International Journal of Engineering & Technology, 7 (3.35) (2018) 140-143

International Journal of Engineering & Technology

Website: www.sciencepubco.com/index.php/IJET

Research paper

Corporate environmental governance of banks in Malaysia: unveiling the support-based practices

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Abstract

This study investigates the support-based Corporate Environmental Governance (CEG) practices of banks in Malaysia. Proponents of CEG practices highlighted that understanding the CEG practices permits banks to realize its role in promoting sustainable development while at the same time gaining financial advantages and reducing negative impacts to the natural environment. However, few researchers concentrates on the support-based CEG practices, especially among the Malaysian banks, the focus of this study. This paper thus contributes in addressing this literature gap by focusing on the support-based CEG practices of banks in Malaysia. The study adopts content analysis technique in obtaining data from the latest sustainability report and official website of the banks in Malaysia. The findings reveal six types of support-based CEG practices implemented by the Malaysian banks. Furthermore, consistent with the literature, the findings also indicate energy conservation as the most implemented support-based CEG practices.

Keywords: *Corporate Environmental Governance; Support-Based CEG Practices; Sustainable Development; Banking Industry; Malaysia.*

1. Introduction

The increasing global concern over environmental issues such as scarcity of renewable energy, continuing loss and pollution of natural resources had put to the fore the concept of sustainable development (Khairani, Rajamanoharan, & Thirumanickam, 2014; Masukujjaman, Siwar, Mahmud, & Shah Alam, 2016). The term 'sustainable development' was first forwarded in the Brundtland Commission's Report Our Common Future issued in 1987 and being defined as the "…development that meets the needs of the present without compromising the ability of future generations to meet their own needs"(www.un-documents.net.).

Along this line of development, the United Nations had organized summits attended by world leaders to focus on how to safeguard global economic growth without destroying the planet in the process (Ahmad, Zayed, & Harun, 2013). To date, the United Nation (UN) Summit in September 2015 had evidenced world leaders adopted the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development which came into force on 1 January 2016. The realization of the new agenda which continues to focus on harmonization of sustainable development's three core elements: economic growth, social inclusion and environmental protection requires joint efforts of all stakeholders including the governments, civil society, private sectors, and others towards building an inclusive, sustainable and resilient future for people and planet (http://www.un.org).

Within environmental preservation perspective, during an earlier summit in Rio De Jenero, world leaders had adopted Agenda 21 to achieve sustainable development (United Nation Sustainable Development (UNSD), 1992). As stated in para 30.3, Chapter 30 of Agenda 21 of the Earth Summit, "Business and industry…should recognize Environmental Management as among the highest corporate priorities and as a key determinant to sustainable development" (UNSD, 1992). Therefore, firms within various industries and sectors must respond to the environmental calls by adopting corporate environmental governance (CEG) (Environment Agency, 2004; Chaves, 2010; Khairani et al., 2014).

CEG is also commonly referred to as 'environmental management' (e.g. Sroufe, Narasimhan, Montabon, & Wang, 2002; Valentine, 2009), 'environmental management practices' (e.g Masukujjaman, Siwar, Mahmud, and Alam (2016), and 'green banking practices' (e.g Ahmad, Zayed, and Harun (2013). Though not regarded as an environmentally-sensitive or 'dirty' industry, greening the financial sector is vital for green economy (Oyegunle & Weber, 2015).

The financial sector however is noted as late to respond to this trend (International Finance Corporation (IFC), 2007). Nevertheless, financial institutions within the sector including banks the focus of this study, are now positively embracing sustainable development by adopting CEG thus gaining the benefits of increased profitability, market value, stronger reputation and improved image in the community (International Finance Corporation (IFC), 2007; Oyegunle & Weber, 2015). Earlier, in a report to the European Commission, Delphi International Ltd & Ecologic GMBH (1997) had highlighted that most commercial banks have not only made considerable progress by including some environmental analysis into their credit assessment, but also developing support-based CEG practices such as internal environmental management systems which among others, to curb their own environmental impact.

