ANALYSING SUSTAINABILITY REPORT USING GRI INDEX FOR FUNDAMENTAL LABOUR RIGHTS AND CORPORATE GOVERNANCE

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Abstract

Based on their sustainability reports (SR), this study investigates Indonesian stated-owned companies' compliance with fundamental labour rights and corporate governance (CG). Empirical and content analysis was carried out based on the Global Reporting Initiative (GRI) standard index published by 41 state-owned companies from 12 clusters in Indonesia. The study also compared the disclosure performance of several industrial-sector clusters by measuring each cluster's total compliance rate. This study also analyses whether the high corporate governance disclosure will lead to a high level of fundamental labour rights reports. Using content analysis and multivariate analysis of WarpPLS, this study finds that companies tend to disclose clearly basic requirements on fundamental labour rights, such as information about new hires and employee turnover and essential information on corporate governance structure and composition (Martin et al., 2016; Sikka, 2008). In contrast, companies tend to hide information about reasonable notice of significant operational changes and critical concerns in companies. Based on the industrial sectors, the company in the energy, oil, and gas cluster have the highest level of compliance concerning corporate governance and labour disclosure. Then, this study also discovers that companies with high compliance levels on corporate governance disclosure tend to inform more in labour rights activities.

Keywords: Sustainability Report, Global Reporting Initiative, Content Analysis, Corporate Governance, Fundamental Labour Rights

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1. INTRODUCTION

Sustainability development (SD) emerged in the 1980s, primarily related to how the company's operations are related to the environment (Janoušková et al., 2018). In the last few decades, it has evolved and includes three pillars: 1) economic growth; 2) efficient protection of the environment and natural resources; 3) global social development (Rosati & Faria, 2019). This condition has made non-financial disclosures increasingly popular (Bravo & Reguera-Alvarado, 2019; Manes-Rossi et al., 2018), including sustainability reports (Rosati & Faria, 2019). The company's commitment to sustainability continues to grow and evolve concerning the interests of the global business community (Jones et al., 2014; Narayanan & Adams, 2017). The importance of sustainability reports (SR) has been acknowledged by stakeholders such as government, creditors, and communities, who know all forms of corporate responsibility towards communities and the environment (Traxler & Greiling, 2019).

Sustainability reports has been implemented as a mandatory disclosure for all listed companies in several countries, while some countries decided to make it a voluntary requirement or partially required. Malaysia, Hongkong, the United States of America, and the United Kingdom are the countries that regulate all companies to inform their social and environmental performance besides their financial report. Indonesia has enacted the SR as a mandatory requirement for sensitive industries such as the banking and financial sectors. At the same time, the non-sensitive one is still optional (Joseph et al., 2016; Otoritas Jasa Keuangan [OJK], 2021). However, the company's interest and priority in publishing the SR have not diminished due to increasing environmental regulations in many countries, which are expected to become stricter. The public demand for the role of companies is increasing, thus encouraging companies to provide transparent, accountable information and good corporate governance (CG) practices (de Graaf, 2016).

Organizations may report their contribution to the SD through various SR guidelines when reporting is an option. The Global Reporting Initiative (GRI) reporting framework is the most established and common framework for corporate sustainability reporting by countries worldwide (Manes-Rossi et al., 2018; Perello-Marin et al., 2022). GRI defines sustainability as an organization's public reporting on its economic, environmental, and social impacts and, thus, its positive or negative contribution to its sustainable development goals (Slacik & Greiling, 2020). GRI requires the company to provide a universal standard as a mandatory standard, a sector standard, and a topic standard that applies to the specific standard and to report specific information on the company's material topics. GRI Sector Programs have been developed to identify specific criteria for specific sectors, especially for the high-impact sectors such as airport operators, food processing, construction and real estate, media, electric utilities, mining and metals, non-governmental organization (NGO), event organizers, oil and gas, and financial services. In contrast, the other sectors have not developed the standards yet (Perello-Marin et al., 2022).

The GRI topic standard cover three main elements of the SR, which report on economic, social, and environmental impacts. The companies must inform the narrative of how material topics are managed. The most complete and complex sub-topic standard is the social impact topic, with 19 items to be considered, while economic and environmental impacts have 7 and 8 items, respectively. Most social impact topics cover items related to employment and labour practices, communities, and customer relations.

The effectiveness of providing SR, whether an option or mandatory, is derived from the role of the company's governance. The final decision on how and what should be reported on the SR depends on the executive directors and how effectively the CG circle works. The board of directors (BoD) is central to disclosing the company's social responsibility (Fuente et al., 2017). Besides, the existence of independent directors also contributes significantly and plays an essential role in decisions about corporate social responsibility (CSR) disclosure (García-Sánchez et al., 2019). The awareness to report SR is also influenced by foreign owners as principal shareholders who promote the global SR practices and their demand on the voluntary report, including SR (Correa-Garcia et al., 2020). Providing SR is crucial to reducing the conflict between investors and management and minimizing the asymmetries between principal and agent (Al Natour et al., 2022).

The disclosure of a company's sustainability is mainly based on its activities, how the economic, environmental, and social impacts are applied, and how the companies deal with them. The implementation and practice of CG lead the managing process of corporate resources, including employees as part of human resources, which is essential in social impacts. Corporate governance is defined as the respect by management for the rights and interests of the company's stakeholders and the mechanism to ensure that they are accountable and act responsibly (Daily et al., 2003). Therefore, the role of CG on the employee, especially at the functional level, is crucial (Martin et al., 2016). Through a strategic human resources management (SHRM) approach, CG manages employees, including hiring, and determines the measurable elements of contractual arrangements such as skill level and job security, employee voice, leadership communication, and incentive-based pay for performance.

Parsa et al. (2018) argue that as awareness of labour and human rights abuses grows, more attention is paid to treating workers fairly in global value chains. Under the fundamental convention of the International Labour Organization (ILO) and the UN Global Compact, four fundamental labour rights need to be of concern to its member states to ensure that each company complies with the provisions of the fundamental rights of workers, which include: 1) freedom of association and the effective recognition of the right to collective bargaining; 2) abolition of forced labour; 3) the elimination of child labour; and 4) the elimination of employment and job discrimination (ILO, 2022). The demands to adopt the global requirement, including ILO standard, is increasing when the company intends to embark worldwide market and absorb the global stakeholders' needs. Adopting GRI reporting guidelines on Labour Practices and Human Rights has been implemented to respond to the demand. The guideline describes the compliance situation by specific aspects and then scrutinizes the information reported for external and internal employees in the value chain.

