CHAPTER 1

INTRODUCTION

1.1 Background of the study

Slavery has existed for thousands of years and has been abolished in many countries. Even though the old practice of slavery has been abolished, the world is still haunted by the emergence of modern slavery. According to the information that is currently available, there are more slaves in the world than there have ever been (Gold et al., 2015). In other words, slavery has not been eradicated from society. Modern slavery, which includes forced labor, servitude, and human trafficking, is sometimes concealed by actions that appear to be typical in society and the economy (Weitzer, 2020). This condition is frequently found in labor-intensive sectors like agriculture, textiles, and construction (Gold et al., 2015).

Labor exploitation manifests in various forms, including the denial of fundamental labor rights, unsafe working conditions, and inadequate wages (Gabriel et al., 2015). Exploitation of this nature takes place in various industries and throughout all stages of the supply chain. however, most instances of forced labor are found in the lower levels, especially during the extraction and production of raw materials (Walk Free, 2023). In developing countries, individuals who are victimized frequently become targets for exploitation, serving as a low-cost labor source while enduring substandard and inhumane working conditions within the supply chains of multinational corporations (Stringer & Michailova, 2018). The tragic collapse of the Rana Plaza, which claimed the lives of over 1,100 people in Bangladesh, highlights a glaring lack of moral and ethical standards within the

supply chains of international retailers producing clothing for Western markets (Kim & Davis, 2016).

The issue of modern slavery can be understood as a consequence of extreme cost efficiencies and exploitative purchasing practices, which arise from commercial motivations and price constraints. These practices are incorporated into numerous widely consumed products and are perpetuated by consumer demand for low-cost goods (Silva & Schaltegger, 2019). Furthermore, the exploitation of low-income countries at the center of global supply chains became worse by the purchasing practices of wealthy governments and businesses (Walk Free, 2023). G20 nations represent nearly 75% of global trade and a significant proportion of products associated with forced labor. Annually, these nations import approximately US$468 billion in commodities deemed at risk. Notably, G20 imports in electronics (US$243.6 billion), garments (US$147.9 billion), palm oil (US$19.7 billion), solar panels (US$14.8 billion), and textiles (US$12.7 billion) reflect the highest levels of risk related to slavery (Walk Free, 2023). It is recognized that practices related to slavery are embedded within many products that are routinely consumed and utilized (New, 2015). This complex issue underscores the critical need for stakeholders to engage in ethical sourcing practices and to promote transparency within supply chains.

The 2030 Sustainable Development Agenda, established by the United Nations, encompasses 17 Sustainable Development Goals (SDGs) that highlight the critical issue of modern slavery, despite it not being explicitly referenced. Objectives related to modern slavery are reflected in several of the SDGs, including Goal 1, "No Poverty"; Goal 3, "Good Health and Well-Being"; Goal 8, "Decent

Work and Economic Growth"; and Goal 10, "Reduced Inequality" (Chesney et al., 2019). The SDGs emphasize the essential role of governments in shaping corporate sustainability practices and in addressing the prevention of modern slavery (Christ et al., 2019). Unfortunately, the response to the challenge of modern slavery as of 2018 has not been sufficiently effective. Since that time, the number of individuals living in modern slavery has increased, while governmental action has largely stagnated, further distancing the global community from achieving its objectives. This discouraging perspective on current progress may not necessarily foreshadow future outcomes; rather, it may illuminate the principles that are vital for success in combating modern slavery (Burritt & Christ, 2023).

According to the Global Slavery Index (2023), there are currently fifty million individuals living in conditions of modern slavery, with 28 million experiencing forced labor. This represents a significant increase of tens of millions since 2018 (Walk Free, 2023). The significant presence of modern slavery in international supply chains has raised important concerns and prompted a global dialogue on ethical practices and human rights (M. A. Islam & Van Staden, 2022). This issue is receiving heightened attention from business leaders, social advocacy groups, policymakers, and the general public (Caruana et al., 2021). In response to this pressing global challenge, numerous countries have implemented legislation that requires corporations to report on the risks associated with forced labor and other forms of human exploitation within their supply chains (Schaper & Pollach, 2021).

Transparency is crucial for driving ethical behavior changes in supply chain management practices (Doorey, 2011). With direct government involvement and

the proactive campaigns of non-governmental organizations (NGOs) like Anti-Slavery International, The Ethical Trading Initiative (ETI), and Stronger Together, companies face undeniable pressure to take significant action against the risk of slavery in their supply chains (Flynn, 2020). Furthermore, increased media coverage of forced labor incidents in the supply chains of major retailers has effectively raised public awareness about the severe issue of modern slavery (Flynn & Walker, 2021).

