



# SUSTAINABILITY REPORTING PRACTICES BY NON-BANK FINANCIAL INSTITUTIONS OF BANGLADESH

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## Abstract

This paper aims at finding out the scenario of current practices of sustainability reporting in the Non-Bank Financial Institutions (NBFIs) of Bangladesh as per the Global Reporting Initiative (GRI) guidelines. GRI is an independent international organization that has pioneered sustainability reporting since 1997. For the last few decades, GRI has been playing a leading role to business organizations and governmental organizations to understand and communicate their impact on critical sustainability issues, such as climate change, human rights, governance and social well-being. Following GRI guidelines can have a multiple benefit to the multi-stakeholder that is required for greater public benefit. That's why GRI framework has been used in this study which may ultimately be beneficial to us in several ways. For this study 16 out of 23 NBFIs enlisted in the Dhaka Stock Exchange (DSE) of Bangladesh has been taken to complete the study. Analysis has been done for last five years from 2012 to 2016 to see the application of GRI guidelines. The study revealed that only a few companies follow GRI guidelines to report on sustainability, some others talk about sustainability but do not follow GRI guidelines, and the rest of the companies do not talk about sustainability at all.]

**Keywords:** Sustainability Reporting, Global Reporting Initiatives (GRI), Non-Bank Financial Institutions (NBFIs).

## INTRODUCTION:

Globalization is creating a lot of opportunities as well as challenges to the business nowadays. Stakeholders are more aware now because of faster flow of information. Reporting requirements are also increasing rapidly. Financial statements are not enough nowadays to fulfill wider demand of variety of stakeholders. Recent financial downturn of 2007-2009 has been expediting the need of greater good reporting practices including sustainability reporting. Reporting guidelines of Global Reporting Initiative (GRI) is widely used sustainability reporting framework globally. Wide range of coverage of GRI guidelines brings its acceptance to a greater level. Commercial and non-commercial, government and non-government organizations can follow disclosure requirements of social, environmental and economic sustainability performance as provided by GRI.

A sustainability report is one that a company or organization publishes and that contains the economic, environmental and social impacts caused by its everyday activities (GRI, 2018). Basically it is a way an organization can follow to measure, realize and express economic, environmental, social, and governance performance. Ultimately that reporting can help in the long run in setting organizational targets and coping up with the ever-changing dynamic environment they operates. Sustainability reporting is similar to triple bottom line reporting, non-financial reporting, corporate social reporting (GRI, 2018).

Globally there are four major sustainability reporting guidelines providers, namely The Global Reporting Initiative (GRI), The Organization for Economic Cooperation and Development (OECD), The United Nations Global Compact and The International Organization for Standardization (ISO). This study is based on GRI guidelines framework for sustainability reporting. The study focuses on the application of sustainability reporting practices in the Non-Bank Financial Institutions (NBFIs) of Bangladesh. We cannot deny the importance of Non-Bank Financial Institutions in the economy of Bangladesh. Each year listed companies need to prepare and publish annual reports, which is the key source of information about the organization to the stakeholders. This study is done to determine the level of the sustainability reporting practices by NBFIs and finally give some

policy recommendations to the regulators and the Government of Bangladesh.

## OBJECTIVES OF THE STUDY:

The objective of this study is to see the recent sustainability reporting practices by the Non-Bank financial Organization of Bangladesh. The specific objectives of this study are:

1. To see the application of Global Reporting Initiative guidelines in the Non-Bank Financial Institutions of Bangladesh.
2. To suggest some points to formulate policy godliness for sustainability reporting in Non-Bank Financial Institutions of Bangladesh.

## LITERATURE REVIEW:

According to GRI Sustainability Reporting Guidelines report (2010-2011), "The GRI reporting framework is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental, and social performance... The sustainability reporting guidelines consist of principles for defining report content and ensuring the quality of reported information." Sulkowski and Waddock (2013) mentioned in their study that 95% of Global Fortune 250 companies and other thousands of companies worldwide report on their environmental, societal, and economic issues. They also termed these practices as sustainability reporting, corporate responsibility reporting, corporate social reporting, citizenship reporting, environmental societal and governance reporting, or triple bottom line reporting.

