

The Influence of Profitability and Industry Sensitivity on Disclosures of Modern Slavery Listed on the Indonesian Stock Exchange

Desy Mayasari^{*1}, Susi Sarumpaet², Usep Syaipudin³

¹²³ Faculty of Economics and Business, Universitas Lampung

Email : desymayasari30@gmail.com, susi.sarumpaet@gmail.com,
usepsyaipudin@gmail.com

*Corresponding Author: desymayasari30@gmail.com

Abstract

Accounting researchers' interest in modern slavery grew following the introduction of the California Transparency in Supply Chains Act (2010), which requires retail sellers and manufacturers doing business in California to disclose their efforts to eradicate slavery and human trafficking from their direct supply chains. However, disclosure of modern slavery in Indonesia is still voluntary. The aim of this research is to see how profitability and industry sensitivity influence the disclosure of modern slavery in Indonesia, which is still voluntary. The population in this study were all companies actively listed on the Indonesia Stock Exchange during 2020-2022, totaling 890 companies. The sample used was 657 companies selected using the purposive sampling method. This research uses secondary data obtained from annual reports published on the official website of the Indonesian Stock Exchange and the company's official website. Data analysis techniques use descriptive statistics and multiple linear regression. The results of this research indicate that profitability and industry sensitivity partially have a positive and significant effect on the disclosure of modern slavery. Simultaneously, the results of this research show that profitability and industry sensitivity have a positive and significant effect on the disclosure of modern slavery.

Keywords: Profitability, Industry Sensitivity, Modern Slavery



1. INTRODUCTION

Modern slavery is contrary to social justice and sustainable development. *The International Labor Organization* (ILO) said global estimates for 2021 show that 49.6 million people are in modern slavery, compared with the last count for 2016, the number of people in modern slavery has increased by around 9.3 million people. Forced labor includes 27.6 million people in modern slavery of which more than 3.3 million are children and 22 million people in forced marriages. Forced labor touches almost all sectors of the private economy. The five sectors that account for the majority of total adult forced labor (87 percent) are services (excluding domestic work), manufacturing, construction, agriculture (excluding fishing), and domestic work. Other sectors have a smaller share but still contribute hundreds of thousands of people.

Over the past decade, several liberal democratic jurisdictions, including the United States state of California, the United Kingdom, France, the Netherlands, and Australia have introduced legislation mandating reporting for large entities on modern slavery and human trafficking in their operations and supply chains (Ford & Nolan, 2020). Accounting researchers' interest in modern slavery grew following the introduction of the California Transparency in Supply Chains Act (2010), which requires retail sellers and manufacturers doing business in California to disclose their efforts to eradicate slavery and human trafficking from their direct supply chains (Birkey *et al* ., 2018). The UK's Modern Slavery Act of 2015 increased the momentum of accounting research (Christ *et al* ., 2019) The act has a section on supply chain transparency that requires large companies to report to the government and make statements outlining the steps they have taken to ensure that modern slavery does not occur in their operations or supply chains. (Christ & Burritt, 2018) Accounting research has been conducted in relation to the impact of the Commonwealth Modern Slavery Act 2018 in Australia. This requires large entities based or operating in Australia to report annually on the risks of modern slavery in their operations and supply chains, the actions taken to assess and address those risks, and the effectiveness of those actions.

The Global Slavery Index (GSI) estimates that more than 1.8 million people live in modern slavery in Indonesia in 2021, with a prevalence of 6.7 people for every thousand people in the country. This places Indonesia in the top 10 of 27 countries in the Asia Pacific region based on the prevalence of modern slavery, and 62nd of 160 countries globally.

Indonesia as a developing country experiences a lot of modern slavery, information disclosure regulations can be an important instrument that can be implemented in

449



Indonesia to overcome the problems faced by companies in Indonesia because Indonesia is one of the countries with the highest level of modern slavery. *The Global Slavery Index* (GSI) states that forced labor in the agricultural sector, for example in palm oil and tobacco plantations and the construction sector, is one of the most common forms of modern slavery in Indonesia.