Since the demand to comply with the ILO standard is rising, developed countries, including the Organisation for Economic Co-operation and Development (OECD) countries members, have implemented the labour practices at a high level due to their readiness to enforce the regulations. The awareness to comply with the regulation and supported by the inspection of the complying are vital elements of a high level of complying labour standards (Raj-Reichert & Plank, 2019). On the other hand, developing countries struggle to reach global standards since they have problems enforcing regulations. Like some other developing countries, enforcing regulations in developing countries requires the participation and empowerment of civil society (Yanuardi et al., 2021). As an emerging country, Indonesia is the first Asia country that ratifies all fundamental conventions. Since becoming a member of the ILO in 1950, Indonesia has ratified 19 conventions, considered to have complete regulation on labour and human rights (Raj-Reichert & Plank, 2019). Ironically, although Indonesia has benefited economically from globalization, despite the ratification of Indonesian labour laws and core ILO conventions on workers' rights, complex social problems still exist with evidence of continued violations of power. Occupational accidents, unequal pay, age discrimination, and child labour remain high (ILO, 2022). Caraway (2010) found that although Indonesia appears to have a high level of compliance with ILO labour standards, actual practices are much lower, with labour standards falling between law and practice.

Several previous studies have specifically examined how successful GRI is in increasing comparability and transparency, especially regarding the workforce in a company (Cachón-Rodríguez et al., 2022; Hronová & Špaček, 2021). Hronová and Špaček (2021) analyzed how GRI Standards on employment and general disclosure can explore employee focus and long-term employment strategy for companies. Staniškienė and Stankevičiūtė (2018) explored that GRI has an advantage as a framework for sustainability measurement for labour practices and decent work. That research analyzed the disclosures on the labour practices based on the GRI Standard conducted, including quantitatively. However, the lack of them identifies the complying level in state-owned enterprises (SOEs) and how effectively the SOEs' CG influences labour rights practices. As companies with significant government involvement, SOEs play a vital role in determining how a government is concerned about complying with the standards and fulfilling the labour and worker rights in the business entities. SOEs are also crucial in promoting value-added and technologically advanced sectors (Kim & Sumner, 2021). The government might stimulate structural change in several sectors, including labour practices using large numbers of SOEs in strategic industries (Kim & Sumner, 2021).

This study aims to identify the level of SR disclosure in fundamental and labour right and CG practices as well as to analyze whether the level of CG practices leads to the effectiveness of SR in the Indonesian SOEs. Then, this study also identifies the industrial clusters that perform effectively in labour rights practices. Since all single clusters have unique characteristics of daily business activities, they lead to different ways to disclose how they protect and are concerned about their worker's and employees' rights. Furthermore, the research questions for this study are:

RQ1: How is the fulfilment of the fundamental labour rights of SOEs in the SR?

RQ2: What is the quality of CG disclosures in the SR of state-owned companies?

RQ3: Is there a significant influence between the disclosure of CG and the fulfilment of fundamental labour rights?

The structure of this paper is as follows. Section 2 reviews the theoretical framework and literature review. Section 3 conducts the research methodology. Section 4 presents the results of this study. Section 5 contains a detailed discussion. Section 6 highlights the study's conclusion.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1. The role of sustainability reports and corporate governance for employees

In the business community, an agency contract arises between a manager (agent) and an investor (principal) since the separation of ownership exists (Jensen & Meckling, 1976). Since both parties are utility maximizers, the agent will not always act in the best interest of the principles. As a result, the principal has to provide monitoring costs to control the agent's actions and expend bonding costs to ensure that the agent will not make harmful decisions but enhance the principal's wealth. As an agent, BoD ensures the continuity of the company's business, carrying out fiduciary duties and duty of care and diligence. These two principles require directors to act with diligence and integrity only in the interest and purpose of the company. Since the agents, principles, and stakeholders have their interests, conflict will arise. The conflict is also triggered by asymmetric information between agent and principal, majority investors and minority investors, and managers and employees (Muslim & Setiawan, 2021).

Providing financial and non-financial information significantly reduces asymmetric information and conflict between a company and its stakeholders. The critical element of a company is not the company itself. Still, the relationship between the company and its stakeholders (Freeman et al., 2010) and managing stakeholders leads to the achievement of the corporate objectives, such as profitability, stability, and growth which is elabourated on the instrumental stakeholder theory (Donaldson & Preston, 1995). Freeman et al. (2010, p. 9) describe stakeholders as "those groups and individuals who can affect or be affected" by the company's activities and identify the relevant stakeholders. Their expectation is crucial for the company's sustainability (Hörisch et al., 2014). Managing stakeholder relationships does not mean the company must treat all stakeholders equally. The company must identify the stakeholders directly involved in the business, providing input and commitment to the business's going concerns. Strategic stakeholder theory focuses on the relationships between organizations and strategically relevant stakeholder groups. By considering stakeholder needs and demands, a company ideally meets stakeholder expectations and ensures resource availability while creating value (Hörisch et al., 2014). As a strategic communication tool for relevant stakeholders, the publication of SR meets stakeholder expectations and information needs (Fogarty et al., 2011). Therefore, a theory of strategic stakeholders is essential to understand better SR practices (Roca & Searcy, 2012) by explaining how biases in SR may result from focusing on relevant or selected stakeholders and disclosing only selective information.

Conflict in a business society does not only arise between the company and external stakeholders but also between internal stakeholders. Providing more information, including SR, is vital to reducing internal conflict. The management's decision to improve the company's shareholders' wealth might impact employees' wealth and stimulate their motivation, loyalty, and performance (Sahoo & Sahoo, 2019). The employee demands the improvement of their proper fulfilment and an equitable share of the companys wealth. Still, the company's political system might not be responsive to their query and concern more to the influential stakeholders (Sikka, 2008). Madalina (2016) confirmed that most managers spend much of their working time dealing with conflicts or fallouts from people-related problems. Improper management of conflicts leads to the misdistribution of energy across the workforce. Disclosing more information is a preferable way to communicate to the companies' stakeholders, including their employees. To ensure that the companies have complied with the global requirement in fulfilling labour rights, the demand is to provide information on how companies recognize the freedom of association and eliminate forced labour, child labour, and discrimination arise (Raj-Reichert & Plank, 2019). Therefore, the trend to disclose the SR increase to satisfy the employee demand. The most valuable company assets are no longer tangible but more likely intellectual capital and human resources. Therefore, employees that work in a company with high sustainable awareness will do better than those in places that are not (Rudyanto & Siregar, 2018). Human capital elements such as highly skilled and high-degree qualification employees significantly influence the quality of the company's SR (Bananuka et al., 2023). Employees are essential to sustainability because their behaviour improves a company's sustainability and the quality of the SR implementation (Ruiz-Pérez et al., 2021).

