DEVELOPING A CORPORATE GOVERNANCE REPORTING SCORE FOR THE MALAYSIAN BANKING SECTOR

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ABSTRACT

There is a limited study on banking institution in Malaysia, especially the ones related to the corporate governance reporting of banks. The main objective of this study is to develop the Malaysian Bank Governance Reporting Score (MBGRS) for banking institutions in Malaysia. In these recent years, Bank Negara Malaysia has issued guidelines on corporate governance for banking institutions. Thus, it leads to the development of bank governance reporting score in order to measure the commitment of bank towards corporate governance. The overall finding of bank governance reporting score revealed that there is a lack of reporting in areas such as Board Structures, Duties and Effectiveness, Accountability and Audit, and Shareholder Rights. The findings provide a signal to identify the lack of area for the improvement in corporate governance of the banking sector in Malaysia.

Keywords: *corporate governance, corporate reporting, disclosure, banking institution, BNM guidelines*

INTRODUCTION

The bank governance reporting score is an indicator on which an organization or a firm follows the guideline and code of corporate governance practices (Darmadi, 2011). Good corporate governance practices are indicated by the division of rights and responsibilities among the board, stakeholders,

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shareholders, management section and the rules established and followed to make decisions on corporate affairs. The evaluation of corporate governance practices through the reporting score is important for banks, especially for their depositors, investors and stakeholders. The reporting scores represent the disclosure of the bank's information about their operations.

According to Darmadi (2011), the way to reduce the lack of information is by increasing the corporate disclosure and transparency. The detailed knowledge about the bank's operations may provide specific information that may affect managers, shareholders and other consumer groups to their economic decisions. Pursuant to Andres and Vallelado (2008), the corporate governance mechanism, especially the role of the boards, plays an important part in the banking business, which is more complex compared to other types of companies due to the extraordinary significance in respect of the structure of restricted rivalry, exceptional regulation, and higher asymmetry. The reason that bank governance is special is due to the manager's responsibilities to monitor, manage and protect the funds obtained from various parties, such as depositors.

According to Jha and Hui (2012), banks have the capacity to experience a quick catastrophe, in a manner that is not instantly visible to directors or outside investors. Banks are also multi-constituency organizations and have more stakeholders than non-financial firms. Thus, the banking institutions are more complicated than ordinary companies, in that they manage a large population that contributes funds to their banks and must always be transparent to their stakeholders. Becht, Bolton and Roell (2012) mentioned that the bondholders and depositors contribute almost all of the capital and additionally, most of the decisions are handled by the boards, managers and shareholders of the banks. Based on Marcinkowska (2012), a bank's inability to adopt decent corporate governance practices may lead to the degradation of the bank. This becomes more hazardous when a bank is distrusted by its stakeholders.

Therefore, the corporate governance of banks should be evaluated differently by using typical variables that suit the banking institutions. The method that is frequently used by recent researchers is to develop corporate governance reporting scores of banks. Annual report is one of the important tools in delivering the corporate message and displays the image of their effectiveness to the public. However, based on the study done by O'Sullivan, Percy and Stewart (2008), information about the firms should not only be served by annual report, but a good firm with high quality disclosure will make sure that all vital messages are included in their annual report. Therefore, the bank's disclosure in the corporate governance part is essential to fulfill the main objective of this study which is to develop a specific bank governance reporting score for banking institutions in Malaysia.

LITERATURE REVIEW

As a special type of firm, the corporate governance of bank requires special attention. Darmadi (2011) agreed that in assessing the credibility of financial information, knowledge about the governance structure of the firm is very useful to set fixed expectations and also to reduce the uncertainty about the performance of the firm. Based on Bushman, Piotroski and Smith (2004), the disclosure of corporate governance shows the responsibility of the people in governing the firm, the efficiency of compensation structured and how wise they invest the financial resources of the firm. Ibrahim (2011) suggested that corporate governance scores enable stakeholders to compare and understand the way companies operate and how management treats the interests of shareholders and also obtain additional information when making investment decisions.

Additionally, the banks can also get benefit from the scores especially as a benchmark for internal improvement, by benchmarking their current governance practices against global best practices. The firm's stakeholder may not be able to get the information if the governance features are not disclosed, especially for the banking sector. Disclosure in corporate governance of banks seems to become more important as compared to other types of firms. This is due to the banking institutions that have high-regulated features, which are subjected specifically to the banking authority.

