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BANK SUSTAINABILITY DISCLOSURES: A CASE STUDY OF MAYBANK

Paul N. C. Tiong
R. N. Anantharaman
Faculty of Business and Law
Multimedia University, Malaysia

Abstract

In the past, corporate disclosures were mainly on the companies' financial/economic performance (Deegan, 2009). However, today, an increasing number of companies are also disclosing on their environmental performance and social performance. Corporate sustainability disclosures, that is, disclosures on the economic performance, environmental performance and social performance of companies in their corporate reports enable report users to evaluate the sustainability performance of companies. Prior research studies on sustainability disclosures of companies in Malaysia have mainly examined environmental disclosures with extension to Islamic sustainability disclosures. This research study builds on extant literature by examining sustainability disclosures in the commercial banking sector, by using the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines and Financial Services Sector Supplement. The sustainability report of Malayan Banking Berhad (Maybank) – the only bank that prepared the sustainability report according to GRI's requirements – was examined. The results show that Maybank made a high level of sustainability disclosure. Besides, their GRI Content Index has several useful features: location of comments; whether an item of disclosure was fully, partially or not reported and the reason for the partial or non-disclosure. It is recommended that banks in Malaysia use a common sustainability reporting framework (such as the one developed by the GRI) so that their sustainability disclosures are consistent and comparable.

Introduction

In the 1970s, there was much discussion on the impact of economic development on the environment. A significant development of the notion of sustainability was the definition of sustainable development in the *The Brundtland Report*

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that was presented by Gro Harlem Brundtland – the then Prime Minister of Norway and chairman of the World Commission of Environment and Development – to the General Assembly of the United Nations in 1987. In the report, sustainable development is defined as "development that meets the needs of the present world without compromising the ability of future generations to meet their own needs".

There is scientific evidence to prove that economic development has made much negative impact on the earth. For example, the Intergovernmental Panel on Climate Change (2001) state in their report entitled *Climate Change 2001: Working Group 1: The Scientific Basis* that "An increasing body of observations gives a collective picture of a warming world and other changes in the climate system … There is new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities".

Today, many organizations, industry associations, professional bodies, governments and non-government organizations have come to accept the notion of sustainability in economic development. It is now widely accepted that sustainability comprises of three dimensions, namely, economic, environmental and social. This is commonly known as the triple bottom line model (Elkington, 1997). Therefore, an organization is said to be sustainable if it performs well on economic (financial) performance, environmental performance and social performance. Triple bottom line reporting or sustainability reporting enables stakeholders of organizations to assess the sustainability performance of organizations.

Corporate sustainability reporting is done on a voluntary basis in most countries, including Malaysia. However, an increasing number of companies worldwide are engaging in sustainability reporting, especially large multinationals. According to the KPMG (2008) international survey of corporate responsibility reporting, approximately 80 percent of the top 250 companies listed on the Fortune Global 500 (G250) prepared sustainability reports compared to around 50 percent in the 2005 survey. The top three drivers for reporting were ethical considerations, economic considerations and reputation or brand.

The KPMG (2008) survey also found that an average of 45 percent of the largest 100 companies by revenue in 22 countries (N100) engaged in sustainability reporting. In Malaysia, corporate sustainability reporting is not so widely adopted. However, the number of corporate sustainability reporters is increasing: the number of entrants in the annual ACCA Malaysian Sustainability Reporting Awards (MaSRA) increased from 11 in 2002 to 53 in 2010. The key drivers for reporting are the government's Green Book and Silver Book, the Malaysian Code of Corporate Governance and Bursa Malaysia's Listing Requirements.

Another finding of the KPMG (2008) survey is that the majority of companies surveyed used the Global Reporting Initiative's Sustainability Reporting Guidelines (GRI guidelines) to prepare their sustainability reports. More specifically, more than 75 percent of the G250 companies and about 70 percent of the N100 companies used the GRI guidelines. The Global Reporting Initiative (GRI) was established in 1997. It was convened by the Coalition for Environmentally Responsible Economies in the United States and the United Nations Environment Programme. In 2002, GRI was incorporated as an independent non-profit organization in the Netherlands. Today, the GRI has around 20,000 stakeholders from 80 countries that collaborate together to advance sustainability reporting. According to GRI (2006), sustainability reports that are prepared based on the GRI guidelines can be used for "benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrating how the organization influences and is influenced by expectations about sustainable development; and comparing performance within an organization and between different organizations over time". (p. 3). Although using the GRI guidelines is beneficial, they are not without limitations. As Sustainability Ltd and United Nations Environment Programme (2002) point out:

