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Measuring the Quality of Sustainability Disclosure among the Malaysian Commercial Banks

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Abstract: The banking industry in Malaysia is undergoing fundamental changes due to a number of factors such as market liberalism, stakeholder expectation and environmental risks.In recent years, competitive and regulatory landscapes in the financial services industry have been evolving at an unprecedented speed. Moving forward, organizations in the industry must seek ways to improve profitability while balancing the demands from regulators and other stakeholders. In this regard, sustainability disclosure is seen as a medium that can be used in conveying the necessary information. However, in the absence of any standard guidelines available for banking institutions particularly in Malaysia, the sustainability information reported by the banks is less comparable and thus its quality is relatively unknown. In this study,we employed content analysis in order to measure the quality of sustainability disclosure by 15 commercial banks in Malaysia. In doing so, we have developed a disclosure index based on the Global Reporting Initiatives (G3.1) guidelines. With the development of the disclosure index, it enables benchmarking the sustainability disclosure across the banks and is expected to increase the transparency and standardization in disclosure in the future.

Key words: Banking · Disclosure Index · Global Reporting Initiative · Malaysia · Sustainability Disclosure

INTRODUCTION

The sustainability disclosure in Malaysia is a rising practice since the announcement made by the former Prime Minister, Dato' Seri Abdullah Ahmad Badawi in the year 2006 budget's speech. Since then, the government continues to push good corporate governance and transparency by inculcating the culture of corporate social responsibility in the day-to-day operations. Besides, the stock exchange of Malaysia, Bursa Malaysia, amended its listing requirements to include a "requirement to provide a description of the corporate social responsibility activities or practices undertaken by the listed issuer and its subsidiaries or if there are none, a statement to that effect." At the same time, Bursa Malaysia launched a Corporate Social Responsibility (CSR) Framework as a guide for public listed companies (PLCs) in implementing and reporting on CSR. The Bursa Malaysia CSR Framework focuses on four main focal areas,namely the environment, the workplace, the community and the marketplace. Although this has provided a useful framework to businesses, no detailed disclosure requirements have been outlined.

In Malaysia, in order to boost the economic transformation and growth of the Malaysian economy, the banking sector has played an important catalytic role in providing funds to businesses so that they can actively participate in the market activities.In fact, banking industry has been the backbone of the Malaysian economy since decades ago. This strategic role of the Malaysian banking sector will increase in importance in the years ahead as Malaysia becomes even more integrated with the international financial system and the global economy. The rapid changes in the global economic and financial environment will also contribute towards transforming the operating landscape of the

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Malaysian banking sector.These include government reforms to improve the bank infrastructure,to strengthen the existing ownership structures, to streamline the lending practices and capital requirements,to consider deregulation to allow for increased competition and to shift the focus towards consolidation and mergers and acquisitions. Additionally, as a part of the reforms to develop large, high-performing banks to support growth at home and abroad, the government has promoted the banking sector to move towards a more private market driven industry sector; to implement Basel Accord II or to adopt similar risk management standards; and to improve the bank structure and performance in home country [1].

At the same time, a more integrated and globalized environment and financing needs of the domestic economy will require a financial system that is more progressive and dynamic to advance the nation's vision towards the attainment of a high value-added, high-income economy [2]. In addition, as the essential component of a nation's economic structure, a banking institution has an innate duty to assist in the growth of an economic system, which aligns with its core responsibility to create value for its shareholders. So, in order to assist the government in achieving the nation's vision, the banking institutions are expected to conduct their business in a more sustainable manner.

In the light of these expectations and challenges, organizations in the banking sector have started to incorporate the economic, environmental and social information into their public reports. The reports are intended to help the audience make informed decisions about their associations with the organizations. These include the regulators, shareholders, communities, customers and employees. Essentially, a corporate sustainability disclosure is a means by which the organization could communicate with the stakeholders on its economic, environmental,and social performance. Ranging in breadth and intensity amongst practitioners, sustainability disclosure attends to interactions between a company's operations and society. As such, sustainability reporting can demonstrate a company's responsiveness to societal issues and can likewise serve to signal that the company is eager to position itself within a broader community or societal perspective.

