Voluntary CSR disclosure works! Evidence from Asia-Pacific banks

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Abstract

Purpose – The purpose of this paper is to evaluate corporate social responsibility (CSR) reporting in six large banks each from Japan, China, Australia and India over the period of 2005-2011.

Design/methodology/approach – CSR and banks' annual reports and websites were analysed using a comprehensive disclosure framework to evaluate the themes of ethical standards, extent of CSR reporting, environment, products, community, employees, supply chain management and benchmarking.

Findings – Over the seven years, bank CSR disclosure improved in all four countries. Australian banks were found to have the best scores and Indian banks demonstrated maximum improvement. Despite the absence of legislative requirements or standards for CSR, this paper finds that CSR reporting continued to improve in quality and quantity in the region on a purely voluntary basis.

Research limitations/implications – This study indicates that financial institutions have a commitment to CSR activities. The comparison between financial institutions in developed and developing economies suggests that the motivation for such activities is complex. A review of the studied banks suggests that strategic rather than economic drivers are an important influence.

Practical implications – Asia-Pacific Governments need not mandate bank CSR reporting standards as the banks improved their CSR reporting consistently over the seven years despite the Global Financial Crisis (GFC).

Originality/value – A disclosure framework index is used to assess the comprehensiveness of bank practice in relation to CSR reporting. This approach enables cross-sectional and cross-country comparisons over time and the ability to replicate and apply to other industries or sectors.

Keywords Voluntary disclosure, CSR reporting, Asia-Pacific, Banks, Disclosure assessment framework

Paper type Research paper

Introduction

The extent of voluntary corporate social responsibility (CSR) reporting has been increasing in recent years in response to demands that corporations be more accountable for their actions (KPMG, 2011). Kobrin (2009) states that "the post Westphalian transition- emergence of multiple authorities, increasing ambiguity of borders and blurring the line between public and private spheres" has resulted in loss of proper oversight of large corporations. This is particularly true for CSR, as the line of control for mandating CSR reporting is hazy between individual governments and multiple international bodies. There is no clear legislative control for CSR reporting in many countries around the world, especially in the Asia-Pacific region. However, concerns relating to the extent and quality of disclosures have led to calls for the introduction of mandatory reporting requirements (Cowan and Gadenne, 2005). The introduction of a number of international standards and global benchmarks has answered some of these reservations and provided a timely interface between voluntary and compulsory disclosure regimes.

Banks have become increasingly involved in the financing of activities which aim at sustainable development (Scholtens, 2009). In acknowledging the concern of stakeholders, some banks have also identified CSR as a marketing opportunity and as a means of differentiating their product. Research suggests that a number of benefits may accrue to any business with the adoption of a CSR platform. These include increased customer retention, lower costs and increased attractiveness to overseas investors (Karake, 1998; Orlitzky et al., 2003; Thomson and Jain, 2006). This is certainly the case in mature economies (Demirgüç-Kunt and Detragiache, 1998) such as Australia (Acquaah-Gaisie, 2000; Thomson and Jain, 2006; Thomson and Jain, 2010) and Japan (Fukukawa and Moon, 2004; Chapple and Moon, 2005).

CSR activity in emerging economies (Demirgüç-Kunt and Detragiache, 1998), such as India and China, has been driven by pressure from parent companies (in the case of transnational companies), international markets and international agencies (Belal and Momin, 2009). Sixty per cent of China's largest companies report on CSR (KPMG, 2011). However Gao et al. (2005) found that CSR reporting was lower in the banking sector than in others. Similarly, Indian companies are looking at CSR initiatives to save money, improve "public relations", reduce the environmental footprint and make Indian industries more attractive to investors from other markets (Matani and Ahuja, 2010). In countries such as India, regulators have actively encouraged CSR activities amongst banks but have stopped short of mandatory controls (Bihari and Pradhan, 2011). Other reasons for the presumed disparity in CSR reporting uptake between various economies may be linked to cultural differences in the nature and conduct of businesses and the socio-economic and political climate under which they operate (Jenkins, 2005; Midttun et al., 2006).

The issue of voluntary versus mandatory CSR disclosure has been debated for a number of years. Exponents of voluntary disclosure point to the increase in CSR reporting in the past decade arguing that for a variety of reasons firms have an incentive to disclose social and environmental behaviours without compulsion. The counter argument questions the quality of such disclosures. A suggestion is made that firms only disclose information that narrows the "legitimacy gap" (Cowan and Gadenne, 2005). Empirical investigation of disclosure patterns has not provided conclusive evidence to support either case. It is the intention of this paper to contribute to the debate with an examination of CSR reporting trends amongst leading banks in the Asia-Pacific region. The three largest economies in Asia by Gross Domestic Product (GDP), namely, China, Japan and India, and the largest economy in the Pacific region, Australia, are included in this research as the dominant economies of the Asia-Pacific region. It is the aim of this paper to investigate the nature and extent of CSR disclosures provided and whether they have increased over time. A key question addressed is whether voluntary disclosure amongst major banks in the Asia-Pacific region is adequate or is there a case to be made for further regulation? In answering the research question, a disclosure reporting index will be constructed to assess the contribution of banks to a range of CSR initiatives over an extended time period.

The paper will proceed in the next section with a review of the literature pertaining to CSR and the motivations for adopting such a strategy. The following sections will develop a research methodology to assess the social and environmental responsibilities of internationally operating banks. This framework will be utilised to compare and analyse CSR activities in major banks in Australia, Japan, China and India.