Disclosure of modern slavery remains voluntary, although large companies and those exposed to the media may anticipate future regulations requiring social disclosure like previous countries that have passed modern slavery laws. The focus of legal developments so far has been to expand the idea of accountability through self-disclosure, as well as accountability by stakeholders. This process requires large entities to accept responsibility by creating and publishing an annual statement, detailing what they are doing to identify and address the risks of modern slavery occurring not only in their own operations but also in their supply chains (Christ *et al.* , 2019).

Developing strategies to combat modern slavery requires companies to commit organizational resources. This can be concluded from research showing that companies continuously have to improve their operations and supply chain management in response to social and environmental challenges. These improvements include not only structural adjustments such as individual and team sustainability roles, but also policy changes such as the implementation of supplier codes of conduct, improved practices such as third-party audits, and the expansion of performance reporting to include complaints, remediation, and occupational health (Eccles *et al.*, 2014; Flynn, 2019). Companies with excess funds have the ability to invest the resources necessary to act against modern slavery and then report those actions to the public domain (Flynn, 2019; Perez-Batres *et al.*, 2012). So the higher the level of profitability, the greater the implementation and disclosure.

Previous research using the top 100 companies listed on the Australian Stock Exchange reported that many of the companies disclosing modern slavery were in banking and finance (Christ *et al.*, 2019). In the UK, research conducted by (Flynn, 2019) says that the most sensitive industrial sectors are manufacturing and accommodation. Still in the UK, other research reveals that a sector that is sensitive to exposure to modern slavery is clothing and garments (Voss *et al.*, 2019). Similar research has also been carried out in Indonesia, a developing country that is highly dependent on its natural resources, *and residential* and business development, where the agricultural and construction sectors are sectors that are sensitive to the issue of modern slavery (Sarumpaet & Fauzi, 2021).



In Indonesia, disclosure of modern slavery is still voluntary, and research on modern slavery, especially in the field of accounting, is still very new and rarely conducted. Therefore, this research wants to add to the literature related to the Influence of Profitability and Industry Sensitivity on Disclosures of Modern Slavery on the Indonesian Stock Exchange.

Formulation of the problem

Based on the research background, the formulation of this research problem is as follows:

1. Does Profitability Have a Positive Influence on Disclosure of Modern Slavery?
2. Does Industry Sensitivity Have a Positive Influence on Exposure to Modern Slavery?

THEORETICAL BASIS

Legitimacy Theory

Legitimacy theory was first put forward by Dowling & Pfeffer (1975). Legitimacy theory is rooted in the idea of a social agreement between corporations and society. The survival and growth of a company depend on its ability to deliver the desired goals to distribute benefits whether in the economic, social, or political fields to the society where it derives its power (Shocker & Sethi, 1973).

Political Cost Theory

Watts and Zimmerman (1978) show that the magnitude of political impact depends greatly on political visibility. Politically visible companies easily attract public attention and become potential targets for interested parties. These companies need to address visibility issues to reduce public attention and its consequences. To do this, these companies may use various means, such as voluntary disclosures and accounting practices to reduce reported profits

Modern Slavery

In practice, modern slavery means one party forces another to work, controls them through threats, restricts their movements, treats them as commodities, and exploits them financially (*Antislavery International*, 2021; Crane, 2013). There are various forms of modern slavery, including forced labor; work to pay off debt; child labor; wage exploitation;



human trafficking; forced marriage; domestic slavery, or other practices in which victims are forced to perform unreasonable work under physical or mental threat.

Profitability

According to Kasmir (2014: 196), the profitability ratio is a ratio to assess a company's ability to make a profit. This ratio also provides a measure of the level of management efficiency of a company. This is shown by the profits generated from sales and investment income. The point is that the use of this ratio shows the company's efficiency.