Despite the potential role of sustainability disclosure as a medium to inform the stakeholder of the business affairs, there has been no specific guideline as to how the banks in Malaysia should report on the information. As a result, the reports have been less comparable and far from comprehensive. Furthermore, to the best of our knowledge, literature investigating the sustainability disclosure of the banks in Malaysia has been very limited. This study therefore aims to measure the quality of the sustainability disclosure by the commercial banks in Malaysia.

Our study is pertinent for several reasons. In terms of contribution to the literature, our study provides the most recent evidence of sustainability disclosure by the banks in Malaysia. In doing so, we have developed a disclosure index based on the globally recognized Global Reporting Initiative sustainability reporting guidelines. The index that we developed enables the identification of the strengths and weaknesses in the existing reporting practice so as to help improving the disclosure of sustainability information in the future. Finally, the findings from this study will provide necessary information to the regulators to consider having a specific standard or guidelines for the banks to report on the sustainability information to ensure more comprehensive and comparable reporting.

The remainder of the paper is organized as follows. Section 2 presents the literature review, Section 3 discusses the methodology and the development of Global Reporting Initiatives (GRI) G3.1 Index.Section 4 presents the results and analysis and finally, Section 5 concludes and highlights the limitation and suggestion for future research.

Literature Review

Definition of Sustainability: Sustainability has started to attract attention after the Brundtland Report in 1987 [3]. Adam and Narayanan [4] considered the sustainability issue as one of the most important concerns for organizations around the world. Sustainability contains two key concepts (1) the concepts of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and (2) the idea of limitations imposed by the state of technology and social organization of the environments ability to meet present and future needs. Sustainability can be defined as 'an organization's efforts on improving human and social welfare by ensuring positive, effective ecological and social conditions without creating conflict with its organizational goals when it generates profit and sustains a competitive advantage' [5]. It is also a business model that generates shareholder value in the long run by accepting opportunities and coping with risks originated from economic, environmental and social situations [6]. Thus, sustainability is crucial for long term success and even survival of the organizations [7].

Sustainability Within the Banking Industry: The banking industry in Malaysia dates back to the early 1900s when rapid economic development, as a result of thriving profits from rubber plantations and the tin industry then, saw the opening of foreign bank branches and the setting up of Malaysia's first domestic bank- Kwong Yik (Selangor) Banking Corporation (currently known as Malayan Banking Berhad) in 1913. Since then, the banking industry has continued its steady growth and expansion until eventually there was a need for an organization to oversee the activities and operations of the numerous banks in the nation.

The bank plays an important role in promoting economic development of a country and also provides necessary funds for executive program in the development process of economy. They collect the savings of large masses of people scattered throughout the country, which is the absence of bank would have remained idle and unproductive. These amounts are collected, pooled together and made available to commerce and industry for meeting the requirement. This provides finance for successfully carrying on various stages of production as well as distribution. Besides, due to their intermediary role in the economy, banks also hold a unique position with regard to sustainable development.

Thus, the awareness towards the sustainable development and the placing of sustainability reporting practices increasingly becoming part of the corporate agenda significantly as a good sign that the bank is not just aggressively posing for bigger profit but also focusing their investment strategies on the benefits of socially and environmentally responsible investing. In today's business, ignoring the importance of sustainability practices in their business endeavors will give a bad impression not only to the public but also to the image of the shareholders and investors. This new global tactic may affect a bank's relationship with its clients and shareholders. There are market benefits and competitive advantages for those companies whose business policies integrated with the sustainability practices [8].

Sustainability in the Banking and National Aspirations: The importance of the sustainable financial services sector to the overall economy has been growing over the past decade, with the financial services sector's share of gross domestic product (GDP) growing from an average of 9.9 percent of GDP (measured in 2000 constant prices) between 2000 and 2005 to an average of 10.9 percent over the period 2006 to 2009. The financial services sector has also been one of the fastest growing sectors over the past decade [9]. Thus, due to the major role of banking institutions in boosting the Malaysia economy into a high income economy, it becomes one of the components in achieving the national sustainability aspirations. This is aligned with the economic transformation plan in boost Malaysia's economy into a high income economy.

