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Measuring The Quality of Sustainability Disclosure in Malaysian Commercial Banks

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Abstract

The banking industry in Malaysia is undergoing fundamental changes due to the numbers of the driven factors such as the market liberalism, stakeholder expectation, and environmental risks. As a result, in the recent market developments, the competitive and regulatory landscape in the financial services industry has been evolving at an unprecedented speed. Looking ahead, financial services organisations must seek ways to improve profitability while balancing the demands of regulatory change. Thus, sustainability disclosure is seen as a medium that can be used in conveying the information. However, due to the lack of the standard guidelines available for banking institutions which making the reports not comparable and also the importance of sustainability in ensuring the long term survival of the banks, this study will employ the content analysis method in order to measure the quality of sustainability disclosure by 15 commercial banks in Malaysia. Hence, in ensuring the reliability and the validity of the index this study will adapt the Global Reporting Initiatives G3.1 guidelines as a basis. With the development of the index it is expected to have a benchmarking across the banking industry and increase the transparency of the disclosure in the sustainability issues.
Key words: Banking, Sustainability Disclosure, G3.1 Guideline, Malaysia

1. Background of the Study

The sustainability disclosure in Malaysia is a rising practices since the announcement made by the Prime Minister, Dato' Abdullah Ahmad Badawi in the year 2006 budget's speech. Since then, the government continued to push the good corporate governance and transparency by inculcate the culture of corporate social responsibility in the day-to-day operations. Besides that, 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 looks at four main focal areas for CSR practice – the Environment, the Workplace, the Community and the Marketplace. Although this has provided a useful guide to businesses, no requirements are outlined with respect to the amount of disclosure required.

In Malaysia, in order to boost up the economic transformation and growth of the Malaysian economy through the various stages of economic development, banking sector has played an important catalytic role in helping the economic. 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 Malaysian banking sector.

This includes government reforms to improve the bank infrastructure, existing ownership structures, lending practices and capital requirements; deregulation to allow for increased competition, and focus on consolidation and mergers and acquisitions. As part of the reform to develop large, high-performing banks to support growth at home and abroad, the government promotes 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 bank structure and performance in home country (Aziz, 2006).

At the same time, a more integrated and globalised 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 (Bank Negara Malaysia, 2010). In addition to it, 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.

Besides that, banking sector is incorporating economic, environmental, and social information into their public reports. The reports are intended to help audiences make informed decisions about their associations with particular companies. It is motivated by the demands of the stakeholders and shareholders including the regulators, communities, customers and employees. Essentially, a corporate sustainability disclosure is a means by which to communicate with stakeholders on a company's 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.

Due to the changes of the landscape of Malaysian banking sector which has undergone the major structural change in the era of globalization with various liberalization measures being introduced during the last decade and also the importance of the sustainability disclosure, thus, this study therefore aims to measuring the quality of the sustainability disclosure by the commercial banks in Malaysia.

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

2. Literature Review

2.1. Definition of Sustainability

Sustainability has started to attract attention after the Brundtland Report in 1987 (Gray, Bebbington & Walter, 1993). Adam and Narayanan (2007) 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' (Sharma and Ruud 2003,p. 206). 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 (SAM Indexes, 2009). Thus, sustainability is crucial for long term success and even survival of the organizations (Aras & Crowther, 2009).

2.2. Sustainability within 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 (now 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 economic. 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 become 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 endeavours 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 integrate into the sustainability practices (Ogrizek, 2004).

2.3. 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 (Bank Negara Malaysia, 2011). 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.

3. Research Methodology

3.1. Population and the Sample

The population and the sample of this study comprises of 15 commercial banks in Malaysia as listed by the Bank Negara Malaysia (BNM). In conducting this research, the data will be collected through the annual report for the year 2012 as represent the updated availability of the information and this study is based on the content analysis in order to measure the quality of the sustainability disclosure. This study adopts GRI's G3.1 Sustainability Reporting Guidelines with a tailored version for The Financial Services Sector Supplement (FSSS), enabling them to measure and report their sustainability performance. A polychotomous scoring system will facilitate the recording process.

3.2. Content Analysis

Content analysis is a research technique that analyses the significance of human communication in written, visual, and oral forms (Palmquist, 2012). 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. Content analysis is a technique to access the information such as analysing the annual reports and also analysing other voluntary report such as social report and environmental report (Hooks and Van Staden, 2011). Content analysis can be defined as 'a process of a quantifying the contents of a text by way of a method that is clear and can be repeated by other researchers'. It also can be defined as 'a research technique for making replicable and valid inferences from texts to the contexts of their use' (Krippendorff, 2004, p.18). Thus, it is a research technique for making replicable and valid inferences from data according to their context and this technique has been readily applied and widely used in corporate social disclosure-based research.

3.3. 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 striking and 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, which entities of the company are 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 (Schaltegger & Burritt, 2006; Aras & Crowther, 2009). 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 (Slater & Gilbert, 2004). According to the basic fact sheet at the GRI's website, 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 (GRI, 2010).

Therefore, this study will use 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 also economic.

