

Coercive media pressures on Indonesian companies' labour communication

Abstract

This study examines links between media pressures and Indonesian Stock Exchange (IDX) listed companies' Labour Practices and Decent Work Disclosures (LPDWD). The results show that there are 95 labour-related articles found in Kompas from 1 July 2006 to 30 June 2007. The level of annual report disclosures in 2007 ranges from just under 1% to 100% of companies communicating labour-related information. Correlation analysis reveals that the link between media exposure and firms' communication is significant and positive. The most apparent effect of media is on employee benefit issues. This finding supports the premise of *coercive isomorphism*. There are, however, major differences between individual LPDWD media exposure items and company reporting. The media intensively highlights injury rates and contract employment issues whereas Indonesian companies focus their labour disclosures more on training and employee diversity information. This implies that companies in this developing nation window-dress their annual reports to avoid communicating controversial issues especially where they do not perform well. Despite media exposure, it is the government that has greater influence on companies' labour disclosures, pushing companies to continue adopting certain practices and disclose particular issues which contribute to strengthening the Indonesian economy.

Keywords: Social accounting; Developing country; Labour disclosures; *Coercive isomorphism*; Media exposure; Global Reporting Initiative.

1 Introduction

This paper examines the possible influence of media pressure on Indonesian companies' Labour Practices and Decent Work Disclosures (LPDWD). This paper extends a recent study by Cahaya et al. (2012) which finds a low level of labour disclosures by listed companies in an Indonesian context. Cormier et al. (2005) argue that pressures from a wide range of stakeholder groups are reflected in media exposure concerning Corporate Social Responsibility (CSR) issues and therefore information exposed in the media potentially becomes a threat (or an opportunity) for companies' legitimacy. This is because media disclosure can result in early public identification of any companies' actions (see Miller, 2006). After the fall of Soeharto¹, the Indonesian media is widely regarded as having more power and freedom to influence and evaluate not only the government's policies but also companies' practices (see Sasongko, 2000; Haryanto,

2004). Accordingly, this study examines the link of media exposure as a key factor explaining the variability of labour disclosure practices.

‘Media exposure’ has been used by a number of disclosure studies as a proxy of social concerns or public pressures on companies’ disclosure practices (e.g Neu et al., 1998; Cormier and Gordon, 2001). According to Cormier et al. (2005), greater media exposure tends to result in greater pressure from a wide range of stakeholders such as labour unions², suppliers and the general public. Such a situation arguably makes more pressing the need to disclose information on social responsiveness. For example, when newspapers report frequently that a specific company does not provide regular or adequate training for its employees, this company is then pressed to counter the unfavorable news through the provision of detailed information regarding the number of employees trained during a particular financial year. In this example, the company wants to show that what it actually does in relation to their employees is positive and contrary to the media reports. Therefore, it can be said that the provision of disclosure by companies is, at least to some degree, a response to public pressures from the media (see for example Cormier et al., 2005). To specifically investigate such pressures in an Indonesian setting, this paper poses the following research question: Is there a positive relationship between media exposure of labour issues and LPDWD practices?

Labour issues have been the subject of public concerns, either globally or nationally. This is mainly because poor decent work presents everywhere in the world, even in developed countries. In France, for example, there are problems of long working days, unpredictable working hours, and no freedom of choice in relation to schedules (Gadrey et al., 2006). In Finland, overtime work is often unpaid (Nätti et al., 2006). In

Greece, female workers are discriminated against male workers, particularly in terms of salary (Burks et al., 2006). In developing countries like Indonesia, there is usually a big problem with very low minimum wage levels (Setiawan, 2006; Sage, 2008). Such complex issues further highlight the need to investigate how the media reflects social concerns on labour problems as well as how it presses Indonesian companies to disclose information about their labour-related CSR.

This study is important for a number of reasons. Firstly, it provides insights into the potential links between media exposure of labour issues and labour disclosure practices. Specifically in an Indonesian context, there is arguably very little research investigating such an association. Media exposure has been narrowly used to score Indonesian environmental disclosure index weightings but the link between that exposure and companies' disclosures is not examined (see Suhardjanto et al., 2008). Secondly, it contributes to the literature by specifically testing one variant of *isomorphic* institutional theory namely *coercive isomorphism* which will provide deeper insights into the potential pressures of influential stakeholders in this developing nation (see for example Amran and Devi, 2008; Cahaya et al., 2012). Lastly, unlike most previous CSR reporting studies (see for example Cormier and Gordon, 2001; Aerts et al., 2008), this study focuses on media exposure published in a printed media, not in online databases such as ABI Inform data base. This is an important improvement because key Indonesian newspapers are generally not available in online databases. The focus on powerful printed media in this study is considered appropriate and especially relevant to the context of Indonesia.

2 Literature review and theoretical positioning

Studies on the relationship between media exposure and CSR reporting employ a number of different theories. These include a joint test of legitimacy and media agenda setting theories (e.g. Brown and Deegan, 1998), impression management theory (Neu et al., 1998), legitimacy theory (Cormier and Gordon, 2001), stakeholder theory (e.g. Brammer and Pavelin, 2004), institutional theory (Cormier et al., 2005), and information dynamic theory (Aerts et al., 2008). As this paper focuses on the specific relationship between media exposure of labour issues and labour disclosure practices, and because media exposure itself is arguably a reflection of stakeholders' pressures on companies' disclosure practices, this paper adopts a specific variant of institutional theory which is *coercive isomorphism*.

Coercive isomorphism refers to a situation in which organisations undertake institutional practices (e.g. labour disclosure practices) because of pressures from stakeholders who are considered important and influential to the organisation (DiMaggio and Powell, 1983). Deegan (2009) argues that this variant is close to managerial stakeholder theory as they both have similar themes, reflecting the pressures of influential stakeholders on organisations' practices.

In the CSR reporting literature, *coercive isomorphism* is usually tested together with the other variants of isomorphic institutional theory, which are *mimetic isomorphism* and *normative isomorphism* (see for example Amran and Devi, 2008; Cahaya et al., 2010). Whilst *coercive isomorphism* is a variant of isomorphic institutional theory, it is also a specific subset of a larger political economy framework. This framework is popular within the CSR reporting literature given that its branches, which are stakeholder theory, legitimacy theory, strategic legitimacy theory, and

institutional theory, are often used to explain CSR disclosure phenomenon (see Neu et al., 1998; Williams, 1999; Cormier and Gordon, 2001; Brammer and Pavelin, 2004; Mousa, 2010; Cahaya et al., 2012). This paper does not intend to examine each of those theories but at least acknowledges the position of *coercive isomorphism* within the popular political economy framework. Detailed explanations on political economy framework and its branches can be found in DiMaggio and Powell (1983), Gray et al. (1996), Perera (2007), Deegan (2009), and Cahaya et al. (2010). Figure 1 below illustrates the schema of *coercive isomorphism* within the context of political economy.