CSR: a concept

Although the concept of CSR has been a focus of academic inquiry for over 60 years, there is no universally accepted definition of CSR (OECD, 2004, 2009, 2010; Arvidsson, 2010; Lee, 2011). Heal (2005, p. 393) provides a definition of CSR stating that, "CSR involves taking actions which reduce the extent of externalised costs or avoid distributional conflicts". This implies that the social costs are often borne by both corporations and society, with aliquots determined by negotiation, an unwritten contract that is subject to review by society. Consequently, good CSR results in reduction of risk, waste, improvement of relations with regulators, generating brand equity, improving human relations and employee productivity and reducing cost of capital (Heal, 2005). The World Bank, on the other hand, defines CSR as the "commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development" (Ward, 2004). The Organisation for Economic Co-operation and Development (OECD) (2004, 2009, 2010) does not have a formal definition of CSR, but it has published a series of "guidelines for multinational enterprises".

The approach taken by the financial institutions to CSR is broad brush. Australian banks such as the Westpac Bank, for example, define CSR as: "At its core, it is simply about having a set of decent values and behaviours that underpin our everyday activities" (Westpac, 2012). The National Australia Bank takes a similar view stating that "We're-committed to doing the right thing – helping our customers, communities and our people realise their potential" (NAB, 2012). On drilling down into these definitions, several key areas can be identified. For the purposes of this paper, CSR is defined as those policies that address the commitment of the firm to actions that contribute to the welfare of its customers, its employees, the broader community and the environment.

Financial institutions do not produce physical products likely to directly impact on either the environment or the community. Such institutions have, nevertheless, been conscious of the implications of their actions, either directly or indirectly, in supporting economic growth and influencing the allocation of resources. Reporting of CSR initiatives amongst financial firms increased globally from 49 to 61 per cent between 2008 and 2011 (KPMG, 2011). The growth in reporting suggests that the issue of CSR is receiving more attention by these firms and that the number of reportable policy initiatives has increased. In the Asia-Pacific region, there are no legislative requirements for overall CSR disclosure for banks. This means that CSR reporting by companies is purely voluntary. "Soft regulation" is provided by international bodies such as the OECD (2004, 2009, 2010), the World Bank, non-government organisations and stakeholder groups. These organisations provide guiding principles used as a reference by many companies.

Explanations of the incentives for voluntary disclosure vary but may be broadly classed into two categories: those that are based on economic drivers and those based on strategic motives. Economic explanations centre on issues of information asymmetry and costs. The agency problem caused by the separation of managers from owners and investors is compounded by information asymmetry. This problem can be reduced for stakeholders with the adoption of monitoring devices. Disclosure protocols are a monitoring device in this sense and are thought to reduce the incidence of agency cost. As such, there is an incentive for firms to disclose information to encourage equity and debt holders to invest (Cotter et al., 2011).

An alternative viewpoint is that of political cost theory. This model suggests that managers are concerned with reducing the costs associated with adverse political actions. The incentive to disclose occurs when the benefits of doing so exceed the risks of increased intervention if disclosure does not occur. In this context, Gamerschlag et al. (2011) argue that firms disclose information because it is in their economic interest to do so. Strategic motives centre on the organisation and its operating environment. Two most commonly cited theories in this respect are stakeholder theory and legitimacy theory. Stakeholder theory emphasises the link between the organisation and its constituents. It suggests that firms accept that stakeholders have the capacity to influence decision-making processes. Consequently, they will consider their interests when taking organisational decisions. In this respect, firms have an incentive to disclose information to demonstrate that they are taking stakeholder views into account (Cotter et al., 2011). Legitimacy theory explains this incentive from a slightly different perspective. The relationship between the organisation and the rest of the society is based on an expectation that it behaves in a certain manner. When public perceptions of the company differ from its actual performance, there is an incentive for the firm to act, providing an inducement to disclose socially responsible behaviour to manage stakeholder expectations (Cotter et al., 2011). While the motivations for voluntary disclosure may differ from organisation to organisation, there is no doubt that it is seen as a necessary imperative by many firms.

Methodology and data

Prior studies (Clarkson et al., 2008; Gjølberg, 2009) point to a number or definitional and practical issues which complicate analysis of CSR reporting. The complexities of defining CSR activities have led researchers to adopt differing approaches to measurement. For example, ratings agencies have developed benchmarks and indicators that can be used to determine whether firms conform to certain standards. Adherence to values, such as those laid down in the Global Reporting Initiative (GRI), or the Equator Principles, indicates that firms comply with certain sets of standards designed to promote socially responsible behaviour. Listing in indices, such as the Dow Jones Sustainability Index or the FTSE4 Good Index, provides an indication that broader standards have been met. A problem with these approaches is that they are, by necessity, generic and not tailored for specific industry profiles. Another potential problem is that the independence of the bodies awarding these indices is questionable, as they often have Chief Executive Officers (CEOs) or board members of target companies on their own boards. This is a potential conflict of interest for these CEOs and other company officials. An alternative approach is to consider the disclosure and reporting information published by companies themselves. Such a method is often taken as a proxy indicator of CSR practice.