Research Methodology

Population and the Sample: The population and the sample of this study comprise 15 commercial banks in Malaysia as listed by the Bank Negara Malaysia (BNM).In conducting this research, the data were collected from the annual reports for the year 2012 as it represents the most recent data available at the commencement of the research. We employed content analysis in order to measure the quality of the sustainability disclosure. The quality of the disclosure is determined by the score obtained from a disclosure index. As there is no specific guideline or standard to report on sustainability information in Malaysia, we developed the index using the GRI's G3.1 sustainability reporting guidelines and its' Financial Services Sector Supplement (FSSS). A polychotomous scoring system facilitated the recording process in which items included in the index were awarded a score along a scale (i.e., 0 = for non-disclosure; 4 = most comprehensive disclosure).

Content Analysis: Content analysis is a research technique that analyses the significance of human communication in written, visual and oral forms [10]. Sample text is coded by word, phrase, sentence, or theme to enable the examination of concepts and relationships among concepts within the text or set of texts. The sample text could be derived from the annual reports and other voluntary reports such as social report and environmental report [11]. The aim is to make replicable and valid inferences from data according to their context [12]. This technique has been readily applied and widely used in corporate social disclosure-based research

The Development of Index Disclosure: Various recommendations and guidelines for sustainability reporting have been published during recent years such as Dow Jones Sustainability Indexes, FTSE4Good, Global Reporting Initiative (GRI) and Global Compact. However, the most widely used are the Global Reporting Initiative (GRI) Guidelines. GRI was founded in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Programme (UNEP). The GRI Guidelines were initially issued in 2000. Their role is to support companies in creating sustainability reports that integrate social, environmental and economic impacts of commercial enterprise. The GRI intends to establish their guidelines as an internationally accepted framework that promotes comparable sustainability reporting.

The current version of the guidelines (GRI-G3) was published in 2006. The new framework contains principles and guidance for defining content and quality of the sustainability report as well as for setting the report boundaries, i.e. the decision as to which entities of the company to be included in the report. The guidelines require standard contents for sustainability reporting regarding the organization's profile, its governance-structures and procedures and the management of sustainability issues including goals and environmental, social and economic performance indicators. In the context of a comprehensive sustainability approach it can be regarded as strength that GRI guidelines are compatible with the principles of the United Nation Global Compact.

In recent years, the GRI report has gained attention in corporate reporting [13, 7]. A GRI survey of 112 organizations, conducted in 2003, asked respondents how easy it would be for participants to link both cross-reference financial and sustainability reports using the GRI Guidelines. Of note, 19% of participants answered that it would be "very easy" or "easy" to link the two reports. Another 39% responded that there would be no significant challenge in preparing both reports. The GRI survey concluded that nearly 60% of respondents believe that such combined reporting could be done [14]. According to GRI, more than 1,000 GRI reports were produced internationally in 2008 and a 46 % increase was observed in a number of GRI reports from 2007 to 2008. In 2008, countries from Europe produced 50% of GRI reports, ranking number one by region. Asia and North America get the second and third positions by region, respectively [15].

Therefore, this study used the GRI index. The GRI classifies the items into 6 categories which are the environment, human rights, labour practices and decent works, society, product responsibilities and economic.

***Unit of Analysis (Sentences) and Polychotomous Scoring Technique*:** In this study, the quality of disclosure was evaluated by using a disclosure quality index and scoring of each disclosure item using a scale. Generally, it involved highlighting any relevant sentences meeting the specification of the disclosure index and then coding the sentences in accordance with the selected quality assessment scale. Thus, the narrative text is placed into categories in order to make conclusions about the thematic content based on the classification scheme incorporated in the disclosure index and the assessment scale. This method assists in classifying qualitative and quantitative information into certain categories in order to provide more understanding regarding the disclosure practices [16]. As stated by Hooks and Van Staden [11], a disclosure index contains a list of data items that should or could appear in company reports. This study applied a polychotomous scoring system. The system was adopted from Hooks and Van Staden [11] which uses a scale to indicate the level or quality of disclosures. In this regard, quality refers to the degree of specificity for the disclosures [17].

This study developed a set of scale which is zero to four scales. A score of zero (0) indicates the reports do not disclose anything. One (1) indicates the reports just disclose qualitative information only, without an explanation. Two (2) indicates the reports just disclose qualitative information and provide some evidences. Three (3) indicates the reports disclose qualitative and quantitative information with the evidence in figure or number. While four (4) indicates the reports disclose information qualitatively and quantitatively with following the benchmarking against the best practices as stated by the GRI guidelines index. Thus, the disclosure of 15 Malaysia banks were analysed against a total of 274 GRI G3.1 guidelines indicators covering corporate governance, environmental, human rights, labour, social, product responsibility and economic issues.