[Take in Figure I]

Previous studies acknowledge the potential role of powerful stakeholders in pressing Indonesian companies to undertake certain practices, including annual report disclosure (see Cahaya et al., 2006; Rusmin and Brown, 2008; Gunawan, 2009). Cahaya et al. (2006) detail the list of these stakeholders (e.g. community, political groups, and labour unions). Gunawan (2009) further found that, amongst a variety of stakeholder groups, the community has the greatest power to affect companies. To capture the potential pressures of these powerful stakeholders, it is considered appropriate to employ *coercive isomorphism* to derive the tests for the underlying theoretical framework of this study.

What is also apparent from the literature is that most prior studies in the area of social accounting look at an aggregated set of labour, human right, community, product responsibility, and environmental data (see for example Murray et al., 2006; Belal and Owen, 2007; Bebbington et al., 2008). There are recent studies on specific subsets of CSR reporting but they mostly focus on environmental reporting (see for example

Chatterjee and Mir, 2008; Yusoff and Lehman, 2009; Monteiro and Aibar-Guzmán, 2009) or carbon and climate change (see for example Bebbington and Larrinaga-González, 2008; Kolk et al., 2008). There are only a few papers which specifically look at disclosures of the impact of companies' policies on employees. These studies include Brown et al. (2005), Vuontisjärvi (2006), Alvarez (2007), and Cahaya et al. (2010). None of these, however, address the potential association between media exposure on labour issues and the labour disclosure practices. A test of such a relationship is therefore expected to significantly contribute to the existing literature.

3 Research approach

This study examines the correlation between the number of the Indonesia Stock Exchange (IDX) listed companies providing labour disclosures (per key labour item) and the number of media articles (per key labour item). The disclosure items are adopted from the globally recognised 2006 Global Reporting Initiative (GRI) labour – related CSR performance indicators.

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, Diversity and Equal Opportunity*) and are sub-categorised into fourteen separate items (Global Reporting Initiative, 2006). In Indonesia, the third item, LA3 '*Full Time Employee Benefits*', is a mandatory item under the Indonesian accounting standard (PSAK) No. 24. In this study, all of the GRI labour disclosure items, including LA3, are examined, in order to provide insights on the effect of stakeholder pressures on labour disclosure practices.

Accordingly, the number of IDX listed companies disclosing each of the fourteen items is calculated. Details of the GRI labour disclosure items are presented in Appendix A.

Annual reports of the 2007 financial year are chosen as the medium of companies' disclosures to be examined. The purpose of choosing annual reports in that year is to generate insights about the possible effect of media pressure at the key year beginning of the Global Financial Crisis (GFC)³. A large sample of 223 companies is selected from a population of 383 companies listed on the IDX in that financial year (see IDX, 2008). The basis for the selection is the availability of the companies' 2007 annual reports in either the IDX website or the companies' websites.

Media exposure is measured by the number of articles concerning each of the fourteen labour disclosure items during a certain period of time. The data are collected from the hard copies of the most widely circulated and prestigious Indonesian printed key daily newspaper, *Kompas*. The timeframe is a one year period, from 1 July 2006 to 30 June 2007. This timeframe is considered appropriate to predict voluntary labour disclosure practices in 2007. Every issue of *Kompas* published during this period is therefore carefully analysed to calculate the number of articles and the type of labour disclosure. The number of articles itself is a common measure of media exposure used in the literature (see for example Cormier et al., 2005; Islam and Deegan, 2010). This measure is considered most appropriate in the examination of the relationship between media exposure and companies' disclosures.

Kompas is the most widely read Indonesian national daily newspaper as evidenced by its circulation number, 509,000, which is the biggest among Indonesian

printed media (see Haryanto, 2004). This study excludes local newspapers as a source of media exposure data. This exclusion avoids a geographic bias as local media covering a particular region will not expose issues occurring in another region. Importantly, results of a pilot data collection conducted prior to the write up of this paper on Indonesian printed media reveal that local media provides less reference on IDX listed companies' labour issues than national media such as *Kompas*. The results of this pilot data collection are summarised in Appendix B.

Newspapers themselves are regarded in the literature as the most useful and most reliable source of information, with more space dedicated to business issues, compared to other media sources such as television and magazines, particularly in the context of a developing nation (Bokhorst-Heng, 2002; Brittle and Zint, 2003; Suhardjanto et al., 2008). Especially in Indonesia, newspapers are frequently used to reflect public needs and demands (Sushartami, 2003; Oetama, 2005; Suhardjanto et al., 2008). Thus, in this study, it is considered appropriate to use newspapers as the key source of media exposure data.

One could argue that international media can also be used as the source of media exposure data. However, such media may not provide detailed news or the most recent information regarding labour issues in a particular country such as Indonesia. Important issues in Indonesia (not only labour issues) are potentially ignored since these media expose information from a very wide range of areas worldwide. A preliminary review⁴ conducted prior to the write up of this paper on two international printed media, *Time* and *Business Week*, reveals that these media do not provide any references to

Indonesian labour issues at all during the study period. This study therefore does not use international media as the source of media exposure data.

Having presented the measurement techniques, the period of examination, and the examined mediums for media exposure and companies' labour disclosures, the following section reports the results of the data analysis. To answer the research question, this study uses a Pearson correlation test.

4 Results

Table I presents the results of a Pearson correlation test⁵ between media exposure and companies' labour disclosure (LPDWD) practices. The *p*-value is 0.029, indicating that there is a significant relationship between media exposure and companies' labour disclosure practices. The coefficient correlation (+) 0.581 suggests that the direction of the association between media exposure and the level of LPDWD practices is positive. Thus, in Indonesia, higher levels of media exposure of labour issues are associated with higher levels of IDX listed companies' labour disclosure practices⁶. This finding clearly supports the premise of *coercive isomorphism*.