By analysing the disclosure and reporting of CSR initiatives, it is possible to gain an understanding of the approach that firms take to social and environmental issues. This is often done through content analysis by mapping of disclosure items in either annual or other company reports (Guthrie and Abeysekera, 2006). Content analysis has been the focus of much of the accounting research in this field (Parker, 2005, 2010). This methodology involves codifying the text of a report, such as an annual report, according to specific criteria. It is assumed that the amount of information disclosed reflects its importance (Yongvanich and Guthrie, 2005). Examples of studies that have used content analysis to examine CSR reporting include Tilt (2001), Guthrie and Farneti (2008), Adams and Frost (2007) and Yongvanich and Guthrie (2005).

The approach to content analysis is not without complications. There is no consensus concerning which unit of analysis should be adopted: words, sentences, paragraphs or pages. Whichever unit is chosen, the problems that must be addressed include styles of writing, font sizes and other publishing features (Tilt, 2001). An additional limitation of this approach is the subjectivity involved in the actual analysis of the content of the report. This may be overcome by using multiple coders or through pre-testing and training of coders (Tilt, 2001; Yongvanich and Guthrie, 2005). Furthermore, reliance on annual reports and other company publications creates the potential for bias. Daub (2007) makes the point that companies tend to present reports that use terminology and graphics to paint a very positive picture of their activities.

A variation of this method is the construction of a disclosure index from the company's annual and other reports (Coy and Dixon, 2004; Guthrie and Abeysekera, 2006). This approach measures CSR disclosures against a set of pre-determined items to assess the comprehensiveness of CSR reporting. This involves the analysis of annual and CSR reports to determine how well firms score on a set of pre-determined factors. The current study has adopted this methodology as a way of facilitating comparative analysis between banks operating across different jurisdictions. Guthrie and Abeysekera (2006) argue that there is an established accounting literature that examines annual report disclosures using variations of this method. A benefit of this method is that it provides useful tools for comparing non-financial disclosure and reporting and can be used to compare cross-sectional and cross-country data. A limitation of this approach is that it standardises individual responses to fit the specific categories identified. It is difficult to drill down to identify differences in the quality of disclosures or emphasis placed on specific components of CSR.

The approach taken was to divide CSR disclosures into eight groupings that are relevant to areas of sustainable practice and policy. Table I describes the framework used to construct the disclosure index applied in the current study. It encompasses the broad categories of ethical standards, CSR reporting, environment, products, community, employees, supply chain management and benchmarking. This allows assessment and comparison of CSR activities between banks within a region and across countries (Carroll, 1999; Van Marrewijk, 2003). The disclosure framework draws on the work of Scholtens (2009, 2011) that provides the foundation for this approach. Within the eight groups identified, a series of 60 different CSR measures, which reflect commitment to particular aspects of CSR, is listed. Table I provides an overview of the disclosure assessment framework used in the current study, and the 60 indicators are detailed in Appendix.

The six largest banks by market capitalisation in Australia, Japan, China and India have been chosen as comparators to highlight differences in CSR reporting by banks in the Asia-Pacific region. Major banks were chosen for this study because of the significant roles they play in promoting financial intermediation that supports the growth of business and economic activity (Corrigan, 1982; Levine and Zervos, 1998). This is the only study of this region to utilise a longitudinal comparison at both the national and international levels. The seven-year time frame allows for an assessment of the progress of CSR disclosure and an investigation into the question of whether there is a difference in emphasis of CSR reporting between developed and emerging nations. CSR reporting remains voluntary in the Asia-Pacific region, and unlike some Western European countries, it lends itself to comparison and evaluation, as there is data consistency and similar international reporting recommendations.

Analysis of disclosures is based on information released on the bank websites and their published reports (sustainability and annual reports) for the years 2005-2011. The time frame was designed to assess whether CSR disclosure by financial institutions has improved over this period and how banks compare to their international counterparts in the region. In line with Scholtens (2009), a binary methodology was utilised that gave banks a score of either 1 or 0 for each of the 60 indicators outlined in Appendix. If banks reported on a specific item, for example, a socially responsible lending policy, they received a score of 1. If no such lending policy was evident, the score was 0. Results were summed to calculate a total response for each of the eight categories.

Each grouping, listed in Table I and Appendix, comprises a series of items that are used to evaluate the extent to which individual institutions voluntarily commit to reporting and implementing specific social and environmental activities. Ethical standards are measured by the level of commitment to internationally accepted standards and guidelines such as those laid down by the United Nations and other internationally recognised authorities such as the OECD and the International Chamber of Commerce.

Table I Disclosure assessment framework

Grouping	*Measures*	*No. of indicators*
1. Ethical standards	Signatory to various ethical standards protocols	6
2. CSR reporting	Publication and assurance of CSR commitments	7
3. The environment	Defined environmental policy	5
4. Products	Evidence of socially responsible products	12
5. Community	Contribution to community well being	10
6. Employees	Employee well being	12
7. Supply chain management	Supply chain policies to encourage CSR	5
8. Benchmarking	Inclusion in internationally recognised benchmarking indices	3
Total number of reporting elements		60

CSR reporting is measured by seven possible reporting types, which capture the diversity of reporting media. Included in this list are internal reporting regimes as well as external reporting initiatives such as the GRI. The Environment grouping is assessed by the extent to which the organisation has articulated a specific environmental policy and reported on particular elements of that policy; for example, quantifiable emission targets or the degree of transparency in their performance reporting. The Products category relates to the supply of socially responsible products and reflects the degree to which organisations adopt specific investment, lending and savings policies. Measurement of CSR contributions to community well-being is done with reference to a variety of indicators that point to direct and indirect community support. The commitment of the organisation to its employees is more readily assessed and can be measured in a number of ways: the level of education and personal development training, affirmative action programmes, anti-discrimination and diversity initiatives and broader work/life balance policies. Supply chain policy management and implementation is measured by indicators, which confirm that sustainability is a key consideration to CSR in this area. Participation in international benchmarking was included as a control. Inclusion in worldwide indices is only possible if specific requirements are met (Scholtens, 2011). The three benchmark indicators are the Dow Jones Sustainability index, the FTSE4 Good Index and the Carbon Disclosure Project Global Climate Leaders Index.

