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Sustainability Reporting Practices: Evidence from Bangladeshi Financial Sector

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Abstract

The objective of this article is to present the Bangladeshi financial sector's sustainability reporting practices. Bangladesh has unique social, political, and environmental issues. The goal of this study is to present the current state of sustainability reporting practices in the financial industry of Bangladesh. This paper examines the practices of sustainability reporting in Bangladesh's financial industry utilizing a variety of scholarly sources and a desk-based research approach with secondary data analysis. This article interprets the sustainability reporting practices of Bangladesh's financial sector. Researchers discovered that global organizations, focusing on the big picture, may take certain essential activities to increase the standard of sustainability reporting standards in Bangladesh's financial industry. Bangladesh's sustainability reporting practices are still new. The findings have far-reaching ramifications for both academics and policymakers.

Keywords: *Sustainability Accounting, Sustainability Reporting Practices (SRP), CSR reporting, Social, Environmental Accounting and Reporting (SEAR), Social and Environmental Disclosure, Sustainable Development.*

Introduction

Small Bangladesh is located in South Asia. Threats from climate change and global warming make Bangladesh vulnerable (World Bank, 2016). Reporting on sustainability-related issues has become increasingly popular in recent decades. Sustainability reporting is now a growing trend in developing nations (KPMG, 2017). The practices of sustainability reporting are becoming more prevalent day by day as a result of the focus on sustainability issues. In order to strengthen an organization's commitment to sustainable development, sustainability reporting refers to the disclosure and communication of environmental, social, and governance (ESG) goals. As a result, sustainability reporting has been developed to address the stakeholders' demand for social and environmental information (Higgins and Larrinaga, 2014). Organizations can thus report on their social and environmental practices through sustainability reporting. Additionally, companies are being held more responsible for the effects of their operations on society (Hahn and Kuhnen, 2013) but in Bangladesh, the idea of sustainability reporting is still fairly new (Ullah and Yakub, 2013). There is very little research in this area, and it frequently focuses on Bangladesh (Momin and Parker, 2013). The central bank of

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Bangladesh has created CSR and environmental guidelines and has been observing scheduled banks' sustainability practices for the past ten years (Bose et al., 2018). This study examined Bangladesh's financial sector's sustainability reporting practices.

Aim of the Study

The aim of the study is to present the scenario of sustainability reporting practices of Bangladeshi financial sector.

Methodology

The researchers have reviewed a variety of scholarly research articles published in both national and international journals. This article was created using a desk-based research approach and secondary data. As a result, this paper examines numerous scholarly document analyses to demonstrate the sustainability practices used by Bangladesh's financial sector. The researchers thoroughly examined the articles that have been published on this topic.

Literature Review

In Bangladesh, studies on sustainability reporting first began in the late 1990s. In Bangladesh, business reporting on sustainability has received more attention (Belal, 2001, 2008; Belal and Owen, 2007; Imam, 1999, 2000; Islam and Deegan, 2008; Sobhani et al., 2009). According to Alam et al. (2010), CSR is still a developing idea in Bangladesh. In their corporate annual report, only 8.33% (on average) of Bangladeshi companies mention sustainability issues (Hossain et al., 2006). Only about 16% of Bangladeshi businesses disclosed information about sustainability in their voluntary disclosures (Azim et al., 2009). However, Bangladesh's reporting level is still subpar when compared to that of developed nations.

The pertinent analyses aimed at the financial sector are carried out in this paper. According to one theory, social expectations in developing nations are frequently based on financial development, making corporate social responsibility (CSR) of minor importance to organizations and the general public (Quazi et al., 2007). The research by Khan et al. found two main conclusions (2009a). First, the chosen banks voluntarily participate in some CSR reporting. Second, user groups do value CSR reporting and favor increased transparency. The disclosures made at the time by the chosen banking companies, however, were completely insufficient for gauging the social responsiveness of the organizations. Prior research mainly focused on the volume and nature of the information disclosed. Recent empirical studies have shown that content analysis-based studies have dominated Bangladesh's sustainability reporting research area (please see, Khan et al., 2009a; Khan et al., 2011).