> "*The GRI Guidelines themselves allow companies partially off the hook. A company can be GRI compliant whilst looking at the least impactful aspect of their business. Consider the case of McDonald's whose inaugural GRI-based report, released earlier in 2002, makes only passing mention of agriculture issues, where an enormous proportion of McDonald's impact lies … Alan Willis, one former GRI Steering Committee member and Verification Working Group participant urges: 'GRI needs to be increasingly vigilant of company abuse of the guidelines or process – claiming their reporting is 'In Accordance' when its not; incomplete, inaccurate, misleading or inappropriate'*". *(p. 17)*

Despite the limitations of the GRI guidelines, they have been used in research studies on corporate sustainability reporting (see, for example, Frost, Jones, Loftus and Van Der Laan, 2005; Jones, Frost, Loftus and Van Der Laan, 2007). As explained by Frost et al. (2005), "there will always be potential problems with the adoption of a generic set of reporting guidelines given the diversity of the issues covered and the complex nature of corporations". (p. 90)

The first version of the GRI guidelines was issued in 2000. Later, it was revised and the second version – commonly referred to as the G2 – was issued in 2002. The latest version – the G3 – was issued in 2006. The GRI G3 guidelines require organizations to make Standard Disclosures in their sustainability reports. These disclosures comprise of Strategy and Profile, Management Approach and Performance Indicators and they are defined as follows:

> "*Strategy and Profile: Disclosures that set the overall context for understanding organizational performance such as its strategy, profile and governance.*
>
> *Management Approach: Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.*
>
> *Performance Indicators: Indicators that elicit comparable information on the economic, environmental and social performance of the organization*". *(p. 5)*

The Strategy and Profile comprises of two disclosures on Strategy and Analysis, ten disclosures on Organizational Profile, 13 disclosures on Report Parameters and 17 disclosures on Governance, Commitments and Engagement. The Management Approach contains disclosures on the following topics: Economic; Environmental; Labor Practices and Decent Work; Human Rights; Society and Product Responsibility. The Performance Indicators are grouped into three categories: Economic, Environmental and Social. There are nine economic performance indicators, 30 environmental performance indicators and 40 social performance indicators.

The GRI has also developed Sector Supplements that are applicable to organizations in specific sectors. These supplements are developed to address sustainability reporting issues that are unique to specific sectors. Each sector supplement, therefore, has its own management approach and performance indicators. Currently, GRI has finalized the following sector supplements: Electric Utilities, Financial Services, Food Processing, Mining & Metals and Non-Government Organizations. The Financial Services Sector Supplement was first issued in October 2008. The GRI has made it obligatory from 1st January 2010 for organizations in the financial services sector to report on all the performance indicators in the supplement if they wish to achieve Application Level A – the highest level of disclosure out of three application levels (the other two being Application Levels B and C, where Level C represents the minimum level of disclosure). The Financial Services Sector Supplement contains one management approach disclosure and 16 performance indicators (financial services performance indicators).

Literature Review

Past research studies on corporate sustainability disclosures in Malaysia have mainly examined environmental disclosures. The major findings of these research studies are as follows. Companies with higher levels of debt disclose less environmental information compared to companies with lower levels of debt (Ahmad, Hassan and Mohammad, 2003). The disclosure of environmental information is not a priority for companies in Malaysia (Smith, Yahya and Ahmad, 2007). Companies make environmental disclosures to build a "good corporate citizen" image (Alrazi, Sulaiman and Ahmad, 2009). The quantity and quality of environmental disclosures are low with larger companies and companies operating in environmentally sensitive industries disclosing more and better environmental information (Buniamin, 2010).

Research studies on corporate sustainability disclosures in Malaysia have also examined environmental and social disclosures from the Islamic perspective. These studies reveal that Islamic environmental and social disclosures are low (see for example, Mohammed, Alwi and Jamil, 2009; Othman and Thani, 2010). In the banking sector, an examination of the environmental and social disclosures of Bank Islam Malaysia Berhad (BIMB) showed that the bank disclosed information on employees, product and service contributions and community involvement and the volume of these information increased from 1992 to 2005 (Rahman, 2010).

This research study builds on extant literature by examining sustainability disclosures in the commercial banking sector in Malaysia, by using the GRI (2006) G3 guidelines and the GRI (2008) financial services sector supplement. The findings of this study will contribute to our understanding of sustainability disclosures of commercial banks in Malaysia.