Besides providing SR, implementing CG is believed to be vital in reducing conflict between managers and employees. Damiani et al. (2014) point out that the role of a comprehensive set of labour laws includes not only employment and unemployment regulation and benefits but also rules and institutional instruments. Employment regulations affect investment in human capital and tie employee assets to company assets. In a national economy like Germany's, its cumulative innovation system and firm- or industry-specific skills, co-determination, and job security represent different paths to success. Suto and Takehara (2017) point out that stock ownership gives employees a share of the company's residual cash flow and gives them a say in CG. The study also found that employees use their CG voice to maximize the combined value of their contractual and vested interests, pushing company policy away from maximizing stakeholder value rather than shareholder value.

The literature on organized agencies has focused primarily on the relationships between board members and managers (Bois et al., 2009). However, as representatives of the BoD, managers also play a significant role over their employees. As a representative of the BoD in this principal-agent relationship, the manager may hire employees to assist in performing duties designated by the board. As a result, in addition to the role of board representative, the manager plays the role of the primary interpersonal employee (Steinbart et al., 2018; Van Puyvelde et al., 2012).

Fan et al. (2022) found that improving the CG of controlling shareholders reduces firms' overinvestment in their employees. It also suggests that reforming the governance structure effectively improves the efficiency of SOEs. Targeted sustainability communication is one of the most critical steps in making the issue visible and arousing the interest and commitment of target groups. It means identifying the correct address and making sure your message gets through. Since sustainable development is a multi-stakeholder process, indicators should be communicable to different stakeholders (Janoušková et al., 2018). Sikka (2008) found that workers are key stakeholders in a corporate organization. CG processes shape the distribution of wealth, so any proposal to change the status quo should be challenged. Those who believe in the stakeholder theory believe that companies should "behave ethically and contribute to economic development while improving the quality of life of workers, their families, communities, and society as a whole" one might argue (Sikka, 2008, p. 972).

2.2. Fundamental labour rights and GRI

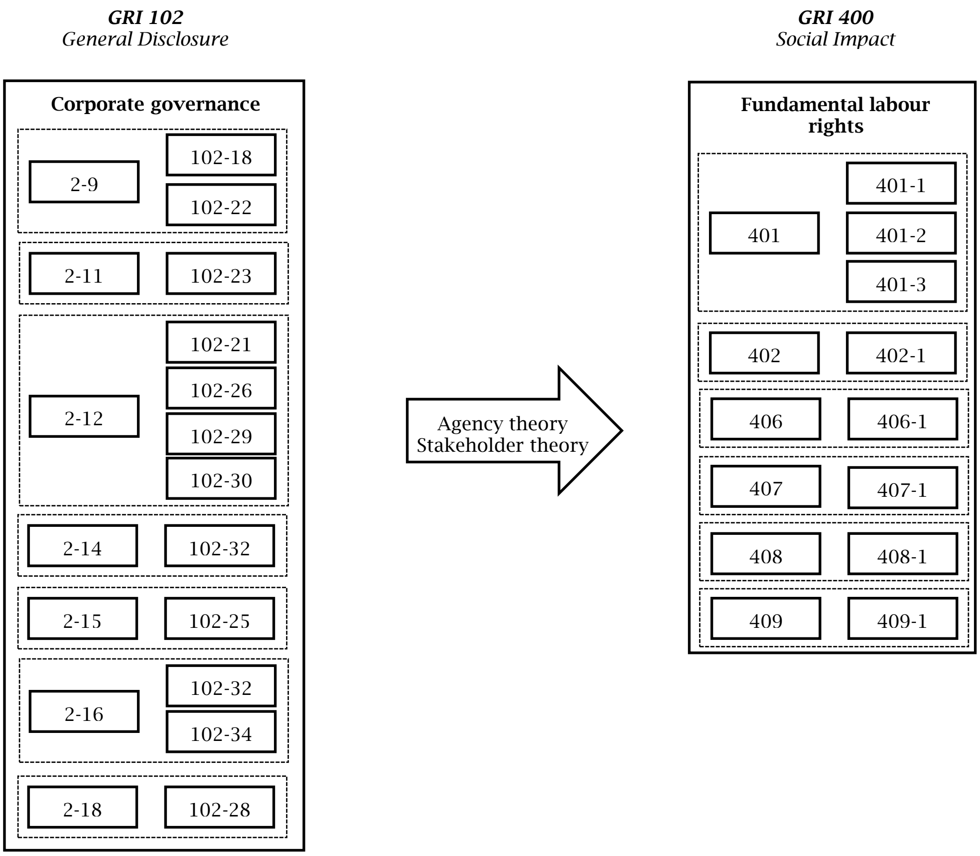
Under the eight fundamental conventions of the ILO and the UN Global Compact, member states must adhere to four fundamental labour rights, and all businesses must adhere to the following fundamental labour rights provisions: 1) compliance must be ensured; 2) effective recognition of freedom of association and the right to collective bargaining; 3) elimination of forced labour; 4) elimination of child labour; 5) elimination of labour and occupational discrimination. Protecting fundamental labour rights is intended to ensure that the social progress of workers is related to economic progress and growth. The fulfilment of workers' fundamental rights in the workplace will help improve the quality of workers and their families. Quality workers are capital for economic progress and growth. Legal and financial literature initiated by La Porta et al. (1996) considers protecting and exercising shareholder rights essential for corporate value. Numerous contributions by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (LLSV) argue that limited protection of shareholder interests primarily affects countries with civil codes. It has been shown to cause concentrations and illiquid capital markets (La Porta et al., 1996).

Fundamental labour rights have been considered the main element of the social impacts of the GRI Standard. The GRI topic standard cover three main elements of the SR, which report on economic performance (GRI 200), environmental performance (GRI 300), and social performance (GRI 400). The companies must inform the narrative of how material topics are managed. The most complete and complex sub-topic standard is the social impact topic, with 19 items to be considered, while economic and environmental impacts have 7 and 8 items, respectively. Most social impact topics cover items related to employment and labour practices, communities, and customer relations. Before reporting the GRI topic standard, a company should disclose the general disclosure, which covers information about the organizational and reporting practices, the company's activities, and workers and the company's governance.