Within the local perspective, the financial sector is recognized by the World Bank as part of Malaysia's success (Trotsenburg,

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2013). In a recent development, to provide for an easier access to financing, the Malaysian Government had introduced the Green Technology Financing Scheme (GTFS) since 2010 to fund green technology related ventures for the nation's socio-economic growth (Green Bank Network, 2016). Despite this development, CEG of banks in Malaysia particularly the support-based initiatives has yet to be widely practiced (Adapa, 2013; Hamid, Othman, Shafie, 2016).

Furthermore, to date, studies that examine support-based CEG practices in the local context are still sparse (Adapa, 2013). As a result many banks in Malaysia may have embarked on introducing support-based CEG practices, with limited understanding of the key elements needed for its long term success. This paper therefore contributes to filling these gaps by examining the support-based CEG practices particularly of banks within the financial industry in Malaysia. This study is particularly motivated by the influential factor of banks which represents the backbone of the Malaysian economy.

This research paper thus contributes to generate insights into the support-based CEG practices of banks within the Malaysian context. Specifically, this research aims to address the following research question: What support-based CEG practices are implemented by banks within the Malaysian financial sector?

2. Literature review

2.1. orporate environmental governance (CEG)

CEG is being defined in the literature in various ways. Sangle (2002) for instance defines CEG as "all about conducting the corporate environmental affairs of a company in such a way as to meet and exceed the expectations of all the environmental stakeholders" (p.1). Sangle (2002) further suggests the need to treat environment as a firm's technical, operational and strategic issues. A more recent definition is given by Khairani (2015): "Creating value to society through a formal environmental principle statement inter-linked to a firm's environmental policy, process, performance measurement system and people".

In line with these definitions, Rao (2008) suggested CEG as about how organizations address and alleviate the detrimental impacts of its entire business operations on the natural environment. Proponents of CEG further added that CEG which incorporates environmental considerations into various aspects of business operations is much needed by firms to successfully gain competitive advantage and at the same time reduce their adverse impacts to the natural environment (Hart, 1995; 1997; White & Kiernan, 2004; Currin, 2012; Litt, Sharma, & Sharma, 2013).

According to Currin (2012), although businesses might be different according to industries, they have similar objective which is to increase shareholder value. Hence in the global competitive environment, a firm's objective has shifted radically to incorporate all value-adding operations of a business so as to ensure minimization of adverse impacts towards the natural environment through excellent CEG practices while at the same time enhancing its competitive advantage and stakeholders value (Litt et al., 2013). To date, this scenario is gradually evidenced within the finance sector including the banking institutions (IFC, 2007; Oyegunle & Weber, 2015; Masukujjaman et al., 2016), the focus of this study. The next section will discuss CEG practices of the banking institutions.

3. CEG practices of banks

3.1. Support-based CEG practices

Drawing from the review of extant literature Figure 1 depicts the classification of CEG practices in the banking sector.

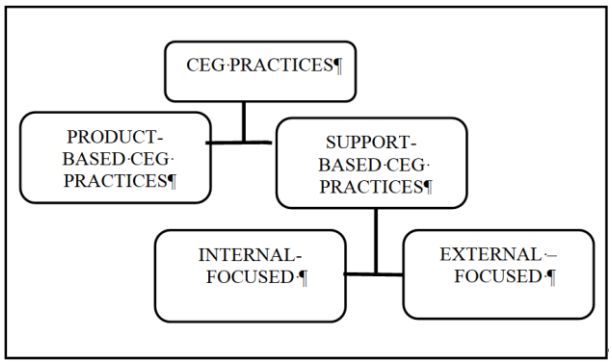

Fig. 1: CEG Practices in the Banking Sector.

In Figure 1, CEG practices of the banking institutions are classified into two key categories in this research paper: 1) product-based CEG practices; and, 2) support-based CEG practices. Product-based CEG practices are green practices related to financial products of banks. This may include inclusion of environmental analysis into their credit assessment of their lending and financing practices (Delphi International Ltd & Ecologic GMBH, 1997; Nath, Nayak, & Goel, 2014). On the other hand, the support-based CEG practices are green practices such as energy conservation, paperless operation, waste management, travel policy, community environmental awareness program and tree planting within the community which are not related to the financial products.

