Volume: 2 Issues: 4 [June, 2017] pp.22-29]
International Journal of Accounting, Finance and Business
eISSN: 0128-1844
Journal homepage: www.ijafb.com

CORPORATE SUSTAINABILITY REPORTING OF COMMERCIAL BANKS IN ASIA

Siti Nurain Muhmad[1]

[1]School of Maritime Business and Management, Universiti Malaysia Terengganu, Terengganu, Malaysia.
Email: sitinurain@umt.edu.my

Accepted date: 28 May 2017, **Published date**: 5 July 2017

To cite this document:
Muhmad, S. N. (2017). Corporate Sustainability Reporting of Commercial Banks in Asia. *International Journal of Accounting, Finance and Business (IJAFB)*, 2(4), 22-29.

Abstract: *Corporate reporting requirement for banking institutions is definitely rise in the ASEAN region, which is covering the disclosure of sustainability statement. Increased reporting in the region enable companies to be aware of future sustainability challenges that often hardest hit them such as climate change. There has different reporting requirement among the countries in Asia that should be obey by the firms. However, to be globally standard in disclose the corporate sustainability reporting, develop a corporate sustainability reporting scores for banks in Asia is necessary by employing the international sustainability guidelines for the banking sector that issued by international corporations. Additionally, this study will propose recommendation for a new corporate sustainability-reporting checklist in Asia. This study could enhance the understanding of the banking sustainability principle and reveal the checklist of corporate sustainability- reporting for the commercial banks in Asian countries. Future studies could compare the results among the countries by conduct a comparative study among commercial banks in each Asian country which is the gap and lack of disclosure, can be seen clearly. The evaluation of the reporting scores consist of top commercial banks in Asia by using content analysis approach which is computed attributes generate from the guidelines chosen by using a score sheet that comprising questionnaire (rubric scale). The result for the study is useful to the practitioner and policy makers to improve their disclosure statement and find out more about the lack of attributes present in this study.*

Keywords: *sustainability, corporate reporting, commercial bank, disclosure*

Introduction

Sustainability is one of the matters concern by researchers nowadays. Many organizations, professional bodies, industries, government and non-government organizations have accepted the concept of sustainability as a generator to economic development (Tiong and Ananharaman, 2011). Sustainability comes from the word of sustainable development, which is starting presented by Gro Harlem Brundtland in the The Brundtland Report in year 1987. Based on the report, sustainable development is definedas “development that meets the needs of the present world without compromising the ability of future generations to meet their own needs”. In Malaysia, a serious concern begins when the Prime Minister, Dato’ Abdullah Ahmad Badawi has announced the importance of sustainability disclosure in year 2006. United Nations Environmental Programme Finance Initiative (UNEP FI) (2009) also one of the initiative program to promote the sustainable development of financial institutions. Thus, it shows that sustainability is a prioritized agenda globally as well as local.

Additionally, a WWF report finds an alarming gap between regional ASEAN financial institutions and the Environmental, Social and Governance (ESG) standards adopted by their international counterparts. There is a shortfall on fulfilling the corporate sustainability disclosure requirements as compared to their counterparts in Brazil, China, South Africa and Hong Kong. The report released in year 2015 at Singapore Institute of International Affairs’s 2nd Singapore Dialogue on Sustainable World Resources which assess the factor of sustainability issues in their lending and investment activities. The report enforces to issue to all regulatory authorities across ASEAN for sustainable banking guidelines and more prescriptive sustainability disclosure requirements. Since the ethical issues and sustainability become a serious concern, disclosing a complete and sustainable annual report among the company become a big agenda (Aini and Sayce, 2010).

According to Shah (2016), almost all of Asean’s top listed companies are having a good sustainability reporting but there have many rooms for improving the quality of reports. The study conducted by the National University of Singapore Business School’s Centre for Governance, Institutions and Organisations (CGIO) and Asean CSR Network (ACN), found that sustainability reporting rates among the top 100 companies by market capitalization in Thailand, Malaysia, Indonesia, and Singapore are generally high but the reports left much room for improvement.