2.3. Corporate governance influences the compliance the fundamental labour rights

The fulfilment of the employees' fundamental rights might differ for each company. CG implementation is crucial since the final and strategic decision is on the BoD. Complying with the workers' rights and considering the trade unions' influence on the equitable distribution of a firm's income. Therefore, top management should strengthen the workers' basic needs (Sikka, 2008). A company with a high level of CG will ensure compliance with laws related to all stakeholders' statutory or contractual rights, including its employee, and provide adequate control and monitoring to protect their rights (International Finance Corporation [IFC], 2018). Concerning the rights of the employee is derived from the concept of stakeholders' theory. Stakeholder theory elabourates on a business entity's responsibility to consider the stakeholders' needs instead of the shareholders solely, in which employees are the main stakeholders (Freeman, 1999). Then, since the demand to comply with the ILO standards arise from a global market, providing reports shows companies' concern for their stakeholders and reduces the conflict between principles and agents, which leads to the company's existence. It requires the competency of the BoD and the advisory board to build a critical mechanism to improve and make alliances with the stakeholders and reduce the business risk (Salancik & Pfeffer, 1978). Therefore, the more effective CG the company has, the more concerned the fulfilment of labour rights. Effectiveness CG is reflected in the company's disclosure of its CG (stated on GRI 102), while the fulfilment of labour right is reflected in the GRI 400. Figure 1 according to GRI Report (GRI, 2016) published at *globalreporting.org*.

Figure 1. Conceptual framework



3. RESEARCH METHODOLOGY

This research implements content and multivariate analysis using partial least squares structural equation modeling (PLS-SEM). Content analysis is implemented to identify the quantitative coverage of indicators in SR based on the GRI Standard. Content analysis refers to the research technique for the objective, systematic and quantitative description of the manifest content of communication (Gupta, 1982). Elo and Kyngäs (2007) define content analysis as "a method analyzing written, verbal or visual communication messages" (p. 107), and words and sentences can be used as the unit of analysis. This study analyses the content of the companies' SR and identifies their performance on labour rights compliance and CG performance based on their sentence on the reports. This analysis is adopted to answer the question related to the quality of labour practices and CG by comparing the sentences on their SR with the sentences on the GRI Standard, and whether their report complies with the standard. In follow, the multivariate analysis using PLS-SEM (WarpPLS software) is implemented to identify whether the CG disclosure influences the quality of labour practices. PLS-SEM is adopted to predict the causal effect between variables with a limited sample. WarpPLS calculates the exact values of the individual contributions of the corresponding predictor latent variables to the R-square coefficients of the criterion latent variable they point at (Kock, 2014). This sophisticated quantitative research method also broadly applies to other business research areas within the social and behavioural sciences (Kock, 2019). The population of this study was all Indonesian state-owned companies, referring to the 107 companies from 12 industrial sectors. Then, based on the requirements of publishing SR with GRI Standards for the last three years, 41 state-owned companies were selected. The measurement of CG and fundamental labour rights is based on the GRI Standard 2016 on general disclosure for CG and specific disclosure for labour practices and is listed below.

The dummy variable measures CG and labour practices by recording a score. The company that complies with all standard requirements has a score of 1 and 0 for those who fail to comply. Then, in this paper, the index is classified using total compliance rate (TCR) and compliance rate (CR), which is adapted from Traxler and Greiling (2019).

$$TCR = \frac{\Sigma \, Amount\ of\ disclosed\ indicators}{20} \quad (1)$$

$$CR = \frac{\Sigma \, Indicators\ disclosed\ within\ the\ category}{Number\ of\ Indicators\ within\ the\ category} \quad (2)$$

The data selection (Table 1) is collected from the official website of the Indonesia Stock Exchange (IDX) and the publication of SR from the company's official website. The measurement of CG and fundamental labour right (Table 2) according to the GRI Report (GRI, 2016) published at *globalreporting.org*. This study's sampling technique was purposive, taking a predetermined sample based on specific considerations and distinctions. The criteria for selecting the sample in this study are: 1) state-owned companies that publish SR for the 2019–2021 period (using the GRI Standards Index); 2) companies that publish SR that have the necessary complete data regarding the variables in this study.

Table 1. Sample selection

Criteria	***Total***
Stated-owned companies	107
State-owned companies that did not issue sustainability reports (between 2019–2021)	(66)
Total	**41**

Table 2. The measurement of corporate governance and fundamental labour rights

Corporate governance			
2-9	Governance structure and composition	102-18	Governance structure
2-11	Chair of the highest governance body	102-22	Composition of the highest governance body and its committees
		102-24	Nomination and selection of the highest governance body
		102-23	Chair of the highest governance body
2-12	Role of the highest governance body in overseeing the management of impacts	102-21	Role of the highest governance body in overseeing the management of impacts
		102-26	Role of the highest governance body in setting purpose, values, and strategy
		102-29	Identifying and managing economic, environmental, and social impacts
		102-30	Effectiveness of risk management processes
2-14	Role of the highest governance body in sustainability reporting	102-32	Role of the highest governance body in sustainability reporting
2-15	Conflict of interest	102-25	Conflict of interest
2-16	Communication of critical concerns	102-33	Communication of critical concerns
		102-34	Nature and the total number of critical concerns
2-18	Evaluation of the performance of the highest governance	102-28	Evaluation of the performance of the highest governance
Fundamental labour rights			
401	Employment	401-1	New employee hires and employee turnover
		401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees
		401-3	Parental leave
402	Labour management relations	402-1	Minimum notice periods regarding operational changes
403	Non-discrimination	406-1	Incidents of discrimination and corrective actions taken
407	Freedom of association and collective bargaining	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk
408	Child labour	408-1	Operations and suppliers at significant for incidents of risk child labour
409	Forced or compulsory labour	409-1	Operations and suppliers at significant for incidents of risk forced or compulsory labour.

4. RESULTS

4.1. The compliance of fundamental labor right in the sustainability reports

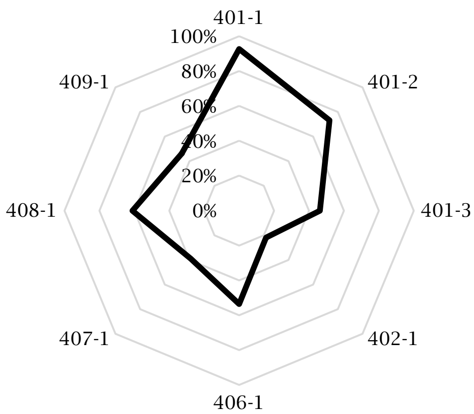
The compliance level of fundamental labour rights for SOEs in Indonesia is described in the Table 3.