It is recognised that this methodology has limitations. The method of scoring is blunt and does not pick up specific details of particular initiatives. The scoring system relies on disclosure of CSR initiatives. Low scores may occur as a result of banks failing to disclose their CSR practices in annual reports, sustainability reports or newsletters as opposed to the non-undertaking of CSR practices. Wherever possible, further inquiry was undertaken to validate the scoring process. Another problem encountered was that the scoring system did not consider negative CSR activities by the banks. A search of annual reports did indicate that such activities do occur. The ANZ bank's initial agreement to provide a debt facility to support the development of the Gunn pulp mill in the environmentally sensitive Tamar Valley in Tasmania is a case in point (Anonymous, 2008). A review of disclosures in annual reports made by Australian banks regarding poor CSR performance between 2005 and 2011 indicated five negative disclosures by the ANZ, two by the Commonwealth Bank and one by the National Australia Bank. It is not the intention of this paper to analyse the more detailed aspects of CSR reporting for each organisation. Rather it is intended to provide an overview of commitment to specific types of disclosures that can be compared across institutions and across countries. The aim is to build a picture of what has been happening in respect to CSR reporting in the Asia-Pacific region.

Table II provides an overview of the 24 banks included in the study and their total CSR scores for 2005 and 2011. All banks are full-service banks, and 18 of the 24 banks have international operations. Using market capitalisation as a measure of size, we find that there is considerable difference in the average size of financial institutions across countries and within countries. China has the largest banks and India the smallest, while Australia has the most heavily concentrated banking industry. It is dominated by four major banks, with its next two largest banks, classified as regional banks, being more than 50 per cent smaller than the other countries' small banks. Previous research by Scholtens (2009) suggested that there was a positive relationship between a firm's size and its CSR commitment. The size differentials in this study will enable an assessment of this finding for banks in the Asia-Pacific region.

Table II Sample bank characteristics (2011)

Banks	*Reuters code*	*Market cap AU$M*	*Total CSR 2005 Maximum score 60*	*Total CSR 2011 Maximum score 60*
Australia				
Commonwealth Bank of Australia	CBA	77,830.63	18	35
Westpac Banking Group	WBC	61,078.76	46	52
Australia & New Zealand Banking Group	ANZ	54,996.48	33	53
National Australia Bank	NAB	52,290.92	41	48
Bendigo & Adelaide Bank	BEN	3,080.17	14	20
Bank of Queensland	BOQ	1,678.36	5	12
China				
Industrial and Commercial Bank of China (ICBC)	1398.HK	20,3370.01	6	20
China Construction Bank Corporation	0939.HK	17,0873.12	9	5
Agricultural Bank of China	1288.HK	13,7204.64	4	15
HSBC Holdings PLC	0005.HK	13,3659.60	35	47
Bank of China	3988.HK	10,1025.55	6	9
Bank of Communications Co Ltd (Bankcomm)	3328.HK	42,530.65	1	11
Japan				
Mitsubishi UFJ Financial Group	8306.T	58,940.71	25	53
Sumitomo Mitsui Financial Group	8316.T	38,606.89	17	33
Mizuho Financial Group	8411.T	31,815.65	21	32
Nomura Holdings Inc	8604.T	11,341.81	18	32
Resona Holdings Inc	8308.T	10,760.75	13	30
Bank of Yokohama Ltd	8332.T	6,308.91	4	12
India				
State Bank of India	SBI.BO	27,134.76	8	19
HDFC Bank	HDBK.BO	23,470.69	4	9
ICICI Bank Ltd	ICBK.NS	18,038.95	11	14
Axis Bank	AXBK.BO	8,496.31	2	9
Kotak Mahindra Bank	KTKM.BO	7,787.53	1	10
Bank of Baroda	BOB.BO	5,756.74	9	12

Note: Total CSR scores for 2005 and 2011 is a total score derived for each bank for each CSR disclosure item

Table II demonstrates that there was continued improvement in the number of disclosure items reported per country. India had the lowest number of CSR disclosure items in 2005 but reporting of these items more than doubled between 2005 and 2011. Australian banks had the most CSR items reported over the entire period, with ANZ achieving an annual score of 53 out of a possible 60 and China having the lowest number of items for any bank scoring 5 out of a possible 60 in 2011.

Results

This section analyses the results following the application of the disclosure assessment framework to the group of 24 banks. Table III summarises the overall pattern of change in disclosures and indicates that over the seven-year period, CSR initiatives in banks in all countries in the study are a more important part of mainstream business activity. It points to a growth in reporting with the average number of items reported per country increasing by nearly 39 per cent.