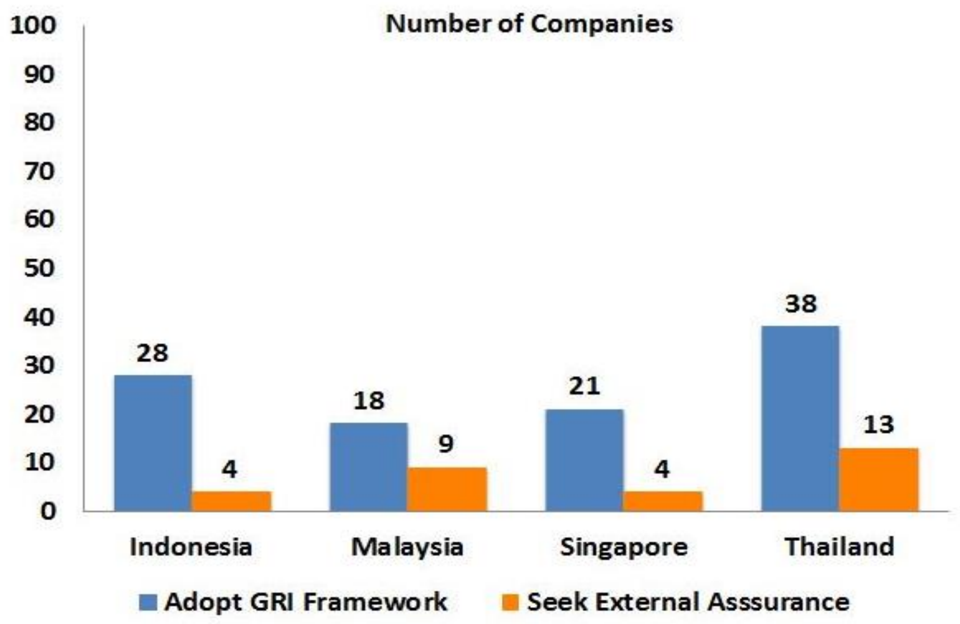

Figure 1: Breakdown of companies, which adopted the Global Reporting Initiative’s framework for their sustainability communications

Based on Figure 1, about 371 companies that communicated sustainability, only 105 of them adopt the Global Reporting Initiative's (GRI) recommended framework, and 30 companies got external assurance for their reports found the researchers, who analysed information disclosed from January 1 2014 to December 31 2015. It shows that many companies still not fulfil the requirement needed and seek for external assurance for the better sustainability framework.

Aman, Ismail, and Bakar, (2011) has mentioned that providing sustainability reporting on the annual report is expected to increase firms' chances to attract investors and analysts to give better analysis. Nor et. al. (2016) reported that the total environmental disclosures have a significant impact to the profit margin of the company which is also support by Perry et. al. (2011) and Kasbun, Teh, and Ong (2016) as disclosing the information of environment and sustainability reporting would achieve market benefit as well as able to gain profit from investment in environmental improvement. Thus, providing a best indicator for sustainable corporate reporting is an essential since it could give positive impact to the company in many aspects.

Literature Review

One of the issues that have become increasingly significant to policymakers in the business world is sustainable (Avila and Bradley, 1993; Ladd Greeno, 1994). Sustainability disclosure becomes the primary agenda in the business world when ACCA Malaysia Environmental and Social Reporting Awards (ACCA MESRA) were first introduced in Malaysia in 2002. Additionally, starting 2015, Asia Sustainability Reporting Awards (ASRA) offered to all organisations that produce sustainability reports anywhere in Asia to submit their report and to be judged by an independent panel to decide the winners. ASRA is a non-profit initiative to promote and celebrate sustainability reporting excellence in Asia.

Increased reporting in the region enable companies to be aware of future sustainability challenges that often hardest hit them such as climate change. To be globally standard in disclose the corporate sustainability reporting, develop a corporate sustainability reporting scores for banks in Asia is necessary by employing the international sustainability guidelines for the banking sector that issued by international corporations.