[Take in Table I]

Figure II presents the characteristics of data by showing the number of articles within the examined period (1 July 2006 to 30 June 2007) and the number of disclosing companies in 2007 annual reports per individual item, including the mandatory item LA3, in descending order based on the rank of companies' disclosure.

[Take in Figure II]

Figure II shows that there are 95 labour-related articles found in *Kompas* during its one year publication with the three items mostly communicated, being LA3 *Employee Benefits* (51 articles), LA7 *Injury Rates* (21 articles), and LA1 *Total Workforce* (10 articles). The second column shows that the three most disclosed items in the sample companies' annual reports are LA3 *Employee Benefits* (all 223 sample companies), LA11 *Training Programs* (188 companies), and LA13 *Employee Diversity* (122 companies).

The results in Figure II are presented in terms of rank in Table II to more clearly describe the spread of the data in the media and in IDX listed companies' annual reports in descending order.

[Take in Table II]

Table II reveals that LA3 *Employee Benefits* (mandatory disclosure), is ranked first in both *Kompas* and company annual reports. While LA2 *Employee Turnover* and LA12 *Performance Reviews* have similar rankings (LA2 ranked 7 and 8 and LA12 ranked 5 and 6 for media exposure and company disclosure respectively). All other items have very different rankings. LA11 *Training Programs*, for example, is the eighth ranked in media whereas it is considered as the second rank in companies' annual report disclosures. Figure II shows that there are major differences between individual labour media exposure and company reporting. The next two sub-sections examine where media influences labour disclosures and where media does not influence such

disclosures. These are followed by a sub-section analyzing the articles mostly exposed in *Kompas* during the one-year examined period.

4.1 Where media exposure influences companies' communication

The most apparent effect of media on companies' labour communication is on LA3 *Employee Benefit* issues. The results show that LA3 is the most disclosed item both in *Kompas* and in sample companies' annual reports. The high level of media exposure on *Employee Benefit* issues arguably reflects the *coercive* pressure of Indonesian powerful stakeholders, particularly the government, on companies to comprehensively address such issues in their management policies and disclose how they deal with those issues in the annual reports. This demonstrates the importance of employee benefit issues in an Indonesian setting and, importantly, highlights the full compliance by all of the 223 sample companies with PSAK No. 24.

Another possible apparent effect is on LA1 *Total Workforce* information where 11% of articles focused on that issue, followed by approximately 22% of sample companies disclosing it in their annual reports. There is, however, a different level of priority given by the media and the companies on this issue. On the media side, *Total Workforce* is ranked third while, on the company side, this item is ranked fifth. As shown from the results, the second and the third most exposed items in *Kompas* are LA7 *Injury Rates* and LA1 *Total Workforce*. On company reporting, the second and the third most disclosed items in the sample companies' annual reports are LA11 *Training Programs* and LA13 *Employee Diversity*. This may indicate that companies respond to *coercive* pressure by disclosing less controversial and easily quantified issues (e.g. LA11 and LA13). Conversely, the lack of reporting by companies on the more

controversial issues (e.g. LA7 and LA1) avoid communicating controversial labour issues or issues where they do not perform well by It may be a case of window dressing their annual reports and is an indicator that Indonesian listed companies respond to *coercive* pressure by disclosing those easily quantified issues not showing information which potentially disappoints their stakeholders.

There are also consistencies between media exposure and companies disclosures on the issues of LA14 *Man to Woman Salary Ratio*, LA9 *Health and Safety Agreements* and LA6 *Joint Health and Safety Committees*. Media is completely silent on these issues and, consequently, very few companies disclose these items in their annual reports (0.90%, 0.90%, and 0.45% of total sample companies respectively).

As noted in Cahaya *et al.* (2012), companies tend not to disclose LA14 *Man to Woman Salary Ratio* due to the fact that, in Indonesia, female employees receive lower wages than male employees. It seems, however, that such a fact is not captured by the media given that there are no articles in *Kompas* on this issue.

One possible explanation for the non-exposure in the media of issues related to *Health and Safety Agreements* and *Committees* is that these issues are less controversial than the specific information of *Injury Rates* itself⁷. Arguably, the media may consider that even if companies do have agreements and committees, they are ineffectual and the media is more concerned with the outcomes of the incidence injury rates in Indonesia. The almost non-existent disclosures by companies seem to confirm that Indonesian companies do not have a high focus on health and safety issues generally, and this supports their low disclosures on *Injury Rates*.

To sum up, the results reveal that, in Indonesia, the media is not only able to influence companies to disclose particular labour-related CSR information (LA3 *Employee Benefits* and LA1 *Total Workforce*) but is also able to affect companies to not disclose certain information (e.g. LA14 *Man to Woman Salary Ratio*, LA9 *Health and Safety Agreements* and LA6 *Joint and Health and Safety Committees*). This is where *coercive isomorphism* comes into play, showing the clear links between media exposure and companies' communication.

4.2 Where media exposure does not influence companies' communication

As noted earlier from Figure II and Table II, there are major differences between individual labour media exposure and company reporting, particularly on disclosures of LA7 *Injury Rates*, LA11 *Training Programs*, and LA13 *Employee Diversity*. While LA7 *Injury Rates* is the second most exposed item in the media, it is not a high reporting priority by companies. On the other hand, LA 11 *Training Programs* and LA13 *Employee Diversity*, which are the second and the third most disclosed items by companies respectively, are not a high priority of reporting by the media. These are where media exposure does not influence companies' communication. The following examination explores why the media does not influence the disclosures of LA7 *Injury Rates*, LA11 *Training Programs*, and LA13 *Employee Diversity*.

For LA7 *Injury Rates*, it is arguable that Indonesian listed companies deliberately do not disclose this sensitive issue. According to Damayanti (2008), 65,000 accident cases happened at Indonesian workplaces in 2007. This number is about four times higher than injury rates in developed countries in which occupational health and

safety programs by companies are generally well established (see Markkanen, 2004). The accidents were caused by lack of knowledge in operating machines, lack of vehicle maintenance, pesticide-related and other chemical poisons, working without protective clothes and helmets, and gas explosions (Markkanen, 2004). These mostly occur in the agriculture, mining, manufacturing, forestry, fishery, transportation, and construction industries and cause about 40,000 billion to 50,000 billion Rupiah loss (Suprpto, 2010). Given that the number of accidents is so large, and most workers are employed within those industries⁸, it is clear that health and safety issues can threaten companies' sustainability. Companies therefore potentially hide these problems by not disclosing injury rate information, highlighting how Indonesian listed companies respond to *coercive* pressure through non disclosure.