Mansley (1997) highlighted the potential of support-based CEG practices whereby it does not involve high investment to begin while at the same time could generate financial advantage and reduce ecological problems. More recent, Islam & Kamruzzaman (2015) suggested that support based CEG practices is important because banks have the duty as a good corporate citizen. Playing an important role to promote sustainability development, bank thus serves as a role model of a good environmental responsive entity (Nath et al., 2014; Masukujjaman et al., 2016). Masukujjaman et al. (2016) further highlighted that banks are being both ethical and responsible by adopting support-based CEG practices. Proponents of CEG practices of banks (e.g Jeucken & Bouma, 1999; Adapa, 2013; Islam & Kamruzzaman, 2015) further suggested that support based CEG practices may be further categorized as internal-focused support-based CEG practices (such as energy conservation, paperless operation, and waste management) and external-focused support-based CEG practices (such as community environmental awareness programme and tree planting).

Despite these developments, proponents of CEG commented that the support-based CEG practices is relatively new in practice among the banking institutions in Malaysia (Adapa, 2013). Despite the hightened awareness on the need for CEG practices mong banks including the support-based practices, it is minimally evidenced within the Malaysian scenario. Furthermore, studies investigationg on this issue within the local context remains sparse (Adapa, 2013).

4. Methodology

As shown in Table 2, four (4) key internal-focused support-based CEG practices (energy-focused conservation; paperless operation; waste management; and, travel policy) as well as two (2) external-focused support-based CEG practices (community environment awareness program; and, tree planting) were highlighted from the review of literature. Drawing from this, a content analysis of the latest sustainability report and official website of the banking institutions in Malaysia was then conducted in order to gain a good understanding of their implementation of the support-based CEG practices.

For the purpose of the study, twenty seven (27) commercial banks in Malaysia were chosen as the sample for the current study. In addition, a simple descriptive analysis was used to help summa-

rized the implementation of support-based CEG practices by banking institutions in Malaysia.

5. Results and discussion

Findings from the content analysis reveals that the support-based CEG practices and initiatives are disclosed more in the official website as compared to the sustainability report of the 27 licensed commercial banks in Malaysia. Furthermore, the findings is consistent with the literature (e.g. Ahmad et al., 2013; Gadenne, Kennedy, & McKeiver, 2008; Islam & Kamruzzaman, 2015). As depicted in Table 2, four (4) key internal-focused support-based CEG practices (energy conservation; paperless operation; waste management; and, travel policy) and two (2) external-focused support-based CEG practices (community environmental awareness program; and, tree planting) are implemented by the banking institutions in Malaysia.

In addition, the content analysis reveals a total of twenty one (21) green initiatives which are linked to the key support-based CEG practices. For instance, switching off lights after working hour and in idle areas such as unused store; and, installation of energy efficient devices are green initiatives related to energy conservation – an internal-focused support-based CEG practice. Meanwhile environmental awareness campaigns with schools and the community are green initiatives of community environmental awareness program – an external-focused support-based CEG practice. These initiatives however differ among banks (Table 2).

Table 3 provides a summary of the support-based CEG practices implemented by banks in Malaysia. Energy conservation is concluded as the most implemented support-based CEG practice (21 banks – 77.78%) followed by waste management (19 banks – 70.37%), community environmental awareness programs (18 banks – 66.67%), paperless operations (11 banks – 40.74%), tree planting (8 banks – 29.63%), and lastly, travel policy (4 banks – 14.81%).

