CHAPTER 1
INTRODUCTION

Conventional financial reporting, which mainly covers economic activities, is becoming less relevant due to the increasing importance of social and environmental issues. Therefore, corporate reporting, which provides a holistic picture of corporate performance in terms of the triple bottom line (economy, society, and the environment), is gaining momentum. Such reporting is commonly termed as corporate sustainability (CS) reporting or triple bottom line reporting (Elkington, 1994). In this rapidly transforming global economy, CS reporting has emerged as the strategic weapon for the growth and survival of the company (Lo and Sheu, 2007) by maintaining a quality relationship with stakeholders (Lourenço et al., 2012). Ultimately, carrying out activities that are guided by long-term sustainability has become an important aspect of the corporate voluntary practice (Lacy et al., 2010) and a source of excellence over most competitors. (Porter and Kramer, 2006; Lourenço et al., 2012).

Currently, Global Reporting Initiative (GRI) is one of the most standardized reporting frameworks that is widely accepted by the majority of stakeholders (Carrot & Stick, 2013; KPMG, 2008, 2013). According to Brown et al. (2009), Marimon et al. (2012), and Laskar and Maji (2016, 2017a), GRI is the most comprehensive, consistent, and reliable framework for evaluating sustainability activities. Therefore, in this perspective, Corporate Social (CS) reporting, disclosure, and performance can be used interchangeably.

Since the early 2000s, the sustainability report is officially starting published by several companies in parts of the world. In Indonesia, this trend began 2006 when PT Kaltim Prima Coal published the report sustainability for the first time using GRI G2 guidelines. Sustainability report increasingly popular published by the company as a communication tool to express how development contributes to sustainability (Cantele et al. 2018; Tsalis et al 2018). From July 1st, 2018, companies in Indonesia started to produce sustainability reports using GRI Standards - replacing the latest GRI G4. It offers flexibility for companies to update individual standards in their fields. Since then, the number of companies that produce sustainability reports is increasing over the year.

Different from the one-tier system of the board of directors applied in the US, Indonesia has a two-tier system of the board of directors. The board consists of a supervising (or non-executive) board (called the board of commissioners or BOC) and an executive board (or simply called the board of directors). The Board of commissioners represents shareholders in a supervising board of directors (BOD) activities, decisions, and performance. CSR disclosure is inseparable from good CSR management, where the board of commissioners plays an important role in monitoring and supervising company performance (Rao & Tilt, 2016; Ibrahim & Hanefah, 2016; Choi, 2020). The board of commissioners as a corporate organ has the duty and the collective responsibility to supervise the company. Thus, conformity when preparing a sustainability report based on GRI standards is under the supervision of the Board of Commissioners.

The existence of sustainability reports does not mean an increase in the quality of the reported information (Junior et al., 2014). Simnett et al. (2009) find that assurance of sustainability reports enhances the credibility and reliability of reports and helps to build corporate reputation. Previous research found that the board of commissioners had a significant impact on the quality of the sustainability report (Astrid and Sylvia, 2018). It is also stated that the existence of the commissioners is no guarantee of sustainability report quality if it is not well functioned. Therefore, the quality of company reports largely depends on the effectiveness of the commissioners' work. Bowers and Seashore (1966) posited that advanced technical and managerial skills are exhibited when a manager attained a higher level of education. The previous study stated that educational attaintment on Indonesia bank industry BOC‘s is positively related to CSR disclosure. According to Swardani et al. (2021) the educational background of the board of commissioners with different fields of science can provide more detailed and transparent information regarding corporate responsibility, which is not only financial responsibility, but also social responsibility to the community and the environment as well as the long-term sustainability of the company. Further tests reveal that the effects of educational attainment are contingent on the rank of awarding universities and the independence of the board chairperson.

However, MBA/accounting/economics educational background is insignificantly related to CSR disclosure. (Prabowo et al., 2017)

According to Resource Based Perspective (RBP), companies can maintain a competitive advantage by efficiently empowering scarce, valuable, and irreplaceable resources. (Bowman and Ambrosini, 2003; Kraaijenbrink et al., 2010; Lourenço et al., 2012). Thus, companies must be able to maintain relationships with stakeholders by disclosing their sustainability activities in the form of sustainability reports to ensure continued transparency of these resources (Roberts, 1992). The better quality of the sustainability report shows the company's commitment towards managing its economic, social, and environmental impacts and, in doing so, it enhances transparency, which is very crucial for maintaining a healthy relationship with stakeholders (Carrots and Sticks, 2013; Laskar and Maji, 2016).

There are various proxies to measure the BOC's competence, such as experiences, networks, managerial skills, and educational background. The last proxy can be considered an objective one. Top universities and levels of education will contribute to one‘s way of thinking and behavior. Recent research in France stated that directors with a business education background do not correlate with CSR performance, even negatively associated with company policies related to the environment and business ethics. (R.Beji et al., 2020). It also stated that regarding the director‘s educational level, post-graduated directors are positively and significantly associated with overall CSR scores and all CSR sub-scores, except the corporate governance one.

Previous research in France done by R.Beji et al. (2020) examines how the board‘s characteristics could be associated with globally corporate social responsibility (CSR) and specific areas of CSR. Another research by Astrid and Sylvia (2018) examine the effects of stakeholder pressure and corporate governance on the quality of sustainability report. There is still no research in Indonesia that examines the correlation of the educational background of a company's BOC towards Sustainability Report Quality. This research is a novelty that will complement previous research findings. This study gathered sample data of all listed companies on the Indonesia Stock Exchange (IDX) for the year 2015 – 2019. The data related to the Board of Commissioners' educational background is derived from the annual reports of each company, which can be directly downloaded from company websites. In terms of proxy chosen for measuring Sustainability Report quality, the author uses GRI G4 for the year 2015-2017, and GRI Standards for the year 2018-2019. The author divides the measurement of educational background into 2 parts, which are education levels and university rankings. The ranking systems used in this research are developed and promoted by Quacquarelli Symonds (QS) World University Ranking.

The objectives to be achieved in this research are to obtain empirical evidence on how the board of commissioners' educational background influences the quality of sustainability reports done by the company. Consequently, this research makes several contributions to the sustainability report quality literature. First, the findings are expected to serve information that oversees the factors which affect the sustainability report quality of company listed in IDX in the last 5 years. With the increasing awareness of the topic of sustainable development, the results of this study can become a reference for companies when they want to appoint a board of commissioners to monitor the quality of the company's sustainability reports. Since the sustainability report nowadays becomes one of the top concerns by many firms, the findings can enrich the knowledge and can be used by the government as a reference when making a new policy concerning sustainability reporting practices.

The structure of this paper is as follows: Part 2 is the literature review and hypotheses development; Part 3 contains the explanation of the research methodology; Part 4 includes the results and discussion; Part 5 is the conclusion, including limitations, and suggestions for this research.