The high disclosures of LA11 *Training Programs*, and LA13 *Employee Diversity* might implicitly provide a clearer story regarding how companies in this developing nation deal with their poor labour related CSR performance. It appears that companies are willing to disclose LA11 and LA13 because these items are arguably less controversial, easy to report, and more easily quantified. As explained earlier in Section 4.1, companies use the disclosures of LA11 *Training Programs*, and LA13 *Employee Diversity* to window-dress their poor performance regarding labour-related CSR (e.g. the high injury rates) in the annual reports.

From the above results, it can be seen that that there are no direct links between, for example, media exposure on injury rates and companies' injury rate disclosure. Companies, however, focus disclosure on other issues which are arguably easily implemented, quantifiable and less controversial, such as training programs, to counter

the news exposed in the media which potentially threaten their legitimacy. A more in-depth analysis on the articles published in *Kompas* from 30 June 2006 to 1 July 2007 highlights that there are three key critical labour problems in an Indonesian context, *Employee Benefits*, *Injury Rates*, and *Total Workforce*. The next section further discusses the implications of the findings and explores the possible stories behind the three critical Indonesian labour problems.

4.3 Highlighting three key labour problems in Indonesia

The higher media exposure of LA3 *Employee Benefits*, LA7 *Injury Rates*, and LA1 *Total Workforce* reported in Figure II and Table II highlights that all of those issues are critical in Indonesia. In particular, issues of low compensation weaken low level workers position, creating a distinctive gap in the relationship between companies and their workers (see ILF, 2008).

In relation to LA3 *Employee Benefits*, the issues exposed are generally bad news where the payments received by workers are still lower than the minimum wage level. The media articles noted that many Indonesian workers had not received their wages for several months. For example, one article on 16 March 2007 noted that workers in an agriculture company protested about their wages that had not been paid for eight months.

It is evident from the literature that there are two main compensation problems faced by workers in Indonesia. The first problem is the very low minimum wage level. It arguably does not cover an individual's living costs (Hadiz, 1993; Nankervis and Chatterjee, 2003; Setiawan, 2006). This minimum wage level is considerably lower

compared to other Asian countries such as Malaysia and Singapore⁹ (Sutisna, 2002). Moreover, some employers continue to pay less than the minimum amount of wages required by the government (Bennington and Habir, 2003). Employers claim the reason is that they can not afford the cost of those wages (*Buruh Kecewa Ditolak Disnaker Bahas UMK*, 2009).

The second problem related to compensation is the huge difference between the lowest and highest paid employees in Indonesian companies (see Bennington and Habir, 2003). According to Rohdewohld (1995), in the private sector, the difference ranges from about 1:20 to 1:150. In other words, there are very highly paid and very low paid employees. This dramatic inequality causes a dichotomous gap between the highest positioned employee and the lowest positioned employee.

Articles exposing LA7 *Injury Rates* are generally negative, highlighting work accidents in high profile industries such as mining and property (which includes building and construction). As reported on 19 May 2007 a property and real estate company worker fell from the 19th floor while working on the construction of a high building due to poor standards of safety equipment. LA7 related articles published in *Kompas* also point out safety issues while working overseas. These include physical punishment by the boss of Tenaga Kerja Indonesia (TKI)¹⁰ on a servant working overseas. Another example is the Ceriyati case where a woman from Central Java working as a servant in a family living in Malaysia, was helped by firefighters when she tried to escape from the 15th floor of an apartment in Kuala Lumpur. Her attempt to escape was because she was often persecuted by her boss and not paid during her four months of work. This case drew serious attention by both the Malaysian and the

Indonesian governments due to the continuous exposure in Kompas from 18 to 26 June 2007.

In Indonesia, occupational health and safety protection is often ignored by both employers and employees. This is ironic given that other stakeholder groups such as the government claim this issue is critical (see Pemerintah Republik Indonesia 2003). There are four reasons for the lack of focus on health and safety issues (Markkanen, 2004; *Kesehatan dan Keselamatan Kerja*, 2006). Firstly, companies cannot afford the cost of buying safety protection tools such as tools for protecting ears. Secondly, employers simply do not realise the importance of their workers' health and safety. Thirdly, employers do not provide sufficient health and safety training. Lastly, employees themselves generally do not have high levels of education.

Under *Act No. 13/2003*, the government clearly requires companies to provide occupational health and safety programs (Pemerintah Republik Indonesia 2003). The International Labour Organization (ILO) strongly argues that occupational health and safety is one of the basic human rights (Markkanen, 2004). As such, whatever the condition of a country is, whether or not it is suffering from a financial crisis, this right should always be protected. ILO further states that companies should not solely consider profits and ignore their workers' health and safety (Markkanen, 2004). Companies in Indonesia should therefore be responsible in managing health and safety issues and communicate this responsibility in their annual reports.

In relation to LA1 *Total Workforce* media exposure, the articles are again predominantly focused on bad news. The articles mostly report demonstrations by

workers demanding the government eliminate the contract employment system from the Indonesian law. This issue was continuously exposed in *Kompas* from 1 to 7 May 2007. The main reason for the protests is that the contract system does not offer certainty of future for the workers. Only one LA1 related article is positive in nature where on 10 October 2006, there was a report on the promotion of 325,000 civil servants, from the status of contract to the status of permanent.

Fixed period worker recruitment is legally supported by the government through *Act No. 13/2003*¹¹ (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 APINDO, 2008). Due to cost reduction considerations and the present government's support, many companies now use contracted workers¹².

Such an employment type, however, is not welcomed by workers (APINDO, 2008). This is because fixed period employment has many disadvantages which negatively impact them, including future job uncertainty, no social protection, no health and safety assurance, no gratuities for fired workers, no pension payments, and no other welfare allowances (APINDO, 2008). On World Labour Day, May 1, 2007, workers in Indonesia reacted by conducting a large demonstration demanding the government completely remove the contract employment system from *Act No. 13/2003* (APINDO, 2008). They claimed that such a system significantly weakened their bargaining position at work (APINDO, 2008).

Despite these pressures, the Indonesian government has still not made revisions¹³ to the legislation. This is because the use of contract employment is seen as

an alternative way to support the Indonesian business growth particularly through the reduction of labour costs (see APINDO, 2008). The government believes that a reduction in labour costs will attract foreign investment in Indonesian businesses and thus improve the national economy (APINDO, 2008).