Table 2: Support-Based CEG Practices and Initiatives of Banks in Malaysia

Category	Key Support-based CEG practices	Green Initiatives
Internal-focused	Energy Conservation	• Switching off lights after working hour and in idle areas such as unused store. • Measuring usage of energy regularly. • Changing to LED light bulbs from the use of fluorescent bulbs. • Install energy efficient devices. • Energy awareness campaign among staffs. • Conduct regular energy audit.
	Paperless Operation	• Saving softcopy of documents in electronic devices instead of hardcopy (zero printing) • Print-less campaign among staffs • Lesser order of printing items • Conduct recycle program among staffs • Encourage double-sided printing
	Waste Management	• Consume recycle labelling products • Provide recycle bin in office • Minimize color printing.
	Travel Policy	• Provides shuttle incentive to reduce fuel consumption. • Encourage polling car among staff • Reduce business travel through increasing use of technology such as video conferencing
External-focused	Community Environment Awareness Program	• Sponsor of National Zoo of Malaysia. • Environmental awareness campaign in schools such as providing recycle bins to schools. • Environmental awareness campaign with the community by involving government and environmental NGOs.
	Tree Planting	• Tree planting activities such as planting mangrove and hardwood tree by staffs.

Table 3: Summary of the Support-Based CEG Practices Implemented by Banks in Malaysia

Category	Internal support based CEG practices				External support based CEG practices	
Key support-based CEG practices	Energy Conservation	Paperless Operation	Waste Management	Travel Policy	Community Environmental Awareness Programme	Tree Planting
No. of banks implementing	21	11	19	4	18	8
% of banks implementing (/27 banks)	77.78%	40.74%	70.37%	14.81%	66.67%	29.63%

6. Conclusion

This content analysis-based study is a preliminary attempt to identify the key practices and initiatives of support-based CEG practices made by licensed banks in Malaysia. The investigation was mainly conducted with reference to the six (6) support-based CEG practices as proposed in the green banking literature. The key findings were that consistent with the extant literature (e.g. Ahmad et al., 2013; Gadenne et al., 2008; Islam & Kamruzzaman, 2015), the six (6) support-based CEG practices were found implemented by most of the commercial banks in Malaysia. However, the extent of practice differs between banks.

In addition, majority of banks were found to implement energy conservation – an internal-focused support-based CEG practices as their main practice. This may be due to the potential of energy conservation in assisting banks to reduce their operation cost. Malayan Banking Berhad (Maybank) for instance, reported RM10.66 million was saved due to energy saving practice in 2015. This monetary benefit is a key driver for Maybank to continue its implementation of the support-based CEG practices in future (Maybank, 2015).

On the other hand, travel policy – another internal-focused support-based CEG practice, is reported as the least implemented by the banks in Malaysia. This may be due to the perception of most banks on the total carbon footprint (tco_2e) of travel policy as lower if compared to other support-based CEG practice such as energy conservation. As highlighted by Maybank (2015), the travel policy's average toc_2e is 2980 as compared to the average toc_2e of 38891 for energy conservation.

In addition, the overall findings of the study contradict with the wider CEG practices within the finance sector literature. While the current study suggests banks in Malaysia as being responsible towards the natural environment with regards to the support-based CEG practices, current literature such as Hamid et al. (2016)

found that banks in Malaysia have shown practice of sustainability initiatives particularly more on economic and social agenda with minimal focus on environment.

Nevertheless, the findings contribute to the body of knowledge in the support-based CEG practice area. This contribution is important since it adds to the minimal extant research on the support-based CEG practice particularly in the green banking area. Furthermore, the additional insights in understanding the support-based CEG practice in the local context may serve as a useful knowledge to Malaysian banks which plan to improve their sustainable development strategy. In relation to this, as more banks adopt support-based CEG practices, researchers will have more opportunities of refining the support-based CEG practices framework used in the study. In addition, identification of the drivers for support-based CEG practices is a potential direction for future research within this area. Future research may also consider adopting a quantitative methodology to investigate the extent to which the adoption of support-based CEG practices promoted financial performance of banks.

Acknowledgments

The authors would like to thank the Ministry of Higher Education (MoHE), Malaysia and Universiti Teknologi MARA for supporting this research through FRGS grant awarded.

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