Industry Sensitivity

Industrial Sensitivity relates to the influence of company activities on the company's social and environmental aspects. Industrial sensitivity can be interpreted as how much influence industrial activities have in direct contact with the environment (Adam *et al.* , 1998 in Wanialisa and Mahanani., 2021). Companies that fall into the industrial sensitivity category are *high-profile type companies*. Generally, *high-profile* companies are companies that receive attention from the public because the company's operational activities have the potential and are likely to be related to the interests of the wider community

Hypothesis Development

The Influence of Profitability on Disclosure of Modern Slavery

One indicator of financial performance is the ability to generate profits. Business success in generating profits as indicated by profitability ratios indicates good operational performance, which encourages companies to disclose socially. Carrying out a strategy to disclose modern slavery requires the use of organizational resources. Flynn (2020) states that financially sound companies must act against modern slavery. Conversely, if this happens to a company that is in a difficult financial situation, it will be difficult for them to manage and report the risk of modern slavery. Based on the description given, the hypothesis that can be built is as follows:

H1: Profitability has a positive and significant effect on disclosure of modern slavery

The Influence of Sensitive Industries on the Exposure of Modern Slavery

Large companies are not necessarily sensitive to the issue of modern slavery if they are not in sensitive industries. Therefore, the characteristics of the company may be

452



very important. A previous study by Stevenson & Cole (2018) addressed modern slavery disclosures by focusing on companies in sensitive industry sectors such as fashion and clothing. In this research, the sectors that are vulnerable to the problem of modern slavery are agriculture, basic industry, and construction. As a result, these businesses are more motivated to use voluntary disclosure to reduce the political impact of such pressure. The result is the following hypothesis:

H2: Industry Sensitivity Has a Positive Influence on Disclosure of Modern Slavery

METHODOLOGY AND DATA ANALYSIS

Population and Sample

This research is a type of quantitative research, with a sampling technique carried out using *purposive sampling*. The type of data in this research is secondary data using annual reports obtained from the official website www.idx.co.id and company websites. This research was conducted on companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period with a total of 657 companies registered.

Variable Measurement

Modern Slavery

Companies with statements containing information about one of the modern slavery statements are given a score of 1, and Companies without modern slavery statements are given a score of 0.

$$\text{Modern Slavery} = \frac{\text{Number of Items}}{14} \times 100$$

Table 1. Research Instrument

No	Main Theme	Score	Sub-Themes
1	Human rights in supply chains	1	Child labor
		1	Forced labor
		1	Human trafficking
		1	Minimum wage
		1	Human rights
2	Health and safety in the supply chain	1	Security/safety
		1	Violence
3	Supplier assessment	1	Supplier selection
		1	Supplier risk assessment
4	Supplier code of conduct	1	Diversity



No	Main Theme	Score	Sub-Themes
		1	Reporting violations (Whistleblowing)
		1	Bribery and corruption
		1	Supplier code of conduct
5	Modern slavery – general	1	Any statements about modern slavery
Total Score		14	

Source: (Christ et al., 2019)

Profitability

Profitability is operationalized as *return on total assets* (ROA)

$$ROA = \frac{Net\ Profit}{Total\ Assets}$$

Industry Sensitivity

In this study, sensitive industrial sectors were given a score of 1, and non-sensitive industrial sectors were given a score of 0. Sensitive industries include the Agricultural, Basic & Chemical Industries, and Building Construction sectors. Meanwhile, non-sensitive industries other than the company sectors already mentioned are actively listed on the Indonesian Stock Exchange.

Data analysis method

This research uses content analysis to measure the level of information contained in companies' disclosures of modern slavery. Weber (1990) argued that the main idea in content analysis is that many words of a text are classified into far fewer content categories. Next, use multiple linear regression analysis. Model this research as follows:

$$PPM = \alpha + \beta_1 ROA + \beta_2 Ind + \varepsilon$$

RESEARCH RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics are used to provide an overview and description of the average value, standard deviation, maximum value, and minimum value for quantitative



data (Ikriyah et al., 2017). Descriptive statistics in the table show the minimum, maximum, mean, and standard deviation values.