The examination of employee benefits and contract employment in this section highlights that there is an association between the two issues as they are both concerned with benefits to employees in the form of compensation (wages and other benefits). The difference is highlighted by the fact that contract employment prevents many of the benefits such as pensions, health and safety assurance and other welfare payments being made to employees. Reporting employee benefits is mandatory, and this is reflected by the higher level of reporting by both companies and the media. Contract employment however is not a focus of company reporting but very much a focus of the media with attention on employee strikes highlighting that contract employment is a major concern of employees. The lack of company reporting is an indicator that the media has had little *coercive* influence on company reporting on this issue. Conversely, the continued support of contract employment by the government may be influencing companies to not disclose this contentious issue.

In summary, the findings reveal that there is a positive and significant relationship between media exposure and IDX listed companies' labour disclosure practices. The link between the two, however, does not always exist within individual labour disclosure item. In addition, it appears that some company disclosure is aimed at taking the focus away from controversial issues that are a high media focus (training by companies versus injury rates by the media). This might best explain why the

correlation between media exposure and companies' communication is positively significant but there are major differences in the disclosures of individual items.

5 Implications and conclusion

The results of the Pearson correlation test show that there is a positive association between media exposure and IDX listed companies' labour disclosure practices. Overall, these results suggest that the higher the level of media exposure on labour issues, the higher the level of companies' communication on those issues. The positively significant results themselves are consistent with Brown and Deegan (1998); Brammer and Pavelin (2004); Cormier et al. (2005); Aerts et al. (2008) studies which find that media exposure does seem to influence companies' social disclosure practices.

The correlation results imply that companies in this developing nation are aware of the media power. This might be because media can function as a watchdog or an outside whistleblower or even a provocateur (Miller, 2006; Silaen, 2009). Silaen (2009) argues that media in Indonesia can now also be considered as 'the fourth pillar' of Indonesian democracy (after legislative, executive, and judicative bodies). Media is arguably able to report on particular events or scandals to the public earlier than the official bodies such as police (although, in some cases, the reported news may not be true¹⁴). Companies need to be aware of media reports on any sensitive issues which could potentially affect their image and reputation. Consistent with Suhardjanto et al. (2008)'s findings, media exposure can therefore be used as an alarm for companies to supply certain information.

However, it would appear that it is issue specific with the most apparent connection being the high media exposure and high company disclosure on employee benefit issues. As this is a mandatory item, it is unclear whether the media has influenced disclosure or whether it is solely due to the regulatory nature of the issue. Regardless, the findings support that on this issue *coercive isomorphism* does help explain the high disclosure of employee benefits by companies.

For other specific issues the results highlight that while the media intensively exposes injury rates and contract employment issues, Indonesian companies focus their labour disclosures more on non controversial and easily quantifiable issues such as training and diversity of employment. The lack of focus on injury rate disclosures and contract labour issues is a clear indication that companies shy away from controversial disclosures that might damage the companies reputation. In short, companies appear to window-dress their annual reports by disclosing less controversial items. These are where the links between media exposure and companies' communication are not direct.

The results further emphasise not only the ranking of LA3 *Employee Benefits* but also the major differences in reporting several LA items, highlighting that although the media is concerned about several high profile issues (e.g. contract employment) this is not a major concern of either the government (who are actively promoting contract employment) or companies (who are opting to not disclose as they appear to have tacit agreement from the government). The lack of disclosure on this issue is supported by the government's refusal to change legislation and apparent promotion of the status quo, with companies happy to comply (with non reporting) as this supports their own interests and is in line with the governments focus. Although the results are not

definitive in concluding that media influences the disclosure of all labour issues, the links are sufficient to indicate that both the media and government have sufficient *coercive* pressure on certain labour disclosures by companies.

As with all research, this study has limitations. Firstly, this paper does not use separate stand-alone reports such as CSR reports (or, in the context of this study, stand-alone CSR-related employee reports) as the source of disclosure data. This is because such a medium is not uniformly used by most companies in developing countries (Baker and Naser, 2000; Chambers et al., 2003)¹⁵. Secondly, only one kind of media namely newspapers is used to examine the effect of media exposure on labour disclosure practices. In practice, media exposure can also be reflected in other types of media such as radio and television. However, past literature argues that newspapers are the most useful and reliable source of information particularly in a developing county setting (Bokhorst-Heng, 2002; Suhardjanto et al., 2008). Accordingly, the use of newspapers in this paper is considered a sufficient and appropriate source of media exposure data in an Indonesian context. Thirdly, this paper examines media exposure for a one year period. Previous studies such as Brammer and Pavelin (2004) and Islam and Deegan (2010) analyze media exposure for a longer period of time. A longer period of analysis was simply outside the scope of this study but a prior study of company disclosures (Cahaya et al., 2006) and a random selection of media exposure outside the time frame of this study indicates that in Indonesia the media issues and company disclosure over time is not substantially different.

As implied from the results of this study, the government appears to be supporting employers to continue to adopt certain practices such as the contract

employment system despite employee concerns and media pressure. The government's stance is to attract foreign investors so that the Indonesian economy can be further strengthened against the negative effect of a struggling economy and the effects of the GFC. For further insights, it is suggested that an analysis of media exposure pre and post the global financial crisis might shed even more light on the level of media influence on company reporting.

Appendix A The 2006 Global Reporting Initiative (GRI) labour practices and decent work indicators

Category		GRI code	Indicator
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	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