Table III Descriptive statistics for the CSR disclosure assessment framework

Variable	*2005*	*2011*
Number of sample banks (six largest banks in each country investigated)	24	24
Number of CSR disclosure items	60	60
Total possible number of CSR disclosure items reported per year (60 × 6 banks)	360	360
Average number of items reported per country	89	145
Minimum number of items reported for any country	35	72
Maximum number of items reported for any country (max number 360)	159	220
Average number of items reported per bank	15	25
Minimum number of items reported for any one bank	1	5
Maximum number of items reported for any one bank (out of 60)	46	53
Number of banks that reported at least 50% of total reporting elements	4	10

The minimum number of items reported in any country more than doubled, also suggesting a more concerted approach to social responsibility. Over the seven-year period, the number of banks that annually reported at least 50 per cent of the 60 CSR reporting indicators doubled. There was continued improvement in the minimum, maximum and average number of disclosure elements reported per country. India had the minimum number of CSR disclosure indicators, with a score of only 1, but reporting of these elements more than doubled between 2005 and 2011. Australian banks had the maximum number of CSR elements reported over the period, with ANZ achieving an annual score of 53 out of a possible 60 and China having the lowest number of elements for any bank scoring 5 out of a possible 60.

A breakdown of results by disclosure category provides the opportunity for a more detailed level of analysis. Table IV details the CSR scores for the six major banks in each country, their annual scores and the 2005-2011 total score[1]. This diverse framework of CSR initiatives functions as a proxy for CSR practice and each main grouping is discussed in the following sections.

Ethical standards

There are six ethical standards that banks can be signatories to. Overall, Australian banks have more than doubled (from 19.5 to 41.6 per cent) their official adoption of international CSR principles from 2005 to 2011. Similarly, Japanese banks demonstrate strong growth in adopting ethical standards and achieve a higher percentage growth rate despite beginning from a lower starting point of 5.5 per cent adoption in 2005 to 44.5 per cent by 2011. The Chinese banks' total seven-year score of 40 is only half of that of Australian banks. However, a progressive increase in reporting is evident between 2005 and 2011. Indian banks are not signatories to any of the ethical standards and have a zero score over the entire period.

CSR reporting

There are seven reporting methods that banks can utilise to disseminate information to stakeholders, with the most common being an annual CSR Report. Although Australian banks lead with a total seven-year score of 129, the results in Table IV show that Chinese banks have made the most progress in the level of CSR reporting with an increase from 7 per cent of possible points to 33 per cent. The Chinese banks are significantly ahead of Japanese and Indian banks when it comes to CSR reporting. Their total seven-year score was 87 out of a possible 294 points. Japanese banks score 64 and Indian banks only 3. Although Indian banks tend not to produce their own annual CSR reports, there is a limited degree of reporting in other formats.

Environmental issues

There are five environment categories that measure banks' attitude to environmental concerns:

1. Whether they have an environmental policy.
2. Whether they have disclosed a set of quantitative targets.
3. Whether they meet certified environmental management system (ISO 14001) standards.
4. Whether they exercise transparency in their environmental performance.
5. Whether they consider environmental risk management in lending policy.

Environmental sustainability has been a focus for Australian banks for some time and they have a high quality level of detailed environmental disclosure (for example, report specific greenhouse gas emissions). The four largest Australian banks have environmental policies, transparent disclosure on environmental performance and environmental risk management in lending practices since 2005, with two of these banks having ISO 14001 certification. Two smaller Australian banks are involved in green programmes and carbon disclosure but have not reported this publicly.

While emission disclosures by Japanese banks do not appear as robust, they score a seven-year total of 135 out of a possible 210 (which represents 64 per cent of possible points in this category). This exceeds the Australian bank's score of 121 (57 per cent). Japan achieves this ranking, as its banks meet more of the environmental categories and have done so for longer than Australian banks. Quantitative targets have been required by law since 2007. Likewise, in China, there are green credit requirements for lending; these include environmental protection, pollution treatment, energy saving, emission reduction and ecological construction.

Chinese banks reported 16 per cent of environment items in 2005, rising to 30 per cent in 2011. In contrast, Australia has only voluntary compliance and reporting of environmental outcomes, with no planned intention by government bodies to make setting of targets compulsory. Indian banks are only just considering environmental issues, and some banks are developing carbon management plans and are starting to implement Green Banking policies through their associated foundations. Only one Indian bank scored any points under environmental issues to give India a total country score of 2 points.

Table IV Total CSR scores by each disclosure category[a]

Banks	Annual maximum points[b]	2005	2006	2007	2008	2009	2010	2011	Total score 2005-2011[c]
1. Ethical standards	36								
Australia		7	9	11	12	13	15	15	82
Japan		2	7	10	13	13	13	16	69
China		3	5	6	6	6	6	8	40
India		0	0	0	0	0	0	0	0
2. CSR reporting scores	42								
Australia		15	16	17	18	21	21	21	129
Japan		6	8	9	10	10	10	11	64
China		3	6	11	16	18	19	14	87
India		0	0	0	0	1	1	1	3
3. Environment scores	30								
Australia		15	17	17	17	18	18	19	121
Japan		11	17	17	20	23	23	24	135
China		5	6	7	11	11	11	9	56
India		0	0	0	0	0	1	1	2
4. Product	72								
Australia		32	37	39	41	43	44	44	280
Japan		21	28	29	29	34	34	39	214
China		10	15	22	37	32	37	26	179
India		8	10	14	17	19	22	21	109
5. Community	60								
Australia		33	34	38	36	40	40	42	263
Japan		26	29	29	30	32	33	34	213
China		18	21	24	32	30	34	25	184
India		14	18	20	23	28	30	31	164
6. Employees	72								
Australia		40	47	47	48	48	50	54	334
Japan		30	34	40	42	44	44	46	280
China		17	18	22	27	28	30	23	165
India		13	14	17	15	15	15	16	105
7. Supply chain	30								
Australia		9	12	12	14	14	14	16	91
Japan		1	1	2	1	3	3	3	14
China		3	3	4	4	4	8	7	33
India		0	0	0	0	0	0	0	0
8. Benchmark	18								
Australia		8	8	9	9	10	9	9	62
Japan		1	4	7	7	8	9	11	47
China		3	3	3	3	3	3	3	21
India		0	0	0	0	0	1	2	3