The compliance numbers described the number of companies that comply with all requirements on the sub-section of specific disclosure. Based on Table 3, the majority of the company complies with the requirement for new employee hires and employee turnover (401-1), which identifies the majority of Indonesian SOEs disclose inclusive practices based on age and gender and also provide helpful information on available labour and talent in different regions. Then, the information related to all employees' benefits has been satisfied (401-2). Furthermore, half of the Indonesian SOEs provide complete information about how companies cover the parental leaves and retention rate, including the rate of return to work (401-3) as well as the risk assessment on operation and suppliers based on international standards, such as ILO and OECD (409-1). On the other hand, the SOEs, which informed deeply about minimum notice periods regarding operational changes, including consultation and negotiation (402-1), reached the least. The information about the right to freedom of association and collective bargaining (407-1) has less attention. Only 22% of SOEs report clearly about their due diligence on the workers' human rights to form or join trade unions and to bargain collectively. Figure 2 compares reporting related to fundamental labour rights by state-owned companies in Indonesia.

Table 3. Compliance level of fundamental labour rights

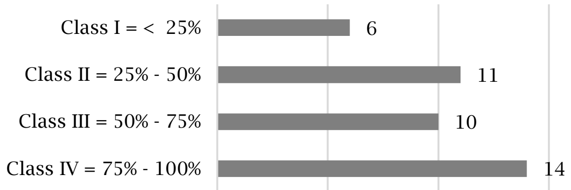
Parameter	*GRI Standards: Fundamental labour rights*							
	401			*402*	*406*	*407*	*408*	*409*
	401-1	*401-2*	*401-3*	*402-1*	*406-1*	*407-1*	*408-1*	*409-1*
Compliance numbers	38	30	19	9	22	16	25	19
Compliance rate	93%	73%	46%	22%	54%	39%	61%	46%

Figure 2. Fundamental labour rights disclosure



After identifying the compliance on each sub-standard, the sub-sector analysis was conducted to identify the performance of each industrial sector. Four classifications were created to identify the quality of compliance performance. Class I (< 25%) means that the company's compliance level was less than 25% or the full disclosure on labour practices was below 25%. In contrast, Class IV (75%–100%) determines that a company has declared the majority of all sub-standards in full disclosure. On fundamental labour rights, one-third out of 41 companies (14 companies) have declared more than 75% sub-standard in full disclosure. Most SOEs only disclose their enactment on the fundamental labour right in full detail at 25–75%.

Figure 3. Classification of fundamental labour rights disclosure



4.2. The compliance of CG practice in the sustainability reports

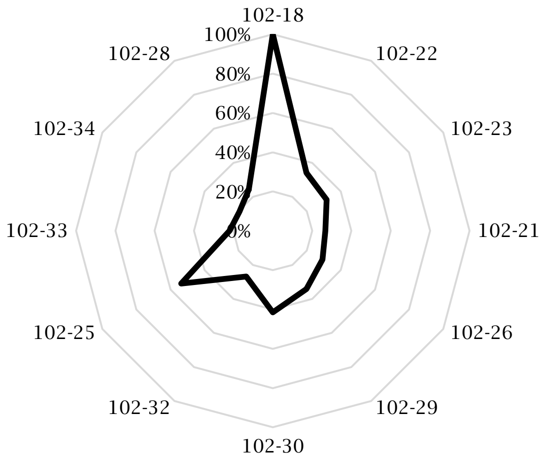
The compliance level of CG practices for SOEs in Indonesia is described in the Table 4.

Table 4. Compliance level of corporate governance

Parameter	*GRI Standards: Corporate governance*										
	2-9	*2-11*		*2-12*				*2-14*	*2-15*	*2-16*		*2-18*
	102-18	*102-22*	*102-23*	*102-21*	*102-26*	*102-29*	*102-30*	*102-32*	*102-25*	*102-33*	*102-34*	*102-28*
Compliance numbers	41	14	13	11	12	14	17	11	22	9	8	10
Compliance rate	100%	34%	32%	27%	29%	34%	41%	27%	54%	22%	20%	24%

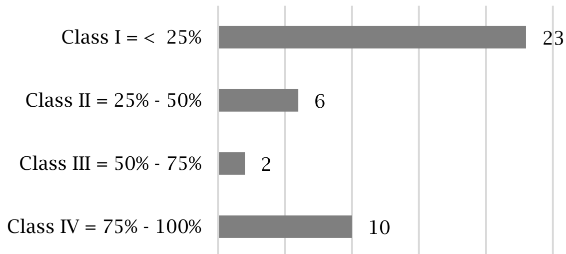
After describing the compliance level of fundamental labour rights, this sub-chapter describes the compliance level of CG disclosure. Different from the compliance level of fundamental labour rights, several SOEs have not yet complied with the requirements on the sub-section of general disclosure. Based on Table 4, all SOEs in Indonesia only comply with the disclosure of governance structure and composition (102-18). In addition, it is only in reporting related to conflicts of interest (102-25) that more than half of state-owned companies in Indonesia have reported, where disclosure ensures that conflicts of interest are avoided and managed by the company. The rest, less than 40% of state-owned companies in Indonesia, comply with CG disclosures based on the GRI Index. Only 20% of companies report the nature and the total number of critical concerns (102-34), which addresses how the reporting organization should report related information: The total number and nature of material concerns communicated to the governance body and the mechanisms used to handle and resolve critical issues.

Figure 4. Corporate governance disclosure



Surprisingly, most Indonesian SOEs do not comply with all GRI disclosure standards in the disclosure of CG information. They perform the information about their governance, but not all required information is reported. Although the governance information is mandatory in the GRI Standard, however, in fact, 23 SOEs performed a full disclosure in only 25% of all governance disclosure, and 75% of the disclosures were not fully informed. On the other hand, ten companies comply with the requirements, report details, and complete all obligations.

