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AN EXAMINATION OF THE SUSTAINABILITY DISCLOSURES OF ANZ, NAB AND WESTPAC

This research study examines the sustainability disclosures of the three Australian banks which prepared their sustainability reports in compliance with the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines and Financial Services Sector Supplement. This initiative became obligatory on 1 January 2010 for organisations that wish to achieve the highest level of disclosure. The results indicate that although the three banks achieved the highest level of disclosure, there were several areas that needed improvement.

PAUL N. C. TIONG is Lecturer, Faculty of Business & Law, Multimedia University, Jalan Ayer Keroh Lama, Malaysia. E-mail: nctiong@mmu.edu.my

R. N. ANANTHARAMAN is Professor, Faculty of Business & Law, Multimedia University, Jalan Ayer Keroh Lama, Malaysia. E-mail: r.n.anantharaman@mmu.edu.my

In the 1970s, there was much discussion about the impact of economic development on the environment. A significant development of the notion of sustainability occurred with the definition of sustainable development in the *The Brundtland Report* that was presented by Gro Harlem Brundtland — the then Prime Minister of Norway and Chairman of the World Commission of Environment and Development — to the General Assembly of the United Nations in 1987. In the report, sustainable development is defined as 'development that meets the needs of the present world without compromising the ability of future generations to meet their own needs'.

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

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

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

In Australia, the KPMG (2008) survey found that 68 per cent of the largest 100 companies listed on the Australian Stock Exchange (ASX) provided sustainability performance information — a more than double increase from 2005. The key drivers for reporting were the *National Greenhouse and Energy Reporting Act 2007*, the development of the Department of Climate Change's Carbon Pollution Reduction Scheme (CPRS) and the ASX's revised Principle 7, which now considers sustainability issues as a material business risk.

The KPMG (2008) survey also found that the majority of companies surveyed used the Global Reporting Initiative's Sustainability Reporting Guidelines (GRI guidelines) to prepare their sustainability reports. More specifically, more than 75 per cent of the G250 companies and about 70 per cent of the 100 largest companies by revenue from 22 countries (N100) used the GRI guidelines. The Global Reporting Initiative (GRI) was established in 1997. It was convened by the Coalition for Environmentally Responsible Economies in the United States and the United Nations Environment Programme. Today, the GRI collaborates with 20,000 stakeholders from 80 countries to advance sustainability reporting. These stakeholders include the following organisations: Association of Chartered Certified Accountants, Canadian Institute of Chartered Accountants, Council of Economic Priorities, Institute of Social and Ethical Accountability, Tellus Institute, World Business Council for Sustainable Development and World Resources Institute. According to GRI (2006), sustainability reports that are prepared based on the GRI guidelines can be used for 'benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrating how the organisation influences and is influenced by expectations about sustainable development; and comparing performance within an organization and between different organizations over time' (p. 3). Although it is helpful to use the GRI guidelines, they are not without limitations. As Sustainability Ltd and United Nations Environment Programme (2002) noted:

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

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

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

'*Strategy and Profile*: Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance.

Management Approach: Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.

Performance Indicators: that elicit comparable information on the economic, environmental, and social performance of the organization' (p. 5).

The Strategy and Profile comprises of two disclosures on Strategy and Analysis, 10 disclosures on Organizational Profile, 13 disclosures on Report Parameters and 17 disclosures on Governance, Commitments, and Engagement. The Management Approach contains disclosures on six topics, namely, economic, environmental, labor practices and decent work, human rights, society and product responsibility. The Performance Indicators are grouped into three categories: economic, environmental and social. There are nine economic performance indicators, 30 environmental performance indicators and 40 social performance indicators.

The GRI has also developed Sector Supplements that are applicable to organisations in specific sectors. These supplements are developed to address sustainability reporting issues that are unique to specific sectors. Each sector supplement has its own management approach and performance indicators. Currently, GRI has finalised the following sector supplements: Electric Utilities, Financial Services, Food Processing, Mining & Metals and

Corporate environmental disclosures have increased over time. These disclosures are predominantly 'positive'. Big companies tend to disclose more environmental performance information compared with small companies.

Non-Government Organizations. The Financial Services Sector Supplement was first issued in October 2008. The GRI has made it obligatory from 1 January 2010 for organisations in the financial services sector to report on all the performance indicators in the supplement if they wish to achieve Application Level A — the highest level of disclosure out of three application levels (the other two being Level B and Level C, where Level C represents the minimum level of disclosure). The Financial Services Sector Supplement has one management approach disclosure and 16 performance indicators (financial services performance indicators).

Literature review

Research studies on corporate sustainability disclosures in Australia have so far examined mainly environmental disclosures (for example, Deegan and Gordon 1996; Deegan and Rankin 1996; Wilmhurst and Frost (2000) and Deegan et al. (2002). A few research studies have extended the examination to social disclosures (for example, Guthrie and Parker 1989). Recently, Frost et al. (2005) examined corporate sustainability disclosures in various reporting media: annual reports, sustainability reports and websites. The major findings of these research studies are as follows. Corporate environmental disclosures have increased over time. These disclosures are predominantly 'positive'. Big companies tend to disclose more environmental performance information compared with small companies. Moreover, companies in environmentally sensitive industries are more likely to disclose more environmental performance information compared with companies in less environmentally sensitive industries. The environmental disclosures of companies are overwhelmingly 'self-laudatory'. Corporate sustainability reports were found to contain the bulk of sustainability disclosures followed by websites and annual reports.

