appendix 1. Human Rights Disclosure Item Index - Continued

G. Women and family life
maternity leave
Not subjecting pregnant women
Granting breast feeding women reasonable breaks
Granting women temporary leave in case of illness related to pregnancy
H. Forced and compulsory labour
Not making use of forced orcompulsory labour
Measures taken to forced or compulsory labour
employees are free to resign
Specialized auditor for forced or compulsory labour
Suppliers undergo creening on forced labour
Employee training on forced labour
I. Fair wage and decent living
Paying employees wages
Paying full-time employees regularly
Not charging workers exploitative prices
Company has facility for workers
Ensuring reasonable access to the facility