The full processes of obtaining data from the annual reports were as follows: (1) the entire annual reports and websites were read at the beginning in order to get basic understanding and familiarize with the reports. (2) Each GRI disclosure wasidentified and classified according to the polychotomous scales and then recorded.

Validity and Reliability: The validity of content analysis refers to the extent to which a measurement procedure actually measures the phenomena that the researcher aims to measure [18]. Hence, validity refers to both the research design and the data generating process. Consequently, the validity is dependent on the appropriate formulation of content categories, operational definitions, the sampling method and the recording unit used. In this study, the validity of the instrument had been enhanced through extensive literature and a pilot study prior to the actual analysis.

Reliability is the extent to which a measurement procedure responds to the phenomena being measured in the same manner, regardless of the circumstances of its implementation [12]. In short, the reliability provides assurance that particular research outcomes can be duplicated while the validity will provide assurance that the claims emerging from the research are borne out in fact.Reliability is of paramount importance in the content analysis to generate systematic and objective inferences from communication content [19]. Three types of reliability are stability, reproducibility and accuracy. First, stability and it is the extent to which a coding procedure yields the same results on repeated trials over time [12]. Second is the reproducibility, which multiple coders, operating independently of each other, obtain consistent results by using the same (or different but functionally equivalent) coding instrument in the same text.Accuracy is the degree to which a coding procedure conforms to its specifications and yields what it is designed to yield [12]. Due to the unavailability of the specific guidelines or standards for sustainability reporting of the banking institutions to allow for accuracy test, this study employed stability and reproducibility tests only in assessing the reliability. The reports were coded twice and by two independent coders. In both cases, the results were qualitatively similar.

RESULTS AND DISCUSSION

The study finds that not all banks disclosed the information about their sustainability performance and initiatives. One of the major reasons that lead to the lower level of sustainability disclosure could be the non-existence of the specific guidelines or policy that emphasizes on the importance of sustainability disclosure. The reporting is still voluntarily in nature.

Based on Figure 1, the highest total disclosure is 96 out of 274 (i.e., 35%) by Deutsche Bank and the lowest total disclosure is 32 out of 274 (i.e., 12%) by the Alliance Bank. On average, the total disclosures by the other banks are 60 out of 274 (i.e., 22%). The breakdown of disclosure by category for each bank is shown in Figure 2. Although the disclosures by the banks are considered low, most of the banks reported on their corporate sustainability activities. The disclosure by the banks is crucial in order to attract and develop a customer trust in response to the financial crisis that occurred in the year 1997.

Table 1 indicates that the highest total of disclosure is for the labour practices and decent work (LA) category and the least disclosure is for the human rights (HR) category. Although not reported in the table, Alliance bank did not disclose any information regarding its activities which are related to human rights.