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	1971	-7.89	3.61	.0156	.27568
Industry Sensitivity	1971	0.00	1.00	.1766	.38139
Modern Slavery Exposure	1971	0.07	1.00	.5173	.16039
Valid N (listwise)	1971				

Source: SPSS Output Data, processed 2024

Classic assumption test

Normality test

The normality test aims to test whether the regression model, residual variables have a normal distribution. This assumption is important to use in small samples. For samples of more than 30 and samples of more than 100 (Gujarati and Poter, 2009) then this normality assumption can be ignored because it meets the assumptions of the *Central Limit Theorem*. The results of the normality test using the *Kolmogorov-Smirnov test* can be shown in the following table:

Information	Statistical Value
Observation	1971
Statistical Tests	0.119
Asymp. Sig. (2-tailed)	0,000 ^c

Source: SPSS Output Data, processed 2024

Multicollinearity Test

Based on the results of the multicollinearity test, show that the *tolerance value* for the Profitability and Industrial Sensitivity variables is below 10 each and the VIF value for each variable is above 1, which meets the requirements for being free from multicollinearity and proves that there is no multicollinearity in the data in this research.

Variable	Tolerance	VIF
Profitability	1,000	1,000
Industry Sensitivity	1,000	1,000

Source: SPSS Output Data, processed 2024



Heteroscedasticity Test

Based on the results of the Heteroscedasticity test, shows that the Profitability and Industrial Sensitivity variables each have a significant value of > 0.05 . These results fulfill the basis for decision-making that the data in this study is free from symptoms of heteroscedasticity.

Variable	Q	Sig.
Profitability	0.157	0.875
Industry Sensitivity	0.643	0.520

Source: SPSS Output Data, processed 2024

Autocorrelation A test

The DW value of 2 is greater than the upper limit (dU), namely 1.947, and less than 2.053 ($4 - 1.947$), because the 4-dU value is greater than the Durbin-Watson value, it can be concluded that there is no autocorrelation.

Model	R Square	Durbin-Watson
1	0.22	2,000

Source: SPSS Output Data, processed 2024

Coefficient of Determination Test (R^2)

Based on the R Square value of 0.22 or 22%, it shows that the large role or contribution of the Profitability and Industry variables is able to explain the modern slavery disclosure variable by 22 % while the remaining 78 % is explained by other variables outside the independent variables above.

Model Feasibility Test

This research uses the assumption that if the Sig. < 0.05 , it can be concluded that each independent variable jointly influences the dependent variable.

Description	Statistical Value
F	67,382
Sig.	0.000 ^b



Source: SPSS Output Data, processed 2024

Research Hypothesis Testing

The purpose of carrying out the t-test is to test whether the independent variable has a partial effect on the dependent variable. The significance value for carrying out the t-test is $\alpha = 5\%$ (0.05). If the value is significant $t < 0.05$ means the independent variable has a significant influence on the dependent variable.

Variable	Expectation	t	Sig.	Information
Profitability	+	1,445	0 .049	H1 Supported
Industry Sensitivity	+	12,819	0,000	H2 Supported

Source: SPSS Output Data, processed 2024

The results of the linear regression analysis showed that profitability as proxied by ROA and Industry Sensitivity had a positive and significant effect on the disclosure of modern slavery, as indicated by the significance value of less than 0.05. Thus both hypotheses can be accepted.

DISCUSSION

The Influence of Profitability on Disclosure of Modern Slavery

The results of testing the first hypothesis from the data above for the profitability variable show the coefficient value 1.445 is in accordance with the initial assumption of a positive value, and the significance value of 0.049 is smaller than $\alpha = 0.05$ so the first hypothesis is accepted. It can be concluded that profitability has a significant positive effect on the disclosure of modern slavery. The significant profitability of disclosure of modern slavery in companies means that companies that have high profitability carry out more social activities because the company is not solely profit-oriented.