Notes: [a]Appendix details the disclosure indicators within each of the eight categories; [b]annual maximum points refer to the number of disclosure items within each grouping. For example, under ethical standards, there are six measures, and for each country, there are six banks, so a potential total annual score for any country is 36. In 2011, Australia scored 15 out of a possible score of 36. Under product, there are 12 reporting elements; hence, there are 72 maximum points for any one year; [c]total score 2005-2011 – gives a total score for each category. This is derived from the annual score times the number of years. For example, a potential total score for ethical standards is 36 × 7 years = 252. Australia achieved the highest score of 82/252

Products

Socially responsible products reflect the degree to which organisations adopt specific socially responsible investment, lending and/or savings policies. There are 12 measures under the product category that reflect a financial institution's commitment to sustainability. They range from socially responsible investment (SRI) products to microcredit and climate products. The results indicated in Table IV show that Australian banks lead the way with a total product score of 280 out of a possible 504 over the seven years. Japan follows with a score of 214; China and India obtain 179 and 109, respectively.

Community

Community is a broad category that covers social conduct in a variety of forms. Banks in all countries were active with respect to sponsoring their local community in some way or were associated with community involvement. Contribution to broader societal conduct ranged from charitable donations to paid-employee volunteering and financial literacy programmes. For example, under the Reserve Bank of India guidelines, banks can give a maximum of 1 per cent of its net profit to charitable foundations/donations. All Chinese and Japanese banks were involved in charitable donations and in some type of community involvement. Over the seven-year period, Australia had the highest score of 263 out of a possible 420, followed by Japan with 213, China 184 and India 164 (Table IV).

Employees

Brammer et al. (2007) find that CSR is beneficial to both customers and employees. For both stakeholder groups, CSR improves their perceptions of the company, and employees are reported to be prouder and more committed to their organisation. Corporate responsibility towards employees is seen as more than just philanthropy; it is now often a key strategic part of business activity. It is seen as a means of attracting and retaining the best possible people and is a measure of a bank's internal social commitment, reflecting diversity, fairness and equity. There are 12 measures under the Employees category that reflect a bank's internal social commitment to its staff. These range from training and education and equal opportunity policies to disability anti-discrimination programmes. Over the seven-year period, all banks in each country demonstrated growth in their Employee CSR scores. Australian banks have the highest total score with 334 (35 per cent improvement over the seven-year period), followed by Japanese banks with 280 (53 per cent improvement) out of a possible maximum score of 420 over the period. Chinese and Indian banks had total scores of 165 (22 per cent change) and 105 (23 per cent improvement), respectively (Table IV).

All but two of the 24 banks disclose their commitment to both training and education and to leadership training programmes, with only one Chinese bank (CCBC) and one Indian bank (HDFC) failing to do so. All Australian banks have set public targets for the percentage of women in management; however, none of these targets is attained, with one exception when ANZ bank attained its target only in the year 2006. Japanese bank disclosures in 2011 show that there is little emphasis on women in management, rather their focus is on work/life balance policies, employee health programmes, diversity programmes and feedback from employees. Chinese and Indian banks achieve only training and education and leadership training but report no further social commitment to employees.

Supply chain

Corporate reputations can be significantly affected by the firms' management of sustainability issues, even those that are outside their direct control. These may include the environmental and social impacts of their supply networks. There are five measures under the supply chain category that attempt to measure a bank's commitment to sustainability. They range from sustainable supply chain policy, supplier sustainability audits and human rights. The principles of CSR applied to supply chains mean that the companies must administer policies for managing global supply chains, for example, avoiding exploitation of workers from other countries or ensuring that products come from socially responsible suppliers and economies. For banks, their exposure to supply chain CSR comes with their increasing involvement in the financing of activities that aim at sustainable development. They have a responsibility to consider social and environmental impacts of their financing activities (Scholtens, 2009). CSR in supply chain management has been a focus for Australian banks with a total seven-year score of 91 and some banks scoring maximum points each year over the entire period. There is minimal supply chain disclosure by Japanese banks and they score poorly with a total score of 14. Chinese banks have a total score of 33. Indian banks report no supply chain measures.