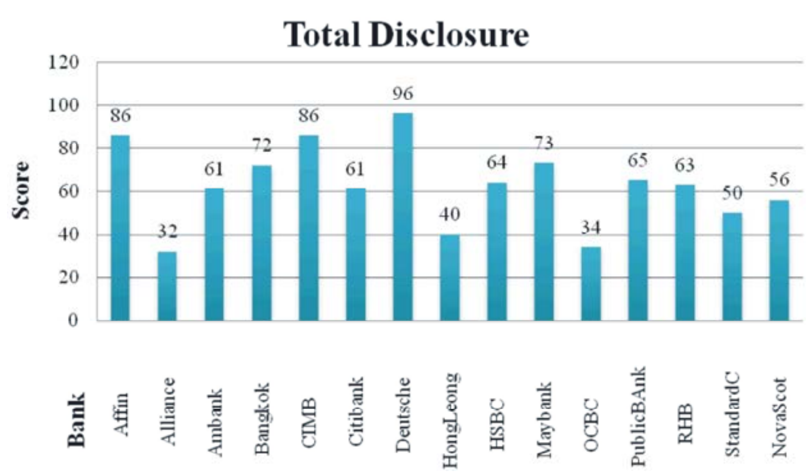

Fig. 1: GRI Index-Total Disclosure-Overall By Bank

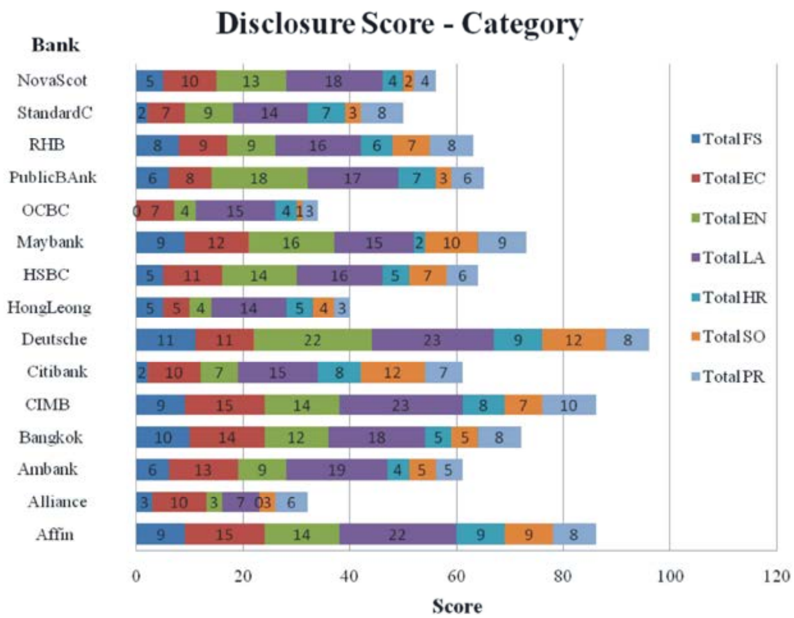

Fig. 2: GRI Index-Total Disclosure-Score by Category

Table 1: GRI Index-Total Disclosure-Score by Category

Category	Highest Score		Lowest Score	
Financial Services Sector Supplement (FS)	Deutsche Bank	11	Standard Chartered CitiBank	2
Economic (EC)	CIMB Affin Bank	15	Hong Leong	5
Environment (EN)	Deutsche Bank	22	Alliance	3
Labour practices and decent work(LA)	Deutsche Bank CIMB	23	Alliance	7
Human Rights (HR)	Deutsche Bank Affin	9	Maybank	2
Social (SO)	Deutsche Bank Citibank	12	OCBC	1
Product Responsibility (PR)	CIMB	10	OCBC Hong Leong	3

The high incidence of labour-related information is not surprising considering the labour-intensive nature of the industry. The low frequency in certain items of disclosures suggest that, in addition to no reporting guideline available, may be there are some policies that refrain the companies from disclosing the information so as to protect the privacy of the company itself. Additionally, the disclosing of information could vary depending on the country of origin of the banks and also the corporate governance practices, which warrants a separate study.

CONCLUSION

This study is about measuring the level of sustainability disclosure among the commercial banks in Malaysia.In doing so, we have (1) developed a disclosure index which is based on the recommendation of the GRI sustainability reporting guidelines and (2) analyzed the annual reports of 15 commercial banks in Malaysia for the year 2012. Based on our findings, all banks disclosed some form of sustainability information in their reports. However, the quality of disclosure is still low. Additionally, the disclosure largely focused on the disclosure related to labour practices, while the disclosure of human rights was very limited.

The sustainability disclosure practice in Malaysia is still a voluntary practice.Hence, it has become one of the reasons why companies tend to provide avery minimal sustainability disclosure. In the absence of any authoritative guidelines or standards, banks might perceive that disclosing sustainability information will not give them any significant gains.

Limitation and Future Research: The findings of this study should be interpreted with caution. First, it is cross sectional in nature and thus provides only a snapshot of the disclosure practice. Researchers might want to consider a longitudinal research to observe any trend in reporting and to enhance our understanding about the disclosure practice. Second, it only measures the quality of information, but not quantity. Quantity of disclosure is of equal importance as it could indicate the relative importance attached by organizations toward an issue. Third, the study only includes banks in Malaysia. Since the index developed in this study is based on a globally recognized guideline, analyzing the disclosure by banks from other countries would be useful. Finally, the study only examines the disclosure hence the factors influencing the disclosure are still unknown. Thus, future researchers can enhance the scope of this study by focusing on the factors that might enhance the sustainability disclosure practices.

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