3.4. Unit of Analysis (sentences) and Polychotomous Scoring Technique

In this study, the quality of disclosures will be evaluated by scoring each disclosure using a scale and a disclosure quality index. Generally, it will involve in highlighting any relevant sentence 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 will assist in classifying qualitative and quantitative information into certain categories in order to provide more understanding regarding the disclosure practices (Guthrie et al., 2004). As stated by Hooks and Van Staden (2011), a disclosure index contains a list of data items that should or could appear in company reports. This study applies a polychotomous scoring system. The system was adopted from Hooks and Van Staden (2011) which uses a scale to indicate the level or quality of disclosures. Quality refers to the degree of specificity for the disclosures (Tooley & Guthrie, 2007).

This study develops 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, 15 Malaysia banks are 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 are as follows: (1) the entire annual reports and websites are read at the beginning in order to get basic understanding and familiarize with the annual reports. (2) Each GRI disclosure is identified and classified according to the polychotomous scales and then recorded.

3.5. Validity and Reliability

Validity of content analysis refers to the extent to which a measurement procedure actually measures the phenomena that the researcher aims to measure (McKinnon, 1988). Hence, validity refers to both the research design and the data generating process. The validity of the research design is the extent to which an instrument is measuring what it is meant to measure. Consequently, the validity is dependent on the appropriate formulation of content categories, operational definitions, the sampling method and the recording unit used.

In the same context, 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 (Krippendorff, 2004). 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 (Kassarjian, 1977). 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 (Krippendorff, 2004). Stability is tested by an individual coder re-coder the same texts usually after some time have passed. Stability is considered as the weakest form of reliability. In order to attain a high degree of stability, the coding instrument must be well defined and the programmer needs to be consistent over time. Intra-coder reliability signifies consistency of the coder over time.

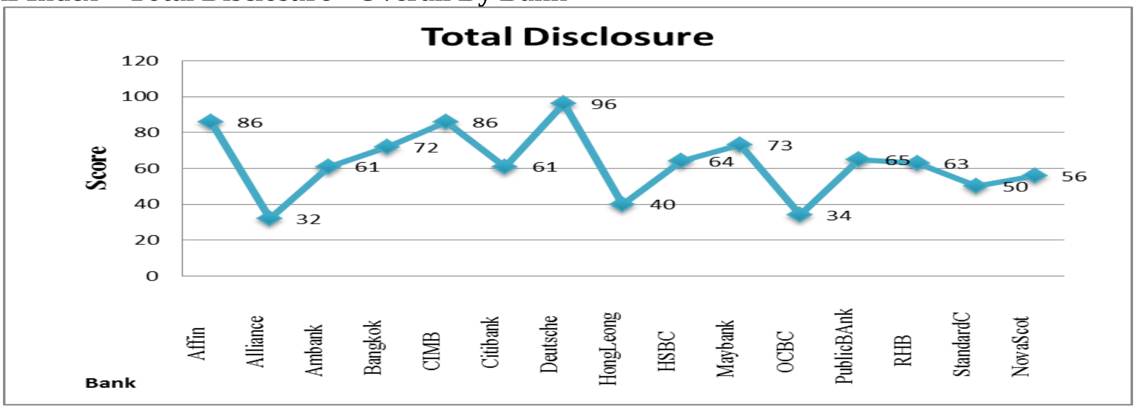
Second is the reproducibility, which multiple coders, operating independently of each other, obtain consistent results by using the same (or different but functionally equivalent) coding instrument in the same text .Therefore, a high level of reproducibility means that both intra-coder and inter-coder differences have been minimized. Third is the accuracy. It is the degree to which a coding procedure conforms to its specifications and yields what it is designed to yield (Krippendorff, 2004). So to establish accuracy, the results of a coding procedure need conform to the results of a procedure that is taken to be correct. In other words, coding results should be comparable to a predetermined standard set by a panel of experts or known from previous experiments and studies (Krippendorff, 2004).

Thus, due to the limitation of the specific guidelines or standards for sustainability of the banking institutions to employ the accuracy test, thus this study will employ stability and reproducibility in achieving the reliability. It will be through the high intra-coder reliability coefficients for the coding of a sub-sample of the sustainability report (based on GRI index) and high inter-coder reliability coefficients for the coding will be performed by conducting the pilot study. The pilot survey will be conducted in order to assess the reliability of the coding instrument and the content categories before they could be applied throughout this inquiry. In order to ensure the stability and the reproducibility, there will be two actions will be required. Firstly, a well-specified coding instrument was developed. Secondly, the coder will undergo a substantial period of preparation. So, by having the reliable instrument development, so the data that will be collected later can be pronounced as a valid.