A literature review of the concept by Finch (2005) considers sustainability reporting and corporate social responsibility reporting same and highlights different views of sustainability reporting- agency view, corporate social performance view, resource-based view, supply and demand view, and the stakeholder view. The agency view, according to Freidman (1962, 1970) argues that businesses are responsible only to its shareholders and its social responsibility thus is to maximize shareholders' wealth. Resource based view explains that corporate social performance serves as a competitive advantage in case of high growth industries, says Russo and Fouts (1997). McWilliams & Siegel (2001) developed supply and demand framework, the main view of which is that CSR investment can

maximize profit, but it can favor stakeholders as well. Finally, stakeholder view of the concept, which is the most common view, argues that organizations have relationships with many groups in the society and thus they are affected by the firms. Therefore, serving the needs of those groups is equally important for ensuring sustainability.

Companies disclose various types of financial and non-financial information through mandatory reporting as well as voluntary sources, such as CSR or Integrated or Sustainability reporting. Cohen, Holder-webb, Nath and Wood (2011) commented on their study that investors prefer non-financial information more because they think that it directly affects future earnings. Also Adams, Fries, and Simnett (2011) concluded that "Integrated reporting is a means to providing a more coherent, balanced and complete picture of company performance, centered around strategic objectives and business models, and sensitive to the multiple drivers of value for today's businesses." Thus, importance of voluntary reporting cannot be overemphasized. Additionally, Chen and Bouvain (2009) mentioned in their study that current sustainability reporting standard is mainly voluntary in nature and thus companies have flexibility in how much reporting they would do. Kolk (2010) adds, there is a trend of multidimensional reporting, integrated reporting that integrates sustainability information with financial information.

So far the disclosure of sustainability reporting is concerned, many countries have shown different degree of disclosure. According to an article by Kolk (2008), among global Fortune 250 companies, many multinationals have started paying attention to sustainability reporting, specially the board supervision and structure of responsibilities, compliance, ethics, and external verification. Edu, Esang, and Otonkue (2009) in their Nigerian study concluded that large companies usually report more environmental information while medium and small companies give less or no such information and that these disclosures are generally more qualitative in nature. However, although these are all voluntary reporting, Negash (2009) suggested that GRI guidelines and private sector regulation are not enough to monitor environmental reporting by firms.

Literature on sustainability reporting is vast and is written on different dimensions. One such

dimension is how it is reported or disclosed. Murray, Sinclair, Power, and Gray (2006) studied whether UK's financial markets care about social and environmental reporting, while Cormier, Megnan, and Van Velthoven (2005) found that risk, ownership, fixed asset age and firm size are the determinants of how environmental information is conveyed to users. A US based study by Cho, Freeman, and Patten (2009) revealed that companies disclose environmental information as a strategy to respond to political and regulatory restrictions.

The concept of sustainability has been found to be connected with other aspects of firms. For example, Koner and Cohen (2011) examined whether there is any relation between sustainability or environmental reporting and firm performance and found that poor environmental performance has a significant negative relationship with the intangible asset value of publicly traded firms and that big organizations comply with environmental regulations. Besides in a study by Penman and Zhang (2002), they argued that models of sustainable earnings are also models of price earnings ratio. In an effort to find the relationship between corporate sustainability practice according to GRI guidelines and firm performance of UK and US companies, Taib, Ameer, and Haniff (2002) found that companies in these countries tend to report more after 2008 financial crisis, mainly due to public demand for more transparency and ethical practices.

A study by Amran and Ooi (2014) finds that stakeholder pressure makes companies report through their sustainability reporting about their governance, efficiency, accountability and transparency. On the other hand, Bowers (2010) commented that there is an increasing trend in companies in providing quantitative economic outcome, and not just environmental and social aspects.

Literature has shown that sustainability is not only reported in paper format but also on internet as people have more access to information now online. Budi and Almilialia (2008) summarize the use of internet is reporting about sustainability. The findings suggest that companies do not use advancement in technology in providing financial and sustainability information to its users; however, it provides tremendous opportunity to use internet for sustainability reporting. A research

by Gill, Dickinson, and Scharl (2008) intended to find sustainability report on internet and found sustainability reporting differentiates among brands and thus creates good reputation for the companies.