Social disclosure practices aim to monitor the impact of corporate governance elements and a variety of stakeholder perceptions on banks' social reporting. Banks have a very low propensity to adhere to GRI guidelines specific to the financial sector. According to the study by Azim et al. (2011), only seven of the sixteen financial sector-specific and Global Reporting Initiative items were disclosed by the surveyed banks. Only 41% of publicly traded financial companies disclosed little CSR information. Additionally, it was discovered that their annual reports did not mention more than 50% of the FSS disclosures. According to Khan (2010), Bangladesh's Private Commercial Bank's sustainability reporting is generally of a moderate quality. Khan et al. (2011)'s study discovered that banks' commitment to environmental issues, righteous labor, and labor practices was greater than their commitment to product responsibility and human rights. It was also discovered that banks concentrated on a small subset of GRI G3 indicators.

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In order to study the banking sector in Bangladesh, Sobhani et al. (2012) examined the sustainability disclosure in annual reports and websites. The impact of regulatory change on CSR reporting has been acknowledged by Ullah and Rahman (2015), who investigate whether there is a relationship between the variety of CSR reporting and bank features. In a study on ethical reporting at Islami Bank Bangladesh Limited, Belal et al. (2015b) used the years 1983 to 2010 as the time frame. Based on GRI 4 guidelines, Hossain and Masud (2016) looked into how banking companies reported on environmental issues. Their research focused solely on environmental issues. Ten commercial banking companies were randomly chosen for their analytical study. Data from the annual reports from 2010 to 2014 was gathered. Analysis showed that all banks disclosed environmental information. Additionally, the majority of banking companies disclosed data on energy, emissions, effluents and waste, biodiversity, expenditure and investment products and services, according to GRI 4 environmental aspect. The outcome showed that although there has been an increase in green banking and reporting over the last five years, it has not kept pace with GRI 4 recommendations. The study also revealed that strengthening sustainable development is a top priority for commercial banking companies' policy makers. They claimed that few banking companies adhered to the GRI 4 guidelines when creating green banking and sustainable reporting. As a result, they recommended that Bangladesh's banking industry adhere to the GRI 4 standards in order to achieve sustainable development. They advocated making the GRI 4 guidelines a requirement for Bangladeshi banking companies to report on their environmental performance.

According to Masud and Hossain's (2016) study, the majority of banking companies are making voluntary efforts to disclose both qualitative and quantitative environmental information. They discovered that more than 90% of the sample banking companies disclosed qualitative information, and 92% of the sample banking companies disclosed environmental information, which is surprising. Additionally, it was discovered that 60% of banking companies included quantitative data in their annual reports. According to the study, banks should publish mandatory environmental disclosure in their annual reports. However, the research's findings indicated that Bangladeshi banks' environmental reporting practices are adequate. The previous research is the only source of input for the banking sector (Khan et al., 2009a; Mahmud et al., 2017). Although it was not deemed satisfactory, they have highlighted the importance of sustainability disclosure and holding oneself accountable to internal and external stakeholders for the action regarding social, environmental, economic, and governance issues, including both positive and negative contributions (Mahmud et al., 2017). In accordance with the Global Reporting Initiative (GRI) framework, Mahmud et al. (2017)'s study aimed to empirically evaluate the sustainability reporting practices and implications of Bangladesh's banking sector.

16 of the 23 non-bank financial institutions listed on the Dhaka Stock Exchange (DSE) of Bangladesh were used in the study by Alam et al. (2018). From 2012 to 2016, they examined how the GRI guidelines were being implemented. Only a small number of companies follow the GRI guidelines when reporting on sustainability, according to the study. Other companies may state that they are reporting on sustainability, but they do not actually follow the GRI guidelines. According to Akter et al. (2018), all sample banking companies contributed to sustainability reporting. It has come to light that the majority of banking companies primarily use narrative disclosures. The majority of banking companies have used a separate section in their annual reports for sustainability reporting, with the most frequently reported sectors being

labor, energy, product responsibility, and emissions. It is also discovered that, despite the banking companies' reports on the various issues mentioned in G4, the majority of their disclosures lack specificity and clear initiatives.

The study by Islam et al. (2019) used longitudinal data, taking into account all 30 private commercial banking companies listed on the Dhaka Stock Exchange Limited between the years 2000 and 2015. For measuring reporting practices using the dichotomous method from the published annual reports of banking companies, three distinct reporting indices for social, environmental, and governance have been created. The statistical measure showed that social, governance, and environmental reporting were made at rates of 46%, 49%, and 1%, respectively, and they discovered that corporate social, environmental, and governance reporting is on the rise. But over the time period, the total SEG was found to be 39%. The corporate profitability, age, and leverage size have positive effects on social, environmental, and governance (SEG) reporting, according to econometric models using fixed effects. It has also shown that the lack of adequate SEG reporting laws and regulations is the primary reason for low SEG reporting. Islam's study from 2020 showed that the majority of the time, sustainability reporting information was insufficient and did not adhere to GRI guidelines. This was also evident in the annual report of the banking company. Higher sustainability performance generates higher financial performance, according to the study by Weber and Chowdhury (2020). In terms of sustainability, they have discovered that larger banking institutions outperform smaller ones.