The best corporate sustainability reporting will disclose all the needed item based on principle given in the industry. Researchers such as Dawkins and Ngunjiri (2008) has discussed the important of the sustainability reporting, mentioned that companies which is disclosed based on the sustainability information can lead to favourable perceptions of corporate governance. The information disclosed by the companies will be use by investor to make decisions (Poitevin, 1990; Ravid and Saring, 1991). Additionally, corporate sustainability disclosures are one of the ways that companies demonstrate their legitimacy to stakeholders (Dawkins and Ngunjiri, 2008). Thus, having an excellent corporate sustainability disclosure is a must for all organization.

Banks are vital to any economy in that they provide financing to business endeavours, access to payment frameworks, and a mixture of retail monetary administration for the economy in general (Alexander, 2004). Banking institutions are complicated compare to other type of companies, in that they manage a large population that contributes funds to their banks and must always be transparent to their stakeholders. Thus, transparent disclosure is very important part in banking institutions to make sure that they could expose their best to their stakeholders and fulfil all the guidelines needed for the sake of the success of their organizations.

Sustainable banking guidelines are not a recent concern among the researcher. Prior studies have focus exclusively on the corporate sustainability reporting, especially in term of social and environmental disclosure in the banking institutions (Harun, Rashid and Alrazi, 2013; Hashim, Mahadi and Amran, 2015). Khan, Islam, and Ahmed (2010), Tiong and Ananharaman (2011) and Harun, Rashid and Alrazi, (2013) has develop sustainability disclosure by employed the indicators in Global Reporting Initiative (GRI) framework for the banking sector in Bangladesh and Malaysia.

The study by Tiong and Ananharaman (2011) and Rahman, Asraf and Bakar (2010) has examined the sustainability disclosure of one of the commercial bank in Malaysia, which is Malayan Banking Berhad and Bank Islam Malaysia Berhad. Additionally, most of the study focuses on environmental disclosure without taking into account the indicators of economic and social aspect (Smith, Yahya, and Marzuki, 2007; Sulaiman, Abdullah and Fatima, 2014; Tze San, Wei Ni, Boon Heng and Sin Huei, 2015).

However, past research has examined the corporate sustainability reporting in many version and counties. The existing literature limit to the indicator in GRI principle, environmental disclosure studies and home countries study only. Based on the study by Harun, Rashid and Alrazi, (2013), they recommended that future research should enhance the sample of the study by include another country and continents. Thus, this study focus on the broadening study by includes all of the countries in Asian so that the differences of the practices by the different countries can be seen clearly. In addition, this study will include all elements of sustainability, which are governance, social and environmental disclosure, and the guideline use to develop the corporate sustainability reporting score in this study not limited to the GRI principle only. This conceptual studies builds on extant literature by developing the corporate sustainability reporting checklist in the commercial banking sector in Asia by employ the internationally guidelines that relevant to be enclosed such as, International Finance Corporation’s Policy on Environmental and Social Sustainability (2012) and Sustainability Guidelines for the Banking Sector (2014) in Turkey.

Specifically, this study addressed to answer the following research questions: What is the best indicator to evaluate corporate sustainability for commercial banks? Thus the objective for this conceptual study is to investigate existing principle and develop a corporate sustainability-reporting checklist for commercial banks in Asia.

Developing Corporate Sustainability Reporting Checklist

The indicators of corporate sustainability reporting for banking institutions in Asia will be based on the guidelines highlight internationally. Checklist of the indicators in this study are regards to the guidelines which are Global Reporting Initiative (GRI), International Finance Corporation’s Policy on Environmental and Social Sustainability (2012) and Sustainability Guidelines for the Banking Sector (2014) in Turkey.

The most striking and most widely used are the Global Reporting Initiative (GRI) Guidelines. Harun, Rashid and Alrazi, (2013) has develop sustainability disclosure by employed the indicators in Global Reporting Initiative (GRI) framework. According to Khan, Islam, and Ahmed (2010), the GRI framework developed as a guideline for voluntary report that tries to promote reporting practices to a level equivalent to that of financial reporting in rigour, comparability, above all its universal recognition. The areas covered in GRI framework are environmental, labour practice and decent works, product responsibility, human right and society.

Apart of GRI framework, this study focuses on the International Finance Corporation's Policy on Environmental and Social Sustainability (2012). This policy puts into practice its commitments to environmental and social sustainability. Its support and financed activities for financial institutions in developing countries. The activities include the advice and training that consistent with the performance standard that predefined by the organization.