Figure 5. Classification of corporate governance disclosure



Based on the industrial sector, which is measured by identifying the number of items in every sub-sector that disclose fully, the energy, oil, and gas cluster sector perform with a high level of compliance in both topic areas. In contrast, the insurance services and pension funds cluster performs the lowest. On average, energy, electricity, and gas companies have disclosed all sub-sections as required by GRI Standards. Financial services, including banks and financial institutions, tend to disclose fully in both areas. The other sectors that performed clearly in complying with the labour standard are the mineral and coal cluster, telecommunications and media cluster, health cluster, financial services, and infrastructure services. The rest of the clusters tend to declare incomplete information about their activities regarding their employment and labour rights disclosures. In contrast, the insurance services, pension funds, and logistic services cluster performed the lowest compliance level in disclosing their CG issues and labour rights activities. The companies in those sectors are inclined to report all sub-sectors disclosure. However, not all information is performed based on the requirements (see Figure 6).

4.3. The effect of corporate governance disclosure on fulfillment of fundamental labour rights

4.3.1. Evaluation of the measurement model (outer model) and the structural model (inner model)

The outer model is tested using convergent validity (CV) analysis and composite reliability (CR) analysis, while the inner model is tested using the goodness of fit model. CV analysis is intended to determine the validity of indicators in measuring variables indicated by the loading factor's size (Hair et al., 2016). There 11 out of the 12 CG indicators and seven (7) out of eight (8) fundamental labour rights indicators were declared valid and included in the statistical analysis. After deleting the indicators 102-18 and 406-1 from the statistical data, the second CV test presented all valid indicators (see Table 5). Then, the CR test is selected to test the reliability of constructs which identifies that the construct is declared reliable when it has a value > 0.7 (Hair et al., 2016). Based on the test, all indicators that measure the variables of CG and fundamental labour rights are declared reliable with values of 0.967 and 0.854, respectively. The goodness of fit model determines the magnitude of CG disclosure on labour rights with R^2 (0.345) and Q^2 (0.316). The contribution of the CG disclosure to the labour rights disclosure is 35.0%, while the remaining 65.0% is the contribution of other variables not discussed in this study.