Benchmarks – sustainability inclusion

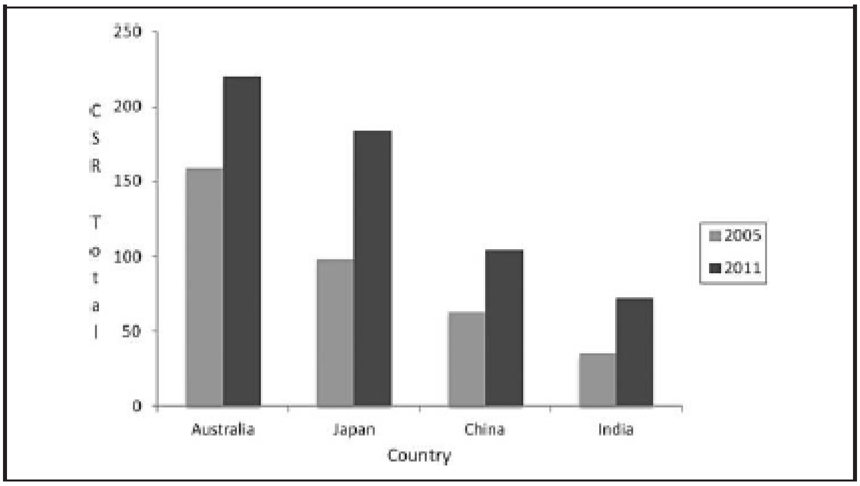
Tilt (2001) found that Australian companies were behind other countries in environmental reporting trends, and in particular, found that while Australian companies appeared to be reporting on environmental issues and policies internally, the provision of this type of information was not replicated to the same degree to external parties. This study only examines banks and countries in the Asia-Pacific region, but a decade later, we find that Australian banks are ahead of Japan, China and India in their listing on the international sustainable indices – the Dow Jones Sustainability Index Component, the FTSE4 Good Index and the Carbon Disclosure Project Global Climate Leaders index. However, their average annual score of 8 out of a possible 18 is static, showing little improvement over the seven-year period compared to the strong inclusion improvement of the Japanese banks (increasing from 1 in 2005 to 11 out of a possible 18 in 2011). Australian banks have a total score of 62 compared to Japanese banks with 47 out of a possible score of 126. China's benchmark seven-year score of 21 would be 0 if we exclude HSBC, the Hong Kong head-quartered bank, and India records a score of 3 with two banks listing on an international index from 2010 onwards. Only two of the major four Australian banks are included on all three indices over the entire seven years, while the smaller Australian banks are not listed on any of the indices over the period of 2005-2011.

Figure 1 summarises the change in total CSR scores by country between 2005 and 2011. The trend to increasing disclosure is clearly apparent in all countries, suggesting that mandatory requirements are not necessary to encourage CSR reporting in banks.

Table IV provides a more detailed view of the pattern of change in CSR reporting in the four Asia-Pacific countries. All countries have demonstrated a growing commitment to offering sustainable products to clients with both Chinese and Indian banks expanding their reporting in this area dramatically over the seven-year period. It is evident that Australian banks dominate the total CSR disclosure results for all categories except the Environment scores; in this category, Japanese banks exceed Australian banks (135 to Australia's 121). Chinese banks take third place in most of the CSR categories, but surprisingly, exceed Japan in CSR reporting scores (87 to Japan's 64) and in supply chain measurement (33 to Japan's 14). Indian banks are in the early stages of adopting CSR policies and management systems. Consequently, they do not score at all on ethical standards or supply chain, and score very low on CSR reporting (3), environment (2) and benchmarks (3). By contrast, Indian banks have credible scores for product, community (scores range from 263 for Australian banks to 164 for Indian banks) and employees (scores range from 334 for Australian banks to 105 for Indian Banks). The focus of Indian banks has been on financial inclusion programmes such as rural reach, insurance for the unbanked and a five-year plan to bring banking to 10 million unbanked households in 2010 come under community disclosures.

These findings differ from those reported by Scholtens (2009) who concluded "larger banks had better CSR reporting scores". The Chinese banks are the largest in the target series but come third in overall CSR scores. This is most likely due to the concept of CSR becoming popular first in the OECD countries, with emerging economies following suit. This may also be a reflection of the differences in the business culture between China and India on one hand, and Australia and Japan on the other (Jenkins, 2005). The pattern of firms with larger market capitalisation having better CSR reporting is not evident in intra-country analysis either. In Australia, the CBA is the largest bank by market capitalisation and scores the lowest in CSR reporting, whereas the CSR leader in Australia, Westpac, only recently became the second largest bank as a result of merger activity in 2011. China is an aberration with the HSBC, which has a "Western" heritage scoring of 305, far ahead of all other Chinese banks. Of the other Chinese banks, there was not much of a difference between the CSR reporting scores. The world's largest bank, ICBC, has a score of only 106, far behind much smaller banks from Australia and Japan. In Japan and India, there is again no direct correlation between market capitalisation and CSR scores, with smaller banks faring much better (Table II).

Figure 1 CSR scores by country



Even though the banks from the developed economies of Australia and Japan lead CSR disclosure, this research has found that Indian and Chinese banks are catching up. Banks in both these countries are improving their CSR scores rapidly. Indian banks, the smallest of those surveyed, have shown the fastest rate of improvement in CSR reporting over the past seven years, followed by Japan and then China (Figure 1). While it may be true that larger firms in the Western world have better CSR reporting scores, this has certainly not been a finding from this research.

Conclusion

The adoption of ethical codes, publishing sustainability reports and the implementing of environmental policies and management systems are the first indicators of a bank committing itself to socially responsible behaviour. These constitute the main framework for the assessment of CSR disclosure. The supply and development of socially responsible financial products that aim to reduce greenhouse gas emissions, the management of the supply chain, care of the environment and the provision of microcredit (finance for the poor and deprived) are signals of a commitment to sustainable development by the banking sector.

The results of the study indicate that over the seven-year period from 2005 to 2011, CSR disclosure by banks improved in all of the four countries examined. Both Australian and Japanese banks had established reporting protocols in place in 2005. The extent of reporting in both countries continued to expand between 2005 and 2011, indicating a growing voluntary commitment to CSR activities. Indian and Chinese banks demonstrated an increasing involvement in community activities and performed best in these areas of CSR. Measures reported on in these countries included financial inclusion, financial literacy and rural outreach programmes. In terms of policies relating to employees, Australia was the leader, reporting on a range of initiatives that promoted equity and diversity. Japanese banks placed an emphasis on policies that encourage work/life balance, while Chinese and Indian banks had fewer targets in this area.