The performance standards consist of the following:

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
Performance Standard 2: Labour and Working Conditions
Performance Standard 3: Resource Efficiency and Pollution Prevention
Performance Standard 4: Community Health, Safety, and Security
Performance Standard 5: Land Acquisition and Involuntary Resettlement
Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
Performance Standard 7: Indigenous Peoples
Performance Standard 8: Cultural Heritage

These performance standards help International Finance Corporation investment and advisory clients manage and improve their environmental and social performance through a risk and outcomes based approach. The performance standards also provide a solid base on which clients may increase the overall sustainability of their operations, identify new opportunities to grow their business, and build their competitive advantage in the marketplace. Thus, by adhering to this Policy, the company will (i) enhance the predictability, transparency, and accountability of its actions and decision making; (ii) help clients manage their environmental and social risks and impacts and improve their performance; and (iii) enhance positive development outcomes on the ground.

Another guidelines that will be employ for this study is Sustainability Guidelines for The Banking Sector (2014) that prepared by the Banks Association of Turkey (BAT). With the assistance of these banking sector basic sustainability principles, banks will be able to more systematically manage the environmental and social predictability, transparency, and monitoring of their activities. Intended to be an informational guide and reference concerning sustainability good practices in the banking and finance sector, these guideline's structure are informed by seven main principles:

Principle 1: Survey and management of environmental and social risks arising from banking activities
Principle 2: Management of the banking industry's internal effects

Principle 3: Human rights and employee rights
Principle 4: Stakeholder engagement and communication
Principle 5: Corporate governance
Principle 6: Capacity improvement
Principle 7: Monitoring and reporting

Therefore, the corporate sustainability-reporting checklists for commercial banks in Asia for this study will be developed based on the policy highlighted in this section. Gordon (2002) and Amalric (2005) has highlighted the GRI framework and International Finance Corporation (IFC) as selected guidelines and they agrees that these guidelines as an initiatives by the organization to promote the sustainable development especially among financial institutions in term of their practice and disclosure.

Summary and Conclusion

Despite many studies focusing on the corporate sustainability reporting, it still has limited studies in Asia which focusing on commercial banks, which employ the international guidelines. This study could enhance the understanding of the banking sustainability principle in international view which is it develop and employ the best indicator for corporate sustainability reporting. From the checklist that highlighted in this study, it has many rooms for improvement in the disclosure of banking institutions in Asia. As the study before only focusing on GRI framework, which the areas covered, are environmental, labour practice and decent works, product responsibility, human right and society. If researcher uses the GRI framework alone, another part that important in disclosure could not be done properly. Performance standard highlight by International Finance Corporation's Policy on Environmental and Social Sustainability (2012) is totally different likewise the principle expressed by the Sustainability Guidelines for The Banking Sector (2014) that prepared by the Banks Association of Turkey (BAT).

Therefore, having these three guidelines would fill defect each other. Due to this study is conceptual study, future research could use the checklist develop to run a content analysis toward the top commercial banks in Asia. Thus, the results for the future study will reveal the level of disclosure of corporate sustainability reporting scores among the banks in Asian countries. The gap and lack of disclosure can be seen clearly. Thus, the recommendation of this study can make use to the policymakers in order to focus more on addressing the lack of disclosure level among the banks. This is important to the selection banks in order to improve their corporate sustainability disclosure and to find out more about the lack of attributes present in this study.

References

Aini, A. M., and Sayce, S. (2010). Disclosing environmental and sustainability practices and initiatives in the annual reporting process of property investors: evidence from Malaysia, (June), 23–36. Retrieved from http://eprints.kingston.ac.uk/18126/

Amalric, F. (2005). The Equator Principles: a step towards sustainability. Center for Corporate Responsibility and Sustainability.

Avila, J. A., & Bradley, W. W. (1993) "What is Environmental Strategy", The McKinsey Quarterly, Vol. 4, pp. 53-68.