Figure 6. Compliance level based on industrial cluster

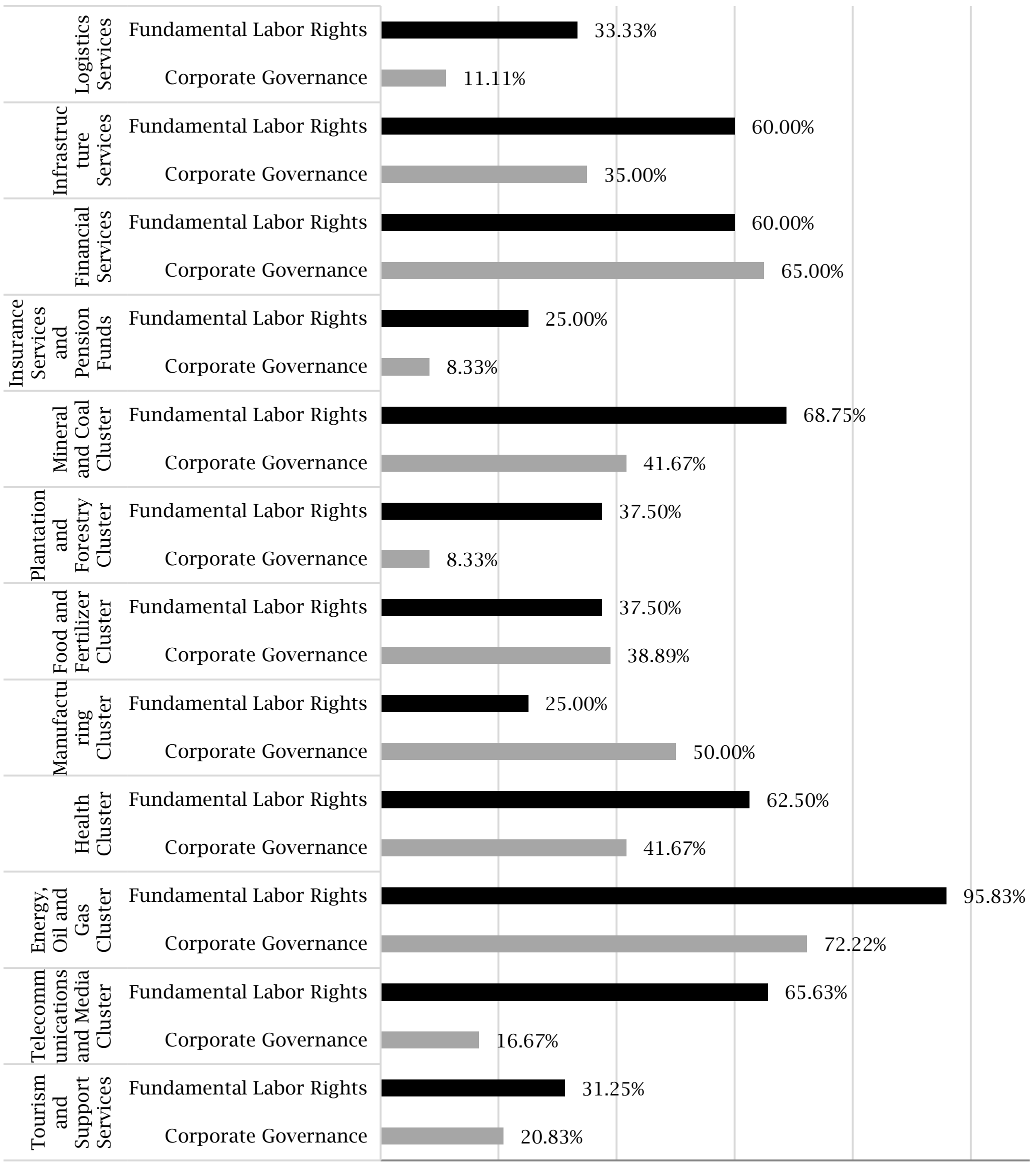


Table 5. Convergent validity test

Variable	*Indicator*	*1st CV test*			*2nd CV test*		
		Loading factor	*SE*	*p-value*	*Loading factor*	*SE*	*p-value*
Corporate governance	102-18	0.14	0.147	0.174	-		
	102-22	0.865	0.108	< 0.001	0.865	0.108	< 0.001
	102-23	0.91	0.106	< 0.001	0.91	0.106	< 0.001
	102-21	0.913	0.106	< 0.001	0.913	0.106	< 0.001
	102-26	0.862	0.108	< 0.001	0.862	0.108	< 0.001
	102-29	0.808	0.111	< 0.001	0.808	0.111	< 0.001
	102-30	0.71	0.116	< 0.001	0.71	0.116	< 0.001
	102-32	0.827	0.11	< 0.001	0.828	0.11	< 0.001
	102-25	0.642	0.119	< 0.001	0.64	0.119	< 0.001
	102-33	0.949	0.104	< 0.001	0.95	0.104	< 0.001
	102-34	0.897	0.107	< 0.001	0.897	0.107	< 0.001
	102-28	0.945	0.105	< 0.001	0.945	0.105	< 0.001
Fundamental labour rights	401-1	0.547	0.124	< 0.001	0.528	0.125	< 0.001
	401-2	0.537	0.124	< 0.001	0.551	0.124	< 0.001
	401-3	0.766	0.113	< 0.001	0.793	0.112	< 0.001
	402-1	0.598	0.121	< 0.001	0.593	0.121	< 0.001
	406-1	0.399	0.132	0.002	-		
	407-1	0.744	0.114	< 0.001	0.759	0.113	< 0.001
	408-1	0.766	0.113	< 0.001	0.764	0.113	< 0.001
	409-1	0.715	0.115	< 0.001	0.708	0.116	< 0.001

4.3.2. Influence testing

After conducting the outer and inner model, the significance test is undertaken to identify the significant level of influence CG disclosure on labour rights disclosure. The test shows that CG disclosure significantly affects the fundamental labour rights disclosure (p-value = 0.588, $\alpha = 0.05$). Their CG influences the quality of SOEs declaring their employment and labour rights activities. Companies with a high level of CG tend to declare their actions to their employment clearly on the SR.

Table 6. Influence testing

Exogen	Endogen	Path coefficient	SE	Sig (α)
CG	Fundamental basic rights	0.588	0.122	< 0.001

5. DISCUSSION

5.1. The compliance of fundamental labor rights and corporate governance practice in the sustainability report.

Indonesian SOEs tend to have a positive trend in reporting fundamental labour rights disclosure. The highest reported sub-criteria are the disclosure about new hires and employee turnover (401-1). Most SOEs clearly describe the number of employees hired and turnover by age, gender, and region. This information determines the recruitment practices and whether the company has rules for hiring employees in different regions and detects discrimination based on age and gender. Then, the turnover information reflects companies' awareness to inform the changes in their intellectual capital, which indicates the level of certainty and satisfaction of the employee. SOEs tend to have less employee turnover, indicating that their employees are satisfied and tend to stay longer with the company. This information relates to the employee's benefits, such as insurance, health care, stock ownership, disability coverage, and retirement provision (401-2), the second-highest disclosed information in the SR. When the company provides benefits that cover most employee needs, the more employees are satisfied with the company and the longer they stay (Sainju et al., 2021). These trends align with the global labour disclosure preference when information about an employee, such as the number of employees, turnover, and benefits, are more likely to be well informed by critical global companies in a comprehensive range of countries (Faisal et al., 2012). Then, the interest in disclosing employee information has risen since the labour practices, and decent work disclosure in worker information gained only 25% of Indonesian listed companies in 2007 (Cahaya et al., 2012). In contrast, SOEs tend to provide less information about reasonable notice of significant operational changes, which can be a sign for the employee to make decisions related to the operational changes' impact. This result supports the global finding that labour/management relations, including collective bargaining agreements and minimum notice period in operational changes, are less informed by global companies when they disclose their labour issue (Faisal et al., 2012).

Furthermore, all Indonesian SOEs declare fully in the disclosure of governance structure and composition (102-18). Governance structures BoD and board of commissioners (BoC), including the committee, are fully informed, as well as their duties and responsibilities. Most of them also mentioned how independent the commissioners or the committee are. This basic information is also mandatory and provided by listed companies on annual reports (Harymawan et al., 2020). Therefore, most declared clearly to comply with the IDX's regulations. The second most reported is the information about conflict of interest (102-25). 54% of the SOEs have declared clearly how their highest governance body ensures that conflict of interest in the company is avoided. If the conflict exists, they disclose it to their stakeholders, including investors, suppliers, and other related stakeholders. On the other hand, Indonesian SOEs tend not to declare fully about nature and the total number of critical concerns (102-34). Compliance is reached when the companies report the number of critical concerns communicated to the highest governance body of the SOEs and the mechanism to solve the critical concern.

5.2. The industrial sectors analysis

Based on Indonesia's industrial sector, the energy, oil, and gas cluster have the highest level of compliance concerning CG and labour disclosure, followed by financial services. Sustainability reporting within oil and gas companies has evolved significantly over the past decade, with more and more companies producing reports. These reports are increasingly displayed dynamically. Reporting as a process of critically examining company stakeholders, employees, and organizations is gaining increasing attention (Janus & Murphy, 2013). According to Cardoni et al. (2019), the oil and gas industry is susceptible to the environment, economy, and society. Appropriate disclosure of the environmental, social and governance (ESG) information is required in response to requests from regulators and other stakeholders. When these companies go public, investors become a powerful interest group. As such, companies feel pressured by investors to make their ESG data available to competitors (Cardoni et al., 2019). For the oil and gas industry, reports can provide a solid platform for explaining how strategic issues are addressed through long-term plans and current initiatives (Janus & Murphy, 2013).

Cardoni et al. (2019) also found that oil and gas companies produce SR most significantly. Companies with GRI supplemental oil and gas are typically large or multinational companies. Larger organizations have a more destructive impact on the environment and communities, increasing the need for sustainability reporting (Cardoni et al., 2019). Indonesian oil and gas companies tend to have a higher awareness of conducting CSR, which attracts potential employees, motivated to fulfil the basic need of the employee and improve employee performance (Tarigan et al., 2021). The higher awareness drives the higher disclosure.

The Indonesian Law No. 22/2001 about oil and natural gas (Act of the Republic of Indonesia, 2001) enacted that oil and gas companies must prioritize hiring indigenous workers (Article 11 and Article 40) and develop their employee capabilities (Article 42). This responsibility drives the company to report their action to present its compliance and build its reputation.