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

Research methodology

The study of the sustainability disclosures of banks in Australia commenced with the selection of the banks to be examined. As at 25 July 2011, there were only three banks in Australia that prepared sustainability reports which complied with the GRI G3 guidelines. They were ANZ Banking Group (ANZ), National Australia Bank (NAB) and The Westpac Group (Westpac). The 2010 sustainability reports of these banks together with their GRI Content Indices were downloaded from the banks' websites and examined. All of the sustainability reports and GRI Content Indices were externally assured and, therefore, can be relied upon.

The GRI Content Index is a table that lists all of the Standard Disclosures, sector supplement performance indicators and the organisation's comments on the disclosures and indicators. The index provides report users with a quick overview of the organisation's sustainability disclosures. A score of 0 or 1 is given for the absence or presence of a disclosure and performance indicator. The quality of the disclosure and performance indicator is not evaluated. This method of scoring is consistent with Frost et al. (2005) who, as mentioned earlier, examined sustainability disclosures in various reporting media.

Results and discussion

All of the banks' sustainability reports are Application Level A reports. As explained earlier, Application Level A indicates the highest level of disclosure. Detailed results of the sustainability disclosures of the banks are shown in Table 1. The results show that all three banks provided all of the disclosures in the Strategy and Profile and Management Approaches, which is commendable. In relation to the disclosure on performance indicators, Westpac provided disclosures on all of the 95 indicators, ANZ provided disclosures on 84 indicators and NAB provided disclosures on 64 indicators.

Table 2 shows the reasons that the banks provided for the omission of certain performance indicators. ANZ did not provide disclosure on a total of 11 indicators. Seven of these indicators were not disclosed because they were not material to the bank. The other four indicators were omitted because they were not applicable to their business. NAB omitted a total of 31 indicators. Six of these indicators were omitted because they were not applicable. No reason was given for the omission of the other 25 indicators. It is recommended that if an indicator is omitted, a reason for omission should be given to help report readers understand why it was not disclosed.

Another area that could be improved relates to the comments made by the banks on each performance indicator. There are material numbers of comments that are not performance indicator-specific. Examples of these comments are shown in Table 3. The table shows that banks inform report readers where the comments on the performance indicator can be found by providing the web links, page numbers and specific web address (URL). These are useful to the report readers. However, when report readers go to these locations, they are not entirely clear which part(s) of the discussion relates specifically to the performance indicator. It is recommended that banks

TABLE 1: Sustainability disclosures of banks

Disclosure / Indicator	Maximum Disclosure	ANZ	NAB	WESTPAC
Strategy and Profile				
Strategy and Analysis	2	2	2	2
Organisation Profile	10	10	10	10
Report Parameters	13	13	13	13
Governance, Commitments, and Engagement	17	17	17	17
Total	42	42	42	42
Management Approach				
Total	7	7	7	7
Performance Indicators				
Economic	9	9	7	9
Environmental	30	20	17	30
Social	40	39	25	40
Financial Services	16	16	15	16
Total	95	84	64	95

TABLE 2: Reasons for omission of performance indicators (PIs)

Reason	ANZ (Number of PIs)	NAB (Number of PIs)	WESTPAC (Number of PIs)
Not material	7	-	-
Not applicable	4	6	-
No reason given	-	25	-
Total	11	31	-

TABLE 3: Examples of unspecific bank comments

Bank and Performance Indicator	Description of indicator	Comments / Location of comments
ANZ – FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector	• Our business structure • Our company profile • Our countries of operation • About our customers • Our approach to sensitive sector lending • Our approach to project financing • ANZ's segment analysis (pp. 173-174) • ANZ acquisitions
NAB – FS1	Policies with specific environmental and social components applied to business lines.	AR: Community (pp. 28-29), Environment (pp. 30-31), Supply Chain (p. 31) DDCM: Dig Deeper Community DDE: Dig Deeper Environment DDSC: Dig Deeper Supply Chain WEB: http://www.nabgroup.com/0,,91282.00.html
WESTPAC – FS16	Initiatives to enhance financial literacy by type of beneficiary	WRBB, Westpac New Zealand, Pacific Banking Financial capability (Westpac Australia) Indigenous Managing your Money (NZ)

clearly indicate in the location(s) where the report readers are directed to, which part(s) of the discussion relates specifically to the performance indicator.

The other area requiring improvement relates to the extent to which each performance indicator is disclosed. ANZ and NAB indicated whether each indicator was 'fully', 'partially' or 'not reported.' Westpac did not do so. However, they did provide comments for every indicator. It is recommended that banks inform report users whether they have reported fully, partially or not reported on every indicator so that report users know to what extent each indicator has been disclosed.

Conclusion

This research study examines the sustainability disclosures of banks in Australia by using the GRI G3 guidelines and the GRI financial services sector supplement. The results show that, although the sustainability reports of ANZ, NAB and Westpac are Application Level A reports, there are several areas that need to be improved. First, banks should provide the reason for omission of every performance indicator that is omitted from disclosure. Second, banks should clearly indicate which part(s) of the discussion relate specifically to the performance indicator at every location that the report users are directed to. Third, banks should indicate whether they have fully reported, partially or not reported on every performance indicator.

Future research studies could examine sustainability disclosures in other financial services sub-sectors such as securities and finance sub-sectors in order to gain an understanding of sustainability disclosures in these sub-sectors and to identify areas for improvement.■

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