Aman Z., Ismail S., and Bakar N. S. (2011). Corporate Sustainability Reporting: Malaysian Evidence. *The 2nd International Conference on Management and Muamalah 2015 (2ndICoMM)*, *2015*(November), 151–169. https://doi.org/10.1007/978-94-007-1697-1

Alexander, K. (2004). Corporate Governance and Banking Regulation. (Working Paper 17), University of Cambridge, Cambridge, United Kingdom.

Dawkins, C., and Ngunjiri, F. W. (2008) "Corporate Social Responsibility Reporting in South Africa", Journal of Business Communication, Vol. 45, No. 3, pp. 286-307.

Gordon, K. (2002). Enabling Conditions for Environmental Sustainability: Private and Public Roles. In Draft background paper for discussion at session V. 1 of the OECD Global Forum on Sustainable Development: Conference on Financing Environmental Dimension of Sustainable Development. OECD, Paris, 24-26 April 2002.

Global Reporting Initiatives (2010). GRI Sustainability Reporting Statistics. pp. 14-16.

Harun, N. A., Rashid, A. A., and Alrazi, B. (2013). Measuring the quality of sustainability disclosure among the Malaysian commercial banks. *World Applied Sciences Journal*, *28*(13), 195–201. https://doi.org/10.5829/idosi.wasj.2013.28.efmo.27026

Hashim, F., Mahadi, N. D., and Amran, A. (2015). Corporate Governance and Sustainability Practices in Islamic Financial Institutions: The Role of Country of Origin. *Procedia Economics and Finance*, *31*(15), 36–43.

Kasbun, N. F., Teh, B. H., and Ong, T. S. (2016). Sustainability Reporting and Financial Performance of Malaysian Public Listed Companies, *8*(4), 78–93.

Khan, H-U-Z, Islam, M.A, and Ahmed, K. (2010). Corporate sustainability reporting of major commercial banks in line with GRI : Bangladesh evidence. *6th Asia Pacific Interdisciplinary Research on Accounting (APIRA) Conference*, 1–33.

Ladd Greeno, J. (1994) "Corporate Environmental Excellence and Stewardship: Five Critical Tasks of Top Management", Total Quality Environmental Management, Vol. 3, No. 4, pp. 479-499.

Nor, N. M., Bahari, N. A. S., Adnan, N. A., Kamal, S. M. Q. A. S., and Ali, I. M. (2016). The Effects of Environmental Disclosure on Financial Performance in Malaysia. *Procedia Economics and Finance*, *35*(October 2015), 117–126. https://doi.org/10.1016/S2212-5671(16)00016-2

Poitevin, M. (1990) "Strategic Financial Signaling", Internal Journal of Industrial Organization, Vol. 4, pp. 499-518.

Rahman, A. A., Asraf, M. F., and Bakar, F. A. (2010). Corporate social reporting: A preliminary study of Bank Islam Malaysia Berhad (BIMB). *Issues in Social and Environmental Accounting*, *4*(1), 18-39.

Ravid, S. A., and Saring, O. H. (1991) "Financial Signaling by Committing to Cash Outflows", Journal of Financial and Quantitative Analysis, Vol. 26, pp. 165-181.

Shah, V. (2016, July 25), Sustainability Reporting Growing in Asean, But Quality Lags. Retrieved from http://www.eco- business.com/news/sustainability-reporting-growing-in-asean-but-quality-lags/

Smith, M., Yahya, K., and Marzuki, A. (2007). Environmental disclosure and performance reporting in Malaysia. *Asian Review of Accounting*, *15*(2), 185–199. https://doi.org/10.1108/13217340710823387

Sulaiman, M., Abdullah, N., and Fatima, A. H. (2014). Determinants of environmental reporting quality in Malaysia. *International Journal of Economics, Management and Accounting International Journal of Economics Management and Accounting*, *22*(1), 63–90.

Tiong, P. N. C., and Ananharaman, R. N. (2011). Bank sustainability disclosures: A case study of Maybank. *Malaysian Accounting Review*, *10*(2), 47–54.

Tze San, O., Wei Ni, S., Boon Heng, T., and Sin Huei, N. (2015). influence of environmental disclosure on the financial performance of public listed Malaysian manufacturing Companies. *Asia-Pacific Management Accounting Journal*, *10*(1), 107–136.