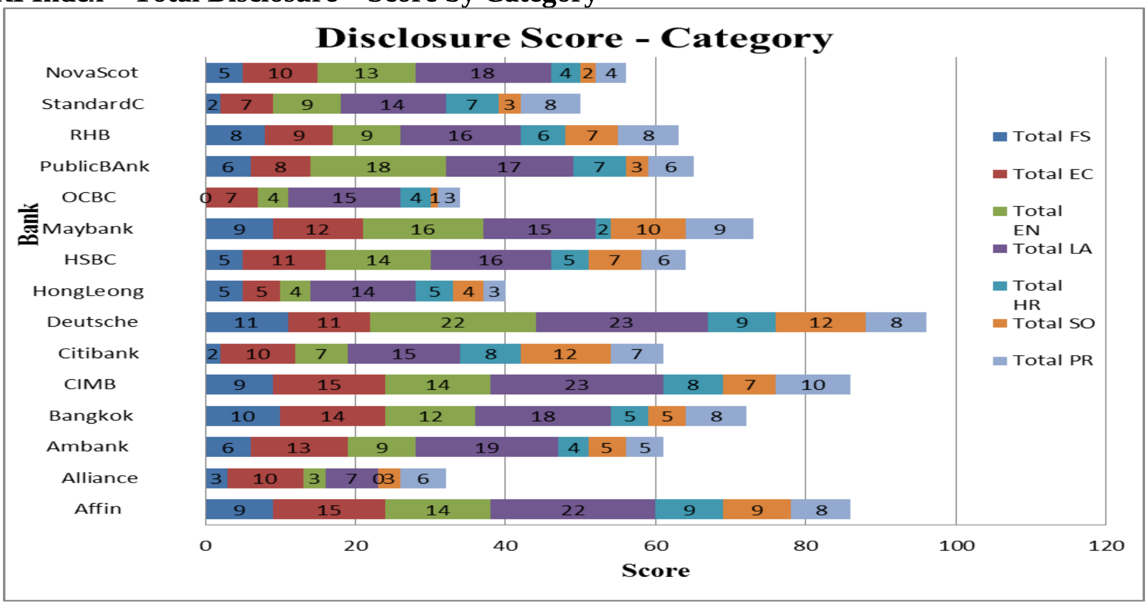
4. Results And Analysis

After the data collection process has been done, this study has found out that not all banks disclose the information that reflects their sustainability performance. One of the major reasons that lead to the lower level of sustainability disclosure is due to the non-existence of the specific guidelines or policy that emphasizes the importance of sustainability disclosure because it is still the voluntarily reporting.

GRI Index – Total Disclosure - Overall By Bank



GRI Index – Total Disclosure – Score by Category



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

Based on the above, the highest total disclosure is 96 out of 274 by Deutsche Bank and the lowest total disclosure is 32 out of 274 by the Alliance Bank. Besides that, the average score for the total disclosure by the other banks are 60 out of 274. Although the disclosures by the banks are considered low but most of the banks are reporting their corporate social activities. The disclosure by the banks is a crucial in order to attract and develop a customer trust in respond to the financial crisis that occurred in the year 1997.

From the findings, the highest totals of disclosure are through the elements of and labour practices and decent work and the least disclosure is human rights. Meanwhile, Alliance bank did not disclose their information regarding its activities which involving the human rights. The low frequency in certain items of disclosures suggest that maybe there are some restrain or policy that the companies have to keep up in order to protect the privacy of the company itself. The disclosing of information may vary from the country of origin aspects and also the corporate governance practices. Thus, the disclosure regarding the human rights is important to the banking sector because it is going to be significally impacted by the services that later will be conveyed to the stakeholder and shareholders in maintaining their trust toward the organizations.

5. Conclusion

As the important mechanisms in contributing towards the economy growth and development, thus study is about measuring the level of sustainability performance in the commercial banks in Malaysia. Sustainability is an element that cannot be clearly measure through the use of instruments. To carry out this study, it has been decided to use Global Reporting Initiatives index as a guideline in measuring the level of sustainability performance in commercial banks in Malaysia. In other words, sustainability performance of a company depends on their commitments. The sustainability disclosure practices is still the voluntary practices hence, it has become one of the reason why companies didn’t give their full commitments in achieving a high level of sustainability disclosure. Some banks may take this matter seriously and some may not. This is because they might think that by achieving a high sustainability level does not give them any significant gain towards their banks. Thus, in order to achieve a high sustainability performance in a bank, they have to balance their financial performance and other factors such as human right and protecting the environment. That is what sustainability is all about.

Besides, throughout the analysis of the 15 commercial banks in Malaysia, it shows a great disparity between banks in recognizing their responsibility towards sustainability issues and those who seem to be blissfully unaware. Other than that, through the sustainability disclosure it will help in emphasizing the growing number of risks associated with many of the issues and that companies that cannot engage with them or fail to do so will face both reputational and financial penalties. In addition to that, the leaders in the banking industry have demonstrated that they can and do take sustainability seriously. For instance the achievement of the impressive scores by Deutsche Bank, CIMB and Maybank provide a benchmark for others to follow. But a number of companies remain timid and have a long way to go to catch up on the sustainability disclosure of the best banks in Asia.

6. Limitation And Future Researchs

In order to have the extensive results, this study can be improve by enhance the sample of the study by broadening it by include the other country and continents. So by the improvement, the differences of the practices by the different continents can be seen clearly. Other than that, the future researchers can enhance the scope of this study by focusing on the factor that may enhance the sustainability disclosure practices. The factors that may relate are from the perspective of the shareholders and also the stakeholder due to their major roles in the companies. In addition to that, future research can be performed by conducting the study that involves the numbers of different industries.

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