The financial sector has the second-best CG and labour fundamentals disclosure, following the oil and gas sector. Financial services organizations are intermediaries between all other economic actors, allocating capital through investments, channelling funds from savers to borrowers, facilitating payments, and allowing people and companies to transfer risk. The significance of these sectors lies in their central position in the economy, in which few activities could function without credit, insurance, capital markets, or payment services. Banks, insurers, and actors in capital markets have impacts through their operations — such as employment practices, customer privacy, financial inclusion, and investment activities. Financial sector actors facilitate impacts beyond their operations by investing in businesses with human rights or environmental impacts (Brown et al., 2015). Law of The Republic of Indonesia No. 25 of 2007 about Capital Investment (Law of the Republic of Indonesia, 2007) declares that listed companies are responsible for hiring and highlighting indigenous employees and developing their competency (Article 10).

On the other hand, the insurance services, pension funds, and logistic services cluster performed the lowest compliance level in disclosing their CG and labour rights activities. The companies in those sectors are inclined to report all sub-sectors disclosure. However, not all information is performed based on the requirements. The preference of reporting the CG disclosure from insurance services companies is the other way around with banking services. Insurance companies are less developed in financial transactions, and most citizens have interacted with the bank sector instead of insurance companies (Azid & Alnodel, 2019). Then, the banking industry may be under more pressure to comply with the regulation and is a highly regulated sector in Indonesia than insurance companies, which makes them advantageous.

5.3. The effect of corporate governance disclosure on fulfillment of fundamental labour rights

Based on the statistical data, the quality of fundamental labour rights disclosure provided by the Indonesian SOEs is affected by the quality of their CG. When a company has a high level of CG, they tend to disclose sincerely about their activities, fulfilling labour rights. The high level of CG is derived from their information about their governance body's activities. Indonesia enacts the two-tier system, separating executive decision makers (BoD) and non-executive decision makers (BoC). BoD has to run the business on daily activities and make the highest business decision, whereas the BoC has the rule to monitor and supervise the activities of BoD. When a company has practical monitoring activities on the business actions, they tend to disclose more of their information, including their labour actions and how they fulfil fundamental employee right (Brown et al., 2015). The disclosure of labour practices in the report is a way to reduce the asymmetric information and conflict between the company and internal and external stakeholders mentioned in agency theory. Then, managing the stakeholders' requests leads to achieving the company's goals and objectives (Donaldson & Preston, 1995). Still, the company must select the relevant stakeholders who should be treated and identify who directly contribute to the business, described in the strategic stakeholder theory (Hörisch et al., 2014). The requirement to satisfy the needs of stakeholders, binding their fiduciary duties by performing the stakeholders' interest on the companies' decision-making leads including their employees to increase the company value (Freeman, 1999). As stakeholders and human resources, employees become a vital component of the company to be sustained. Taking their demands into account and achieving the stakeholders' expectations by publishing a SR complying with the regulation is strategic communication. The decision-making in a company depends highly on the CG.

The results of this study align with Martin's (2016) research. At the functional level, CG's role is to control employees' work in terms of recruitment, training for high skill levels and job security, employee voice, and employee-management communication, but also measurable elements in contractual agreements, such as incentive-based payments for performance. As research by Sikka (2008), the role of workers is significant as a major stakeholder in business organizations. The fulfilment of fundamental labour rights is also an issue that can be affected by CG disclosure. By disclosing information about a company's labour practices, shareholders can better assess the risks associated with labour issues such as workplace safety, fair wages, and human rights violations. Thus, the relationship between CG disclosure and fulfilling fundamental labour rights can be seen as an application of agency theory. Both are mechanisms aimed at aligning the interests of principals and agents to improve overall performance and reduce conflicts of interest (Muslim & Setiawan, 2021).

How is CG a role as an agent of the board? The manager also performs a role as principal concerning the employees. Acting as the board's agent in this principal-and-agent relationship, the manager may recruit employees to assist them in pursuing tasks set by the board. In this case, this study confirms how the CG mechanism can provide added value to its stakeholders. In line with Damiani's (2014) research, this study confirms that employees as company assets are influenced by how the governance mechanisms in the company affect employee investment as human capital. Governance mechanisms also set how employees are bound to the company through various rights that are fulfilled, such as leave permits, freedom of association, and freedom of speech. Stakeholder theory suggests that corporations are responsible for serving not only the interests of shareholders but also the interests of other stakeholders, such as employees, customers, suppliers, and the wider community. Fulfilling fundamental labour rights is one aspect of this broader stakeholder perspective, as it concerns the well-being and rights of employees (Fogarty et al., 2011). CG disclosure can impact the fulfilment of fundamental labour rights from a stakeholder perspective by increasing transparency and accountability. By disclosing information about a company's labour practices, stakeholders, including employees and labour rights advocates, can better understand its policies and practices and hold it accountable for any violations or shortcomings.

6. CONCLUSION

This research resulted in a research conclusion that SOEs have attempted to fulfill fundamental labor rights. These basic rights are freedom of association, abolition of forced labor, abolition of child labor, and the abolition of punishment. As proposed in research question one, this study analyzed how SOEs fulfill fundamental labor rights by analyzing the company's SR documents. The SR identifies which indicators have been fulfilled (applied) and which have not been fulfilled (not-applied), and which sectors performed better. This research also classifies SOEs per economic sector and identifies which sectors best fulfill workers' fundamental rights based on the SR's disclosures. Most Indonesia SOEs are informed clearly about new hires, and employee turnover (401-1) and its benefit (401-2) reflect companies' awareness to inform the level of certainty and satisfaction of the employee to work for the companies and what benefit they will get. Unfortunately, fewer of them are informed about reasonable notice of significant operational changes, which can be a sign for the employee to make decisions related to the operational changes' impact.

The results of this study also answer the second research question. In CG disclosure, all companies disclose perfectly about governance structure and composition (102-18), including information about the independent directors, whereas the companies tend to hide the information about critical concerns that arise and how they resolve them (102-34). Based on the industrial sectors, the energy, oil, and gas cluster have the highest level of compliance concerning CG and labor disclosure, followed by the financial services cluster since both clusters have the highest public attention due to their impact on nature and economics. High global pressure makes them clear about managing their business and complying with the stakeholders' requirements. The intention of providing SR is derived from the CG since the high quality of CG tends to disclose more and comply with the standard than the companies with ineffective CG.

Finally, the third research question is answered using the results of quantitative data processing. The quality of labor rights disclosure provided by Indonesian SOEs is influenced by the quality of CG. Companies with high levels of CG are more likely to disclose their activities and labor rights openly. Since this study has limitations concerning the SOEs complying with the GRI Standards, the future study recommends comparing SOEs and private companies to gain border information in reporting. Both types of companies have different ownership compositions and government involvement, leading to different business decision-making.

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