## METHODOLOGY:

The study is based on the information from secondary data sources. The data collected for the purpose of the study involve the analysis of annual reports for the year 2012-2016 of Non-Bank Financial Institutions (NBFIs) listed on the Dhaka Stock Exchange (DSE). A total of 16 out of 23 companies were taken as sample. This study mainly focused on the published annual reports of the selected NBFIs to analyze the application of sustainability reporting practices. To measure the level of sustainability reporting practices, Global Reporting Initiatives (GRI) guidelines were taken as conceptual framework. Annual reports were analyzed to see the NBFIs General Standards and Disclosure practices as per GRI G-3/3.1. Disclosures on Management Approach were also key variables we looked at. Results are shown as full disclosure, partial disclosure and no disclosure. Full disclosure is done when GRI guidelines were followed completely; partial disclosure is done when all aspects were not addressed in annual report; and no disclosure means there is no disclosure of sustainability reporting in the selected NBFIs annual reports. GRI framework is used because of its wide spread acceptability and pioneering role in setting requirement for sustainability reporting in the world. 93% of the largest 250 companies in the world used GRI's sustainability reporting framework (GRI websites)\*. There is no barrier to communicate sustainability reporting practices through websites, internet, newspapers or any other media but we have chosen Annual Reports to analyze the application of sustainability reporting because of wide acceptance of annual reports as important documents for disclosure.

\*KPMG Survey of Corporate Responsibility Reporting 2017

## SUSTAINABILITY REPORTING FRAMEWORK AT A GLANCE:

The Global Reporting Initiatives (GRI) was formed by Ceres and Tellus Institute under the United Nations Environment Programme (UNEP) in 1997. GRI is an independent international organization

that has been pioneering sustainability reporting since its inception in 1997. GRI helps both business firms and governments understand and convey their effect on sustainability issue such as climate change, human right, governance and social well-being. Whole society, environment, economy can be benefited by it. The GRI Sustainability Reporting Standards (GRI Standards) are the first and most widely adopted global standards for sustainability reporting since GRI's inception in 1997. In fact, 93% of the world's largest 250 corporations report on their sustainability performance.

Standards Setting of GRI is done through following boards/committee:

- The Global Sustainability Standards Board (GSSB)
- The Due Process Oversight Committee (DPOC)
- The Independent Appointments Committee (IAC)
- GRI Standards Department

GRI aims at following four areas:

- Create standards and guidance to advance sustainable development
- Harmonize the sustainability landscape
- Lead efficient and effective sustainability reporting
- Drive effective use of sustainability information to improve performance

GRI provided different standards and disclosure requirements from time to time. The short summary of those can be found as follows:

### General Standards Disclosure-Aspects: As per GRI (G-3.1/3)

GRI started publishing their standards in 2000 which is known as first version of GRI or GRI G1. Third generation guidelines were issued on 2006 which is known as GRI G-3. GRI G-3.1 was issued in year 2011. The summary of main areas where GRI G-3/3.1 provided standards under the heading of General Standards and Disclosure is as follows:

|   |   |
|---|---|
| Strategy and Analysis                   | Organizational Profile                  |
| <b>General Standards and Disclosure</b> |   |
| Reports Parameters                      | Governance, Commitments, and Parameters |

### GRI-(G-4) Reporting Framework:

GRI improved its standards in several times in the year of 2007, 2008, 2009, 2010, 2011, 2012, 2013 and 2014. In 2013 the fourth generation standards GRI G-4 were issued. The general Standards and Disclosures were increased to seven which were four in GRI G-3/3.1

|   |                        |  |                          |
|---|------------------------|--|--------------------------|
| Strategy and Analysis                   | Organizational Profile | Identified Material Aspects and Boundaries | Stakeholders Engagements |
| <b>General Standards and Disclosure</b> |                        |  |                          |
| Report Profile                          | Governance             | Ethics and Integrity                       |                          |

### Disclosure on Management Approach:

Each organization following GRI guidelines needs to provide disclosure on Management Approach. The Disclosure on Management Approach consists of three types of disclosure: Economic, Environmental and Social with subcategory in each case.