In line with research in the field of non-financial disclosure conducted by Barlinti & Aris (2023), the results show that financial performance as proxied by ROA has a significant influence on social disclosure. According to legitimacy theory, better financial performance can lead to greater efforts to reveal social activities, in this case, related to the disclosure of modern slavery, as well as strengthening the legitimacy of society and companies. This shows that management will have a greater opportunity to implement and disclose modern slavery widely if the company has high profitability.

457

IJEBIR, Volume 03 Issue 03, 2024



Copyright at authors some right reserved this work is licensed under a [Creative Commons Attribution-ShareAlike 4.0 International License](https://creativecommons.org/licenses/by-sa/4.0/).

The Influence of Industry Sensitivity on Disclosures of Modern Slavery

The results of testing the second hypothesis from the data above for the industry sensitivity variable show the coefficient value 12,819 is in accordance with the initial assumption of a positive value, and the significance value of 0,000 is smaller than $\alpha = 0.05$ so the second hypothesis is accepted. It can be concluded that industry sensitivity has a significant positive effect on the disclosure of modern slavery. Industrial Sensitivity relates to the influence of company activities on the company's social and environmental aspects. Companies that have a big impact or influence on social society will provide more disclosures regarding social information, in this case, disclosures of modern slavery, with the aim of gaining recognition from stakeholders.

In line with research conducted by Flynn, (2020) said higher levels of modern slavery reporting are caused by larger companies and more sensitive industrial sectors. The results of this research contribute to the political costs theory that the views of the government, stakeholders, and society towards industries that are sensitive to the issue of slavery are influenced by that industry. Public attention is drawn to businesses that are politically visible and can be potential targets for interested parties.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

From the results of data analysis, hypothesis testing, and discussion, the following conclusions can be drawn:

1. Profitability and industry sensitivity partially have a positive and significant effect on the disclosure of modern slavery in companies listed on the Indonesia Stock Exchange
2. Profitability and industry sensitivity simultaneously have a positive and significant effect on the disclosure of modern slavery in companies listed on the Indonesia Stock Exchange

Limitations and Suggestions

This research is still not perfect considering that there are still limitations. The determination of variables in this research is still not extensive. The lack of research in Indonesia regarding the disclosure of modern slavery as previous researchers make the variables of this research limited. The measurement of the slavery disclosure variable in this study only uses a score of 1 & 0 (*dummy*) without considering the diversity, depth,

458

IJEBIR, Volume 03 Issue 03, 2024



Copyright at authors some right reserved this work is licensed under a [Creative Commons Attribution-ShareAlike 4.0 International License](https://creativecommons.org/licenses/by-sa/4.0/).

and variation of the information disclosed. Furthermore, this study was only conducted in Indonesia, the practice and impact of modern slavery may differ in each country. Therefore, further research can be carried out by including cross-country analysis and company size as variables. Of course, this would expand the data and provide a better explanation of the problem of modern slavery in corporate environments.