In recent years, there has been a growing commitment among various liberal democratic jurisdictions to address the issues of modern slavery and human trafficking within supply chains and operational practices. Notable jurisdictions, including California in the United States, the United Kingdom, France, the Netherlands, and Australia, have introduced legislation that encourages transparency in this area (Ford & Nolan, 2020). For example, the United Kingdom's Modern Slavery Act, enacted in 2015, establishes the framework for an annual reporting requirement on modern slavery, commencing with the 2015–2016 fiscal year. This initiative seeks to engage businesses in a meaningful dialogue on modern slavery, promoting greater accountability and encouraging the adoption of effective measures to combat these serious issues within their supply chains (New, 2015).

In 2018, the Australian Parliament enacted legislation aimed at addressing modern slavery, which came into effect on January 1, 2019. This important measure requires companies with a turnover of at least $36 million, as well as Australian entities with consolidated revenues exceeding $100 million, to disclose the risks associated with modern slavery in their supply chains and to outline the proactive steps they have undertaken to mitigate these risks (PwC Australia, 2019). This

development represents a significant advancement in the global efforts to combat modern slavery over the past five years. Australia is now recognized among the countries demonstrating a robust response to modern slavery, joining the ranks of the UK, Netherlands, Portugal, USA, Ireland, Norway, Spain, and Sweden (Walk Free, 2023).

Developed countries have started to implement legislation aimed at ensuring that the products they import for their citizens are free from human rights abuses linked to their supply chains. These legal developments primarily focus on expanding accountability through self-disclosure, which involves providing transparency and being responsible to stakeholders (Mitchell et al., 2015). However, it is challenging to determine the precise scope of modern slavery's global operations due to its illegal and underground nature (M. A. Islam & Van Staden, 2022). The difficulties in detecting modern slavery in businesses, even with direct suppliers (Swift et al., 2019), make multilevel distributed supplier networks that source heavily from developing countries more vulnerable to labor exploitation and human rights violations (LeBaron & Rühmkorf, 2017).

Companies that are subject to mandatory supply chain reporting obligations typically prioritize their assessments of modern slavery risks by examining their operations and suppliers in countries identified as high-risk (Christ & Burritt, 2023). At-risk countries can be linked to the the perspective that various forms of modern slavery are notably present in developing countries, largely driven by demand from wealthier regions. The intricate process of producing and distributing commodities on a global scale—from raw material sourcing to manufacturing, packaging, and transportation—can create complex and sometimes opaque supply chains, in which

the risk of forced labor is a significant concern (Pandian, 2024). According to Walk Free (2023), the countries with the highest estimated populations affected by modern slavery include India (11 million), China (5.8 million), North Korea (2.7 million), Pakistan (2.3 million), Russia (1.9 million), Indonesia (1.8 million), Nigeria (1.6 million), Türkiye (1.3 million), Bangladesh (1.2 million), and the United States. Furthermore, LeBaron et al. (2018) highlight Southeast Asia as a region of particular concern regarding modern slavery issues.

Previous studies have primarily concentrated on developed countries that have implemented specific legislation, such as the UK Modern Slavery Act and the Australian Modern Slavery Act, to encourage formal reporting by companies. This study is intended to explore the factors that influence modern slavery disclosure in Indonesia, as there is a relative scarcity of research on this issue in developing countries. The absence of specific legislation governing modern slavery disclosure in these contexts presents a challenge. Notably, Indonesia is among the countries with a significant estimated number of individuals living in modern slavery, accounting for nearly two out of every three people experiencing this issue globally (Walk Free, 2023).

Information transparency has made Indonesia's vulnerability to modern slavery, which is largely influenced by factors such as poverty and discrimination against minority groups. This issue has become a significant concern (Muawanah & Adhariani, 2024). While there are specific regulations in place requiring the disclosure of modern slavery, companies are encouraged to voluntarily report on their initiatives to combat these challenges in their supply chains, particularly if such actions resonate with their management's ethical commitments (Mayasari et

al., 2024). Generally, companies choose to include discussions of modern slavery risks within their annual or sustainability reports as part of their broader corporate social responsibility strategies.

The lack of a specific reporting format and external assurance is a common issue in non-financial disclosure regulations, particularly regarding companies' social responsibility (Jackson et al., 2020). Multi-stakeholder initiatives are needed to address this challenge (Banerjee, 2021) and management's need to identify, combat and report the new concept of modern slavery in their operations and supply chains that represent illegal or illegitimate practices such as wage theft and unsafe operations (Christ et al., 2019).

Transparency may encourage companies to provide more detailed information about their products' manufacturing process process and to make specific data visible as a public resource. Certain companies have already implemented incremental measures in this direction (New, 2015). Nevertheless, a considerable number of corporations primarily release public statements and commitments aimed at eradicating forced labor, without necessarily implementing more substantial changes (Banerjee, 2021). Larger organizations, particularly those under heightened media scrutiny, may benefit from proactively preparing for potential future regulations that will require social disclosures, similar to the frameworks established by countries that have enacted modern slavery laws (Lebaron & Rühmkorf, 2019).These businesses are likely to encounter significant repercussions in their efforts to satisfy accountability standards associated with modern slavery disclosures (Flynn & Walker, 2021). Additionally, the identification of modern slavery within supply chains represents a noteworthy

reputational risk that can impact brand equity, especially for larger corporations (Flynn, 2020).