| Economic                       | Environmental                          | Social                             |
|--------------------------------|--|------------------------------------|
| i. Economic Performance        | i. Material                            | i. Labor Practices and Decent Work |
| ii. Market Presence            | ii. Energy                             | ii. Human Rights                   |
| iii. Indirect Economic Impacts | iii. Water                             | iii. Society                       |
| iv. Procurement Practices      | iv. Biodiversity                       | iv. Products Responsibility        |
|                                | v. Emissions                           |                                    |
|                                | vi. Effluents and Waters               |                                    |
|                                | vii. Products and Services             |                                    |
|                                | viii. Compliance                       |                                    |
|                                | ix. Transport                          |                                    |
|                                | x. Overall                             |                                    |
|                                | xi. Suppliers Environment Assessment   |                                    |
|                                | xii. Environmental Grievance Mechanism |                                    |

### ANALYSIS AND FINDINGS:

Analyzing the annual reports of selected companies, we find that only a few companies follow GRI guidelines to report on sustainability, some others talk about sustainability but do not follow GRI guidelines, and the rest of the companies do not

talk about sustainability at all. The summary of the findings is shown in the following table:

| Type of Disclosure | 2012 | 2013 | 2014 | 2015 | 2016 | Total | Percentage |
|--------------------|------|------|------|------|------|-------|------------|
| Full Disclosure    | 6    | 6    | 6    | 5    | 5    | 28    | 35.00%     |
| Partial Disclosure | 3    | 4    | 3    | 6    | 7    | 23    | 28.75%     |
| No Disclosure      | 7    | 6    | 7    | 5    | 4    | 29    | 36.25%     |

Table: Extent of disclosures of sustainability reporting information as per GRI guidelines

From the above table, we see that only 35.00% of the total firm-years, that is 80, follow GRI guidelines in preparing their sustainability report. There are some other companies which talk about sustainability reporting, but do not follow GRI guidelines in preparing their sustainability report. Even some of them do not prepare any sustainability report; rather they disclose some information regarding sustainability. Their percentage is 28.75% of total firm-years of 80. And the rest of the companies, do not talk about sustainability reporting at all. They do not bother about the sustainability reporting. They focus on their core business. Their percentage is higher from rest of two categories.

However, the trend of sustainability practices is going to be better over the sample period of last five years from 2012 to 2016. It is a positive sign for the regulators of the sector as well as for the Government of Bangladesh. Although full disclosure percentage is declining, partial disclosure is on the increase from 2012 to 2016 with a jerk in 2014, but the number of companies that do not disclose sustainability practices at all is on the decrease with a jerk in 2014. The trend of sustainability practices is shown in the following figure.

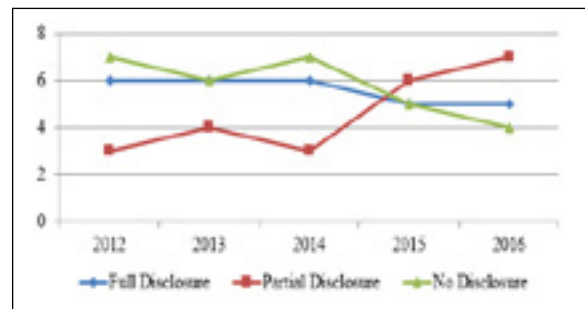



Figure: Trend of sustainability reporting practices over the years

## CONCLUSIONS AND RECOMMENDATIONS:

From the above discussion, analysis and findings, we can conclude that the NBFIs sector in Bangladesh is regulated to a considerable extent in terms of practicing sustainability reporting in their annual reports. It is seen from the analysis that some companies practice sustainability reporting in a good manner as suggested by Global Reporting Initiatives (GRI). Some others also practice sustainability reporting to a small extent. However, many other companies do not practice sustainability reporting at all. But the percentage of companies that follow sustainability in a good manner and in an average manner is not a little at all, rather, it is majority of the sample companies. So, we can say that the sustainability reporting practices by the Non-Bank Financial Institutions (NBFIs) in Bangladesh is considerably good.

There can be drawn some policy guidelines from this paper. The Government as well as the Bangladesh Bank should come forward to encourage sustainable disclosure practices in Bangladesh in accordance with GRI index. They can call all the banks for a strong commitment regarding sustainable disclosure. There can be formed a separate board or supervisory authority for proper monitoring on a regular basis regarding the application of sustainability reporting. Investors and customers' awareness can be raised regarding sustainability disclosure for implementing sustainability reporting in a standard way. 

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