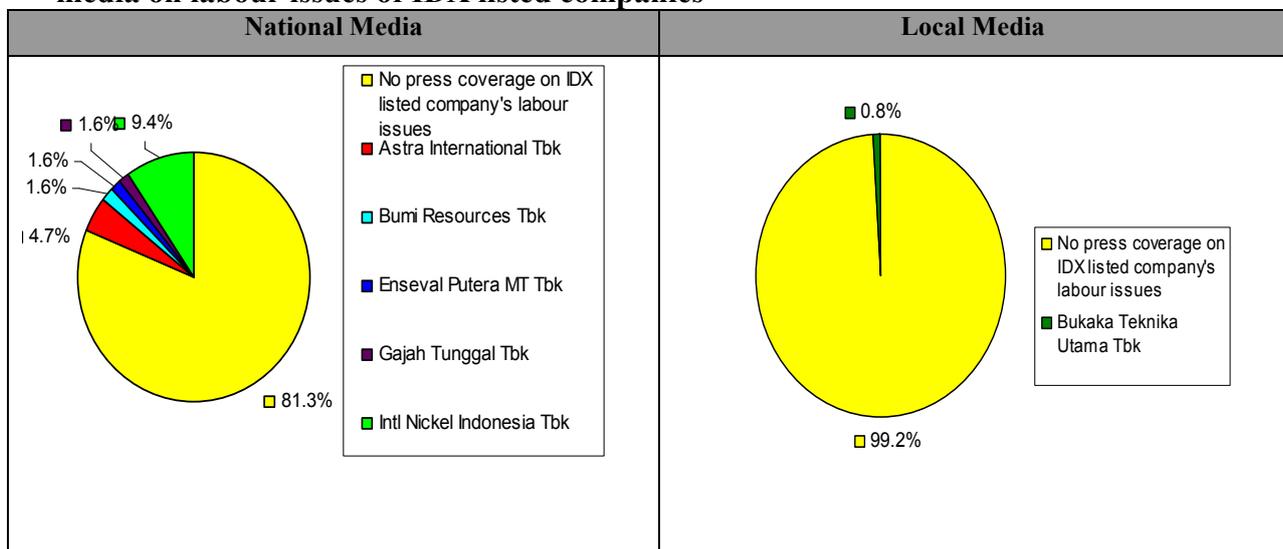
Source: Global Reporting Initiative (2006).

Note: LA3, which is in the shaded area, is a mandatory disclosure item in Indonesia under PSAK No. 24.

Appendix B Pilot data collection on media exposure

A pilot data collection on media exposure has been done prior to the write up of this paper. The main purpose of this data collection is to determine whether or not local media would also be used as one of the media exposure data sources. The pilot data were collected from two Indonesian national printed newspapers namely *Jakarta Post* and *Bisnis Indonesia* and three Indonesian local newspapers namely *Jawa Pos*, *Kedaulatan Rakyat (KR)* and *Suara Merdeka* published from 15 November 2007 to 15 December 2007. The main reasons for choosing these five newspapers as the source of pilot data collection are the availability and the ease of access of the copies either in the online database or in Indonesia. The results of this data collection are presented in Figure A1.

Figure A1 Results of pilot data collection illustrating press coverage in Indonesian media on labour issues of IDX listed companies



As shown in Figure A1, during the period of analysis, 18.7% of data points in Indonesian national media expose labour issues of five IDX listed companies (PT Astra International Tbk 14.7%, PT Bumi Resources Tbk 1.6%, Enseval Putera MT Tbk 1.6%, PT Gajah Tunggal Tbk 1.6% and PT Intl Nickel Indonesia Tbk 9.4%). In local media, on the other hand, only one IDX listed company exposed, which is the labour issue of PT Bukaka Teknik Utama Tbk (0.8% of data points). The local media has a fewer data points concerning IDX listed companies because most of the articles in that media expose labour issues in small businesses within a particular region, not labour issues within the national scope. Based on these results and the geographic bias consideration (refer Section 3), the use of national media is considered appropriate for this study.

It is important to note, however, that the national media used in this paper as the source of media exposure data is *Kompas*, not *Jakarta Post* and *Bisnis Indonesia*. As stated in Section 3, the reasons for not using national newspapers other than *Kompas* are their circulation number which is much smaller than *Kompas*' and the potential problem of media exposure repetition. Details of Indonesian major printed media including the differences in the circulation number across media can be seen in Table A1.

Table A1 Indonesian major printed media

No	Major Media	Publication	Type	Circulation (in 000)	Scope
1	Kompas	Daily	Newspaper	509	National
2	Jawa Pos	Daily	Newspaper	370	Regional (East Java)
3	Suara Pembaharuan	Daily	Newspaper	238	National
4	Republika	Daily	Newspaper	200	National
5	Media Indonesia	Daily	Newspaper	200	National
6	Jakarta Post	Daily	Newspaper	100	National
7	Bisnis Indonesia	Daily	Newspaper, specifically on business information	81	National

Source: Haryanto (2004); Bisnis Indonesia (2007)

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Table I Results of Pearson Correlation

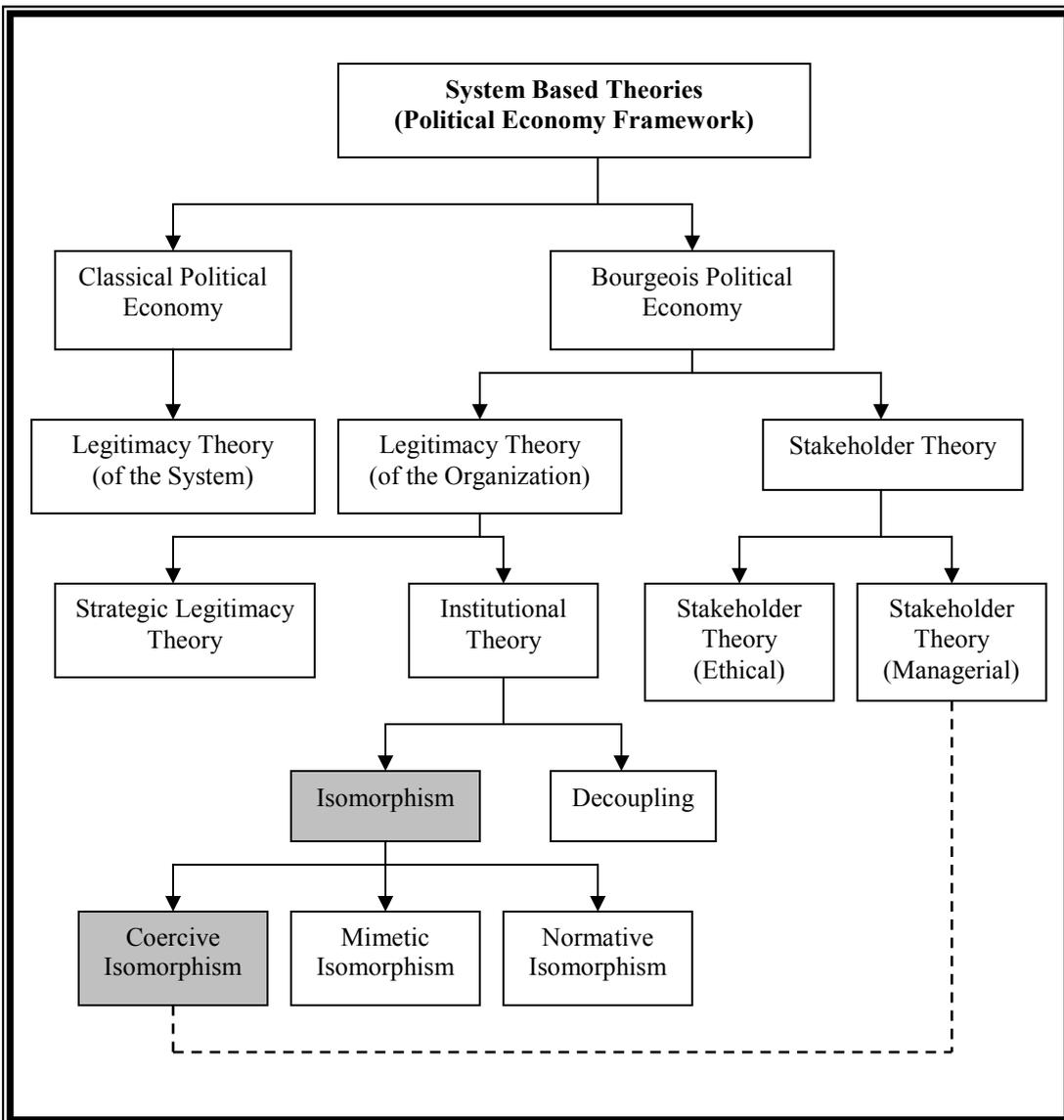
	Coefficient Correlation	P-Value of Pearson Correlation
Correlation between media exposure and labour disclosure	0.581	0.029**