Research Methodology

The examination of the sustainability disclosures of banks in Malaysia commenced with the selection of the banks to examine. As at 29th July, 2011, there was only one bank in Malaysia – Malayan Banking Berhad (Maybank) – that prepared the sustainability report according to the GRI G3 guidelines. The 2010 (inaugural) sustainability report of Maybank together with the GRI Content Index were downloaded from the bank's website and examined. Both the sustainability report and GRI Content Index were externally assured and, therefore, can be relied upon.

The GRI Content Index is a table that lists all the Standard Disclosures, sector supplement performance indicators and the organization's comments on the disclosures and indicators. The index provides report users with a quick overview of the organization's sustainability disclosures. A score of 0 or 1 is given for the absence or presence of a disclosure and performance indicator. The quality of the disclosure and performance indicator is not evaluated. This method of scoring has been used in research studies that examine corporate sustainability disclosures using the GRI's guidelines. (see for example, Frost et al., (2005); Jones et al., (2007)).

Results and Discussion

Maybank's sustainability report is an Application Level A report. As explained earlier, Application Level A indicates the highest level of disclosure. Detail results of the sustainability disclosures of the bank are shown in Table 1. The results show that Maybank fully reported on all the disclosures in Strategy and Profile and Management Approach, which is commendable. In relation to the disclosure on performance indicators, the bank disclosed on 82 out of a maximum of 95 indicators, which is, a high level of disclosure. Out of the 82 indicators disclosed, 67 indicators were fully reported, two indicators were partially reported and 13 indicators were not reported. The reason why two of the indicators were only partially reported is because the bank did not have the systems to monitor the indicators yet.

Table 2 shows the reasons that Maybank provided for the omission of 13 performance indicators. Six of the indicators were omitted because there was no data yet to report on the indicators. Five indicators were not reported because the indicators were not applicable to the bank. One indicator was not disclosed on due to insufficient data and another one more indicator was not disclosed because there was no policy on the issues yet.

An examination of Maybank's GRI Content Index revealed several useful features. First, it shows where the comments on each standard disclosure can be found. In this regard, the index states the location(s) and specific page(s) within those location(s) where the comments can be found. Second, the index indicates the extent to which each strategy and profile disclosure and performance indicator is reported by stating whether it is fully reported, partially reported or not reported. Third, a reason is provided for the partial or non-disclosure of each performance indicator.

Table 1: Sustainability Disclosures of Maybank

Disclosure / Indicator	Maximum Disclosure	Maybank			
		Total Disclosure	Full Disclosure	Partial Disclosure	Not Reported
Strategy and Profile					
Strategy and Analysis	2	2	2		
Organization Profile	10	10	10		
Report Parameters	13	13	13		
Governance, Commitments and Engagement	17	17	17		
Total	42	42	42		
Management Approach					
Total	7	7	7		
Performance Indicators					
Economic	9	9	9		
Environmental	30	21	10	2	9
Social	40	38	36		2
Financial Services	16	14	12		2
Total	95	82	67	2	13

Table 2: Reasons for Omission of Performance Indicators (PIs)

Reason	Number of PIs
No data yet	6
Not applicable	5
Insufficient data	1
No policy yet	1
Total	13

Conclusion

This research study examines sustainability disclosures in the commercial banking sector in Malaysia by a case study of Maybank by using the GRI G3 guidelines and the GRI financial services sector supplement. The results show that Maybank made a high level of sustainability disclosure. This study also observed that Maybank's GRI Content Index possess several useful features. The index states the specific location(s) where comments on each standard disclosure can be found. Moreover, the index indicates whether each strategy and profile disclosure and performance indicator is fully reported, partially reported or not reported. Furthermore, if a performance indicator is partially or not reported, a reason is provided.

The research limitation of this study is that a comparison could not be made to the sustainability disclosures of the other commercial banks in Malaysia because their disclosures were not according to GRI's G3 guidelines and financial services sector supplement. It is recommended that banks in Malaysia use a common sustainability reporting framework (such as the one developed by GRI) so that their sustainability disclosures are consistent and comparable. Consistent and comparable bank sustainability reporting enables the sustainability performance of banks to be compared over time and with each other.

Future research studies could examine sustainability disclosures in other financial services sub-sectors such as the finance and securities sub-sectors in order to gain an understanding of sustainability disclosures in the other sub-sectors.

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