Khan et al. (2020a) have investigated whether Bangladeshi banks adopt CSR practices in order to adhere to the regulatory standards set by Bangladesh Bank. The quality of banks' sustainability reporting has been examined by Khan et al. (2020b). Their research showed that Bangladeshi businesses that have their sustainability-related information assured disclose more about some sustainability activities than those whose information is not assured. The effect of environmental accounting reporting (EAR) practices on the financial performance of the Bangladeshi banking sector was investigated in the study by Dhar and Chowdhury (2021). In this study, panel data from 25 banking companies listed on the Dhaka Stock Exchange between 2012 and 2016 were used. Profit margin and environmental accounting and reporting practices on the annual report have been found to have a significant correlation.

Through the issuance of various guidelines and instructions, Bangladesh Bank has been keeping an eye on CSR practices or CSR adoption by scheduled banking and non-banking financial institutions (Hossain and Alam, 2016; Sobhani et al., 2012). Guidelines on 'Environmental Risk Management' (ERM) for Bank and Non-Bank Financial Institutions were published by Bangladesh Bank in 2011 (and updated in February 2017) in order to integrate sustainability. Due to institutional pressure from Bangladesh Bank, banking and non-banking financial institutions disclose more on sustainability aspects than other sector organizations. Since 2008, Bangladesh Bank Guidelines have advised banking companies to engage in sustainability (Mahbuba and Farzana, 2013). Belal et al. (2013) expressed their concerns regarding the likelihood of mandatory reporting bringing about the desired changes in reporting. These countries' current levels of corruption and lax legal enforcement are impeding the development of such reporting practices.

This study was carried out to examine Bangladesh's financial sector's sustainability reporting practices. According to Bangladesh Bank guidelines, banking organizations are currently making contributions to protect society and the environment. Although there are a few notable exceptions, it can be said that the study of sustainability reporting in developing nations is still lagging behind. Recent initiatives and developments in the financial sector's sustainability reporting practices, as well as the factors that contribute to these developments, are still being studied in the literature using data from Bangladesh.

Research Implications/Limitations

The information already known about sustainability reporting practices in Bangladesh may be improved by this paper on financial sector sustainability reporting practices. The results have implications for both academics and policymakers. In a developing country setting, international organizations like IIRC and GRI might take the necessary actions to raise the standard of sustainability reporting practices in Bangladesh's financial sector. The main drawback is that despite a thorough search of the literature, it is possible that some significant research may have gone undiscovered. Also included are some time restrictions.

Findings

This paper has exposed some noteworthy findings as follows:

- In Bangladesh's financial sector, sustainability reporting practices are still in their infancy. Bangladesh lags behind other developed nations in terms of sustainability reporting practices.
- In Bangladesh's financial sector, sustainability reporting is still an optional practice.
- The Bangladesh Bank, the nation's central bank, is actively promoting sustainability reporting in Bangladesh's financial industry. Currently, Bangladesh Bank has published some instructions and guidelines to standardize sustainability reporting procedures in the financial industry.
- Researchers are paying increasingly more attention to the study of Bangladesh's financial sector's sustainability reporting.

Recommendations

This paper has exposed some noteworthy recommendations as follows:

- In Bangladesh's financial sector, sustainability reporting practices is not enriched, so we need to develop this.
- Implementing mandatory sustainability reporting practices in Bangladesh's financial sector may accelerate the current pace of reporting practices.

Conclusion

This study's objective is to present the sustainability reporting practices of the financial sector of Bangladesh. It has been discovered that Bangladesh's financial sector's sustainability reporting practices are still in infancy stage. In Bangladesh's financial sector, sustainability reporting practices are time demand. There are few practices of such reporting in Bangladesh. However, the Bangladeshi central bank's introduction of mandatory reporting may enhance the practices of sustainability reporting and accountability to stakeholders. Today's researchers, political decision-makers, standard-setters, assurance providers, and financial companies are paying a lot of attention to the research on sustainability reporting in order to develop strategies for enhancing such practices.

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