***significant at 1% level; **significant at 5% level; *significant at 10% level.

Table II The ranks of media exposure versus annual report disclosure per item

Item	Media Rank	LPDWD Rank
LA1 <i>Total Workforce</i>	3	5
LA2 <i>Employee Turnover</i>	7	8
LA3 <i>Employee Benefits</i>	1	1
LA4 <i>Bargaining Agreements</i>	8	11
LA5 <i>Notice Periods</i>	4	9
LA6 <i>Joint Health and Safety Committees</i>	8	13
LA7 <i>Injury Rates</i>	2	7
LA8 <i>Health and Safety Programs</i>	6	4
LA9 <i>Health and Safety Agreements</i>	8	12
LA10 <i>Training Hours</i>	8	10
LA11 <i>Training Programs</i>	8	2
LA12 <i>Performance Reviews</i>	5	6
LA13 <i>Employee Diversity</i>	7	3
LA14 <i>Man to Woman Salary Ratio</i>	8	12

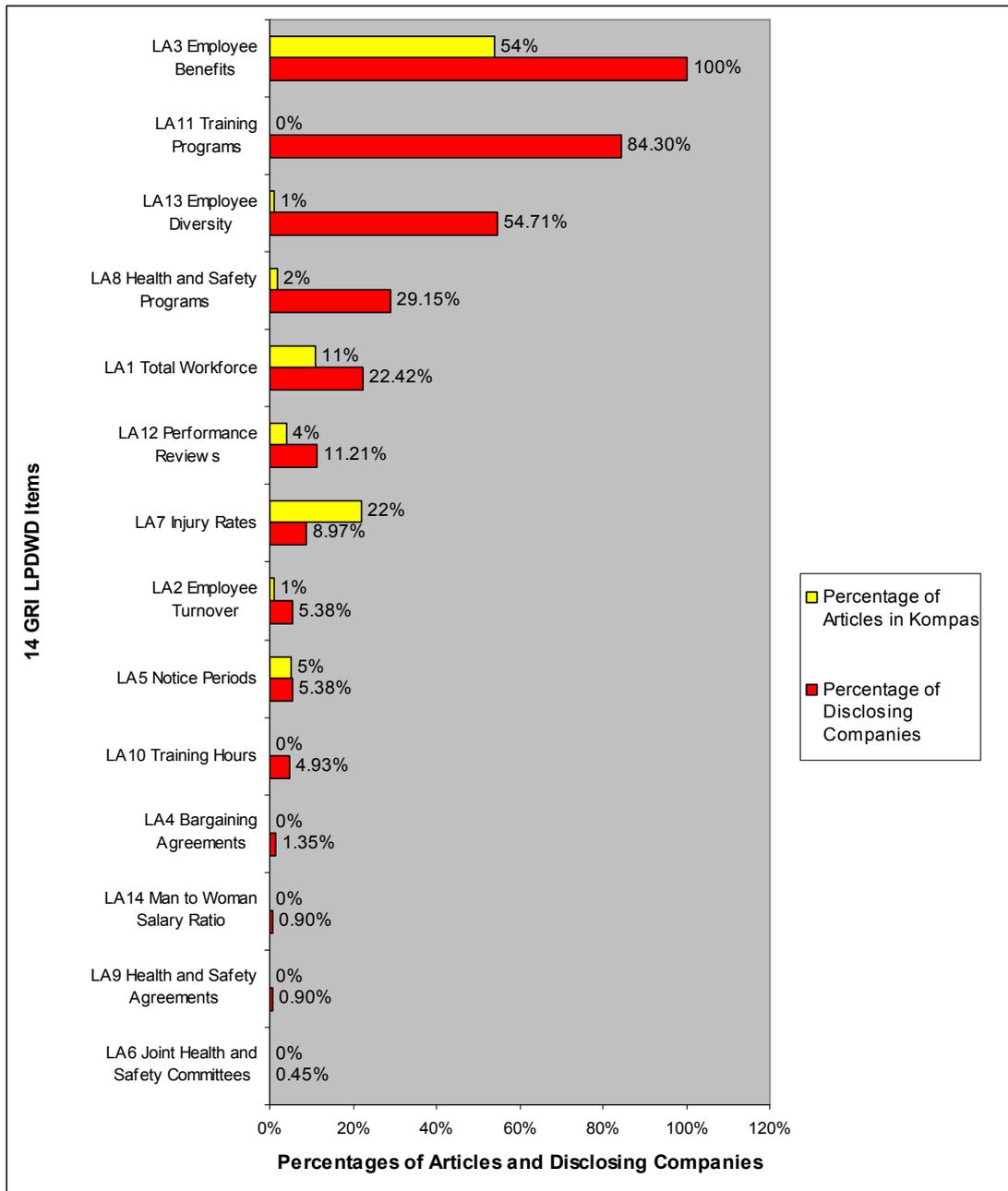
Figure I Schema of *coercive isomorphism* within a political economy framework



Sources : Adapted from DiMaggio and Powell (1983), Gray *et al.* (1996), Perera (2007), and Deegan (2009). The shaded areas represent the tenets adopted in this paper.