The evidence from banks in four large Asia-Pacific countries, where there is no legislative requirement for CSR reporting, demonstrates that voluntary reporting has been associated with an increase in not only the breadth but also the depth of disclosures. There is increasing convergence of reporting with the well-recognised international standards, across all the countries under review. Results indicate that voluntary disclosure does provide a wide range of information to stakeholders and the community at large. This outcome adds to the ongoing debate on the efficacy of voluntary versus mandatory reporting. Given that voluntary disclosure is occurring within banking system and increasing over time, it could be argued that mandatory reporting requirements may not be as necessary to improve disclosure activities.

Limitations of this study include standardisation of individual responses to fit the categories identified, lack of identification of specific initiatives and lack of detail in each category of review. The mapping methodology used has enabled a comparative analysis at a broad level, but it is not designed to distinguish the particular nuances of approaches used by individual banks. In that sense, it is difficult to assess difference in the quality of disclosures. Another issue is that this paper has not considered the motivations of these banks for the demonstrated increasing commitment to CSR reporting. Prior research of Australian banks suggests that reputational issues are an important factor and that CSR reporting is viewed as a marketing tool (Thomson and Jain, 2010). A cursory review of the banks in this study suggests that strategic rather than economic drivers are important influences on the adoption of CSR practices. Further research focussing on the incentive to report could extend these findings.

CSR reporting and its assessment is by no means an exact science. Despite the methodological limitations, the use of multiple parameters, as has been done in this research, permits cross-border comparisons of activity and, more importantly, can be reproduced. CSR performance could potentially be measured by the way financial institutions deal with their workforce and their attitude to society, the degree of community involvement, volunteering, donations and sponsoring. An extension of this research could focus on evaluation of such measures of CSR. It is clear from this research, however, that CSR reporting is an organic process, one that is continually evolving. One particular methodology is unlikely to provide for a comprehensive analysis of the issue. Instead, differing approaches provide for different levels of understanding. The adoption of a disclosure index approach has provided a comparative snapshot of the state of play with respect to major Asia-Pacific banks. It is likely that further refinement of measurement tools in the future will provide greater insight into the motivations and implications of CSR initiatives. It is also likely that further research into the differential adoption of CSR disclosure in the countries included in this paper may be able to identify the reasons for this discrepancy. An extension of such research in the future could also involve an analysis of the way in which banks report progress in achieving their CSR objectives and the extent to which their strategies are successful.

Note

1. Table IV details the CSR disclosure categories for each country. Annual maximum points refer to the number of disclosure elements within each grouping times the number of banks (6). The total score is derived from the annual score times the number of years..

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Appendix

CSR disclosure assessment framework – disclosure indicators in each main grouping

1. Ethical Standards (6)

- Signatory to ICC Business Charter for Sustainable Development;
- Signatory to UNEP Finance Initiative;
- Signatory to UN Principals for Responsible Investment;
- Signatory to Equator Principles;
- Signatory to UN Global Compact; and
- OECD Guidelines for Multinational Enterprises.

2. CSR Reporting (7)

- Annual CSR Report;
- Interim CSR Report;
- Other Regular CSR Updates;
- Global Reporting Initiative G3 (Financial Services);
- AA1000AS Assurance Standard;
- External Assurance of CSR Reporting; and
- Community Investment Reporting Audit.

3. Environment (5)

- Certified Environmental Management System (ISO 14001);
- Environmental Policy;
- Quantitative Environmental Management Targets;
- Transparency of Environmental Performance; and
- Environmental Risk Management in Lending Policy.

4. Products (12)

- Socially Responsible Investment Products;
- Disclosure of SRI Funds as per cent Total FUM;
- Socially Responsible Savings Products;
- Sustainable Financing;
- Microcredit;
- Environmental Advice Services;
- Climate Products;
- Participation in Environmental Markets;
- Socially Responsible Lending;
- Socially Responsible Lending Charter;
- Exclusion of Specific Sectors; and
- Position Statements for Specific Sectors.

5. Community (10)

- Sponsoring & Charitable Donations;
- Target for $ Community Investment;
- Community Involvement;
- Community Consultation;
- Sustainability Advocacy;
- Paid Employee Volunteering;
- Financial Literacy Programmes;
- Financial Inclusion Programmes;
- Independent Financial Counselling; and
- Indigenous Reconciliation Action Plan.

6. Employees (12)

- Training and Education;
- Leadership Training Programmes;
- Women as per cent Management Target;
- Women as per cent Management Target Achieved;
- EOWA Employer of Choice;
- Disability Anti-Discrimination Programmes;
- Mature Age Employment Plan;
- Indigenous Employment Programmes;
- Work/Life Balance Policies;
- Employee Health Programmes;
- Diversity Programmes; and
- Feedback from Employees.

7. Supply Chain (5)

- Sustainable Supply Chain Policy;
- Sustainability Requirements in New Tenders;
- Supplier Sustainability Self-assessment Tool;
- Supplier Sustainability Audits; and
- Human Rights Included in Supply Chain Policy.

8. Benchmarking (3)

- Dow Jones Sustainability Index Component;
- FTSE4 Good Index; and
- Carbon Disclosure Project Global Climate Leaders Index.

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