REFERENCE

- Antislavery International (2021), "What is modern slavery?", available at: www.antislavery.org/slavery-today/modern-slavery/
- Barlinti, Raudhah Almas., & Aris, Muhammad Abdul. (2023) Analysis of Financial Performance, Company Size, Leverage, and Sales Volume on Corporate Social Responsibility. *Journal of Accounting, Finance and Management (JAKMAN)*. ISSN2716-0807, Vol 4 No 3, 2023, 235-247.
- Birkey, RN, Guidry, RP, Islam, MA and Patten, DM (2018), "Mandated social disclosure: an analysis of the response to the California Transparency in Supply Chains Act of 2010", *Journal of Business Ethics*, Vol. 152 No. 3, pp . 827-841. <https://doi.org/10.1007/s10551-016-3364-7>
- Christ, KL, Rao, KK and Burritt, RL (2019), "Accounting for modern slavery: an analysis of Australian listed company disclosures", *Accounting, Auditing and Accountability Journal*, Vol. 32 No. 3, pp. 836-865. <https://doi.org/10.1108/AAAJ-11-2017-3242>
- Christ, KL and Burritt, RL (2018), "Current perceptions on the problem of modern slavery in business", *Business Strategy and Development*, Vol. 1 No. 2, pp. 103-114. <https://doi.org/10.1002/bsd2.15>
- Dowling, J., & Pfeffer, J. (1975). "Organizational Legitimacy: Social Values and Organizational Behavior". *The Pacific Sociological Review* , 18(1), 122–136
- Eccles, R.G., Ioannou, I. and Serafeim, G. (2014), "The impact of corporate sustainability on organizational processes and performance", *Management Science*, Vol. 60 No. 11, pp. 2835-2857. doi: 10.1287/mnsc.2014.1984
- Flynn, Anthony. (2019), "Determinants of corporate compliance with modern slavery reporting", *Supply Chain Management: An International Journal*, Volume 25 . Number 1. 1-16. Doi: 10.1108/SCM-10-2018-0369
- Flynn, A., & Walker, H. (2020). Corporate responses to modern slavery risks: an institutional theory perspective. *European Business Review*, 33(2), 295–315. doi:10.1108/or-05-2019-0092



- Ford, J. and Nolan, J. (2020), "Regulating transparency on human rights and modern slavery in corporate supply chains: the discrepancy between human rights due diligence and the social audit", *Australian Journal of Human Rights*, Published online: 25 May 2020, Vol. 26 No. 1, pp. 1-19. doi:10.1080/1323238X.2020.1761633.
- Kasmir, 2014. *Financial Report Analysis*, 7th printing. Jakarta: PT Raja Grafindo Persada.
- Perez-Batres, LA, Doh, JP, Miller, VV and Pisani, MJ (2012), "Stakeholder pressures as determinants of CSR strategic choice: why do firms choose symbolic versus substantive self-regulatory codes of conduct?", *Journal of Business Ethics*, Vol. 110 No. 2, pp. 157-172. Doi: 10.1007/s10551-012-1419-y
- Sarumpaet, S., & Fauzi, H. (2021). "Modern Slavery Disclosures in a Voluntary Regime A Political Cost Perspective". *The Palgrave Handbook of Corporate Social Responsibility* pp 667–691. https://doi.org/10.1007/978-3-030-42465-7_81
- Stevenson, M., & Cole, R. (2018). "Modern slavery in supply chains: a secondary data analysis of detection, remediation and disclosure". *Supply Chain Management: An International Journal*, 23(2), 81–99. doi:10.1108/scm-11-2017-0382
- Shocker, A.D., & Sethi, S.P. (1973). "An Approach to Incorporating Societal Preferences in Developing Corporate Action Strategies". *California Management Review*, 15(4), 97– 105. <https://doi.org/10.2307/41164466>
- Voss H, Davis M, Sumner M, Waite L, Ras I, Singhal D, Jog D (2019) "International supply chains: compliance and engagement with the modern slavery act". *Journal of the British Academy*, 7(s1), 61–76. <https://doi.org/10.5871/jba/007s1.061>
- Wanialisa, Mery., and Mahanani, Estu. (2021) "Determinants of Corporate Social Responsibility (CSR) Disclosure in Consumer Goods Industry Manufacturing Companies on the IDX 2014-2018" *STEI Journal of Economics*, Vol. 30 No. 01
- Watts RL., & Zimmerman JL. (1978). "Towards a positive theory of the determination of accounting standards". *Account Rev* 53 (1):112–134
- Weber RP (1990) *Basic content analysis*, 2nd ed. Sage, Newbury Park