----- : The dotted line indicates a similarity between *coercive isomorphism* and managerial stakeholder theory (see Deegan, 2009).

Figure II Media exposure versus annual report disclosure per item



Note: This figure is presented in descending order based on the rank of companies' disclosure.

Notes

¹ According to Haryanto (2004), after the fall of Soeharto in 1998, the media industry in Indonesia started enjoying its honeymoon period as the government relaxed its control over the media. This honeymoon period still exists to date.

² In Indonesia, labour unions, which are represented by SPSI (All Indonesian Labours' Union), are considered as an influential stakeholder group since they are involved in the issuance of many joint decrees with the Indonesian government (Tambunan and Purwoko, 2002).

³ Directors of some sample companies in this study (e.g. PT Jaya Real Property Tbk) have acknowledged the potential impact of the subprime mortgage problem in the US on their companies' operations. The global financial crisis surfaced in September 2008, following the

collapse of big financial institutions such as Lehman Brothers (Akira, 2009). Had the impact of this crisis been detected earlier, the directors of those sample companies argued, they would have prepared some business strategies to minimise, or even to avoid, the impact on their companies' operations.

⁴ Prior to the write up of this paper, ten issues of *Time* and ten issues of *Business Week* published between 1 July 2006 and 30 June 2007 were randomly selected and then carefully read to find any articles about Indonesian labour issues. The results of this review show that none of the articles within all of those issues related to Indonesian labour issues.

⁵ Before performing the statistical analysis, data were independently verified by three Indonesian accounting academics. This verification ensures better accuracy of the data.

⁶ Further analysis reveals that there is also an industry influence on labour disclosure practices in Indonesia. High profile companies, consisting of *agriculture, mining, basic industry and chemicals, miscellaneous industry, consumer goods industry, property and real estate, and infrastructure, utilities and transportation*, tend to disclose labour issues whereas low profile companies, consisting of *finance, and trade, services and investment*, tend not to disclose labour issues (see the categorization of high versus low profile companies in Cahaya et al., 2012). There is, however, no industry influence on media exposure. This might be because similar complex labour-related problems or events captured by the media occur not only in high profile industries but also in low profile industries. High profile companies themselves arguably tend to report more labour issues as their employees face greater risk during work than employees working in low profile industries do.

⁷ The media arguably has different incentives in reporting information (see Lee and Hwang, 2004). The publication of bad news, for example, which includes exposure of employers' activities or the government's policies having a negative impact on workers or failures in solving workers' social problems (see Guthrie and Parker, 1989), might actually benefit the media itself. This is because people are arguably more attracted to read bad news, which is usually controversial or sensitive, instead of good news. If this is the case, the number of newspapers sold will potentially increase. Such an argument might be true. According to Guthrie and Parker (1989), media exposure is subject to the risk of journalistic interpretations and distortions. This paper, however, does not aim to investigate the possible business or profit-oriented incentives of the media. Instead, it focuses on whether there is an association between media exposure and companies' annual report communication. This study thus examines all of the articles published in *Kompas* exposing labour issues during the investigated period regardless of whether the management and the editorial team of this newspaper have certain incentives or not.

⁸ Data from the Indonesian Central Bureau of Statistics reveal that more than 60% of Indonesian workers work in agriculture, mining, manufacturing, forestry, fishery, transportation, and construction industries (see BPS, 2010). Workers working in these industries arguably have a higher risk of injury during work.

⁹ The monthly minimum wage level in Daerah Khusus Ibukota (DKI) Jakarta in 2007, for example, was 900,560 Rupiah whereas the monthly minimum standard living cost for a person in Jakarta was 991,988 Rupiah (Setiawan, 2006), a difference of approximately 11 Australian dollars.

¹⁰ TKI is an Indonesian citizen working overseas, usually working as a servant in countries like Saudi Arabia and Malaysia.

¹¹ *Act No. 13/2003* is the Indonesian government act which regulates manpower issues.

¹² According to the President of the Indonesian Metal Worker Federation (FSPMI), Said Iqbal, manufacturing companies such as textile and electronic companies recently have greatly increased their contract workers, with the proportion of almost 80% of total employees within the companies (*Upah Buruh Industri Merosot*, 2009).

¹³ The government actually wanted to revise the Act so that it could benefit all parties, particularly employers and employees (APINDO, 2008). However, it was difficult to determine the most appropriate revised format for that Act. It is therefore unclear, whether the revised version of the Act would provide more protection or less protection to workers. If the

government decides to eliminate contract employment system, the Act will of course provide more protection to workers. Such an elimination, on the other hand, will not benefit employers. The government therefore needs to carefully prepare a ‘win-win’ solution for this problem.

¹⁴ Reported news can be false (or is not factual) if the investigation by the press is not properly conducted (or perhaps is even not conducted). As previously explained in Note 7, media exposure is subject to journalistic bias.

¹⁵ To further defend the exclusion of stand-alone CSR-related employee reports as the examined disclosure medium, twenty seven sample companies (approximately 12% of total 223 sample companies) were randomly selected and then emailed to search for information on whether or not they had stand-alone employee reports. Four emails, however, could not be sent due to the error in the email system. The final number of contacted companies was therefore twenty three. Among those finally contacted companies, only six companies (about 26% of 23 companies) responded. Four companies stated that they did not have separate employee reports. One company, PT Indosat Tbk stated that it had been producing and publishing a separate sustainability report since 2008, but not a stand-alone CSR-related employee report. Another company, PT Bank Mandiri Tbk stated that it had a separate community development report, (not a stand-alone CSR-related employee report). However, the staff of PT Bank Mandiri Tbk did not provide further details regarding the main information contained in that community report and how to access it. Therefore, in line with most CSR disclosure studies particularly in developing nations (e.g. Cahaya et al., 2008; Barako and Brown, 2008; Khan et al., 2009; Pahuja, 2009), this paper focuses on annual reports as the source of labour disclosure data.