Normative pressure encourages businesses to adopt responsible practices (Flynn & Walker, 2021). This influence arises from various sources, with the media playing a significant role in promoting corporate social responsibility and shaping the quality of information that companies share (Nugraha, 2023). The media can be effectively utilized as a strategic instrument for public scrutiny, fostering psychological pressure on companies to become more aware of social and environmental issues. Such awareness is hoped to lead to increased disclosure of social activities by these organizations (Alfariz & Widiastuti, 2021). While there is a notable increase in interest regarding ethical supply chain practices, particularly among investors, consumers, and non-governmental organizations, there remains a gap in empirical research specifically addressing the relationship between external pressures—such as media exposure—and internal company characteristics in the context of modern slavery disclosure in Indonesia.

Trafficking and labor exploitation tend to be more prominent in labor-intensive and low-skilled industries. In contrast, the financial and professional services sectors primarily engage high-skilled workers and operate under a more domestically focused supply chain (Crane et al., 2019). the complexity of the supply chain can contribute to an increased risk of slavery (Nugraha, 2023). Companies that significantly impact the environment and society often feel more obligated to disclose social and environmental information due to heightened public interest (Andreas et al., 2015). Moreover, high-profile companies are generally more inclined to share details about their social initiatives than their lower-profile

counterparts (Solikhah, 2016). This suggests that, in the interest of social responsibility, companies at greater risk of scrutiny may benefit from providing more comprehensive information about modern slavery, as there is a growing expectation from stakeholders in this regard.

The study aims to determine the effect of company size, industry sensitivity, and media exposure on modern slavery disclosure in Indonesia. The subjects of this study are companies listed on the Indonesian Stock Exchange. The subject is taken because companies listed on the stock exchange have an obligation to disclose their Corporate Social Responsibility information.

1.2 Research Questions

Based on the background described above, research problems are clustered, namely:

RQ1. Does company size affect modern slavery disclosure?

RQ2. Does industry sensitivity affect modern slavery disclosure?

RQ3. Does media exsposure affect modern slavery disclosure?

1.3 Research Objectives

Based on the background of the study and problem statement, the objectives of this study are:

RO1. To determine whether company size effect modern slavery disclosure

RO2. To determine whether industry sensitivity affects modern slavery disclosure

RO3. To determine whether media exposure affect modern slavery disclosure

1.4 Implication of the Study

1.4.1 Implication to theory

This study carefully examines the implementation of modern slavery disclosure in Indonesia, acknowledging its significant potential to aid the nation in addressing and reducing the prevalence of modern slavery. By analyzing the various factors that affect voluntary disclosure, this research aims to enhance awareness and understanding among stakeholders. The goal is to cultivate a collaborative environment where informed strategies can be formulated to effectively combat modern slavery in the country.

1.4.2 Implication to academics

This study has the potential to significantly contribute to future research efforts. By addressing its current limitations, subsequent studies can provide deeper insights into the factors influencing modern slavery disclosure in Indonesia. This enhanced understanding will ultimately lead to findings that are more applicable to the realities on the ground.

1.4.3 Implication to practice

Companies facing a substantial risk of modern slavery have a valuable opportunity to identify potential issues and implement effective solutions. By doing so, they can significantly mitigate the occurrence of modern slavery within their supply chains and enhance their reputations. Furthermore, this proactive approach can provide important insights for the government, underscoring the necessity for regulations surrounding modern slavery disclosures in Indonesia. These collective efforts can play a pivotal role in reducing modern slavery and advancing the Sustainable Development Goals (SDGs) by 2030.

1.5 Writing Systematic

The researcher organizes the discussion methodically using a structured writing framework that consists of five chapters. The first chapter, titled "Introduction," covers the background of the study, the formulation of the problem, the research objectives, the benefits of the research, and the organization of the writing. The second chapter, "Literature Review," presents the theoretical framework and references previous studies that inform the analysis and hypothesis development. This chapter also includes a conceptual framework to support the research.

The third chapter, Research Methodology, thoughtfully examines the research design, population, and sample selection, as well as the sampling techniques employed, sources of data, data collection methods, variable identification, and data analysis techniques. The fourth chapter, Research Findings and Discussion, respectfully presents the study's results through the lens of statistical tests and hypothesis verification, addressing the research questions posed. Finally, the fifth chapter, Conclusion, provides a comprehensive summary of the discussion, acknowledges the limitations of the research, and offers constructive recommendations that may be valuable to the readers.