The model and indicators for corporate governance scores developed in this study are adapted from the best corporate governance practices from both national and international studies. Additionally, most of the factors are taken from Guidelines on Corporate Governance of Licensed Institution issued by Bank Negara Malaysia (BNM, 2011). The issued guidelines are based on Sections 56, 57 and 126 in the Banking and Financial Institution Act 1989 (BAFIA). Based on Section 126 in BAFIA, all guidelines, circulars or notes issued by Central Bank or Minister should be considered.

The guidelines are in tune with the other guidelines such as the revised Malaysian Code on Corporate Governance 2007 (MCCG, 2007) and Enhancing Corporate Governance for Banking Organizations (BIS, 2010). However, some principles have been revised in accordance to the Malaysian Code on Corporate Governance 2012 in order to emphasize certain new aspects that are featured. Malaysian Code on Corporate Governance 2012 highlighted the issue on reinforcing board structure and composition in perceiving the part of directors as dynamic and dependable fiduciaries. There are the differences between the MBGRS checklist and corporate governance for non-financial institutions. The Minority Shareholder Watchdog Group (MSWG) has developed the corporate governance index for all listed companies in Malaysia including banking institutions. The index used Yes/No answers as a method to measure their corporate governance score, which is different from this study where a Rubric scale is used for scoring.

Almost 90 percent of the questions were developed using the Guidelines on Corporate Governance for Licensed Institutions (2011) issued by Bank Negara Malaysia (BNM, 2011) because they are specific to the banking sector. The critical attributes that bank governance should present are accountability and audit, shareholder rights and risk management. This is because the items are related to the audit committee whereas under the attribute of accountability and audit, it provides direction as well as supervises the operation of the total audit function for the bank. In terms of shareholder rights, this attribute represents the transparency of banks towards their investors, especially the declaration of dividend and shares. Risk management is also one of the important attributes in the corporate governance score of banks. Banks should have a good risk management framework to observe the policy and strategy to integrate risk, especially the market risk, credit risk and operational risk, in order to avoid being affected by a financial crisis.

Bank Negara Malaysia (BNM) released the Risk Governance Guidelines in 2013 that are applicable to all institutions authorized under the Islamic Banking Act 1983 (IBA), Banking and Financial Institutions

Act 1989 (BAFIA), Takaful Act 1984 (TA), Insurance Act 1996 (IA) and Development Financial Institutions Act 2002 (DFIA). Generally, these guidelines should be read along with the Guidelines on Corporate Governance for Licensed Institutions (2011); however, this study did not include the Risk Governance Guidelines in year 2013 as the period of study only covered from 2008 to 2012. Risk management is very important in financial institutions compared to non-financial institutions, in which a sound risk management framework should be achieved to compete with the increasingly complex business operations and activities in financial institutions. The corporate governance model in this study is based on the information disclosed by the banks to the public. The ultimate objective of the Malaysian Bank Governance Reporting Score (MBGRS) is to encourage the banks to comply their corporate governance practices with statutory regulation.

BANK GOVERNANCE ATTRIBUTES

Bank governance scores were measured based on both domestic and international guidelines. The main sources for choosing the bank governance attributes were the Bank Negara Malaysia Guidelines (BNM, 2011); the Malaysian Code on Corporate Governance 2007 (MCCG, 2007) and the Malaysian Code on Corporate Governance 2012 (MCCG, 2012); the Guidelines on "Enhancing Corporate Governance for banking Organizations" (BIS, 2010); "Corporate Governance Guide: Towards Boardroom Excellence" Bursa Malaysia (BM, 2008); "A Practical Guide to Listing on Bursa Malaysia" Bursa Malaysia (BM, 2011); "The Green Book: Enhancing Board Effectiveness" Putrajaya Committee on GLC High Performance (PCG, 2006) and "Corporate Governance, Ownership and Bank Performance in Emerging Markets: Evidence from Russia and Ukraine" (Love & Rachinsky, 2006).

The study also reviewed the practices of corporate governance internationally in accordance with the banking situation in Malaysia. A three-point Rubric scale was used to assess the corporate governance attributes in which the highest score of "3 points" shows the highest level of compliance while "0 points" represents a low score or non-compliance. The weighting of each attribute denotes their important character towards corporate governance. Thus, this study classified the attributes into five major groups as follows: (i) Board Structures, Duties and Effectiveness; (ii) Directors Remuneration; (iii) Risk Management; (iv) Accountability and Audit; (v) Shareholder Rights.

BOARD STRUCTURES, DUTIES AND EFFECTIVENESS

This attribute was developed based on the Corporate Governance Guide by Bursa Malaysia and Bank Negara Malaysia. It includes twenty-three questions from this category, which combines the element of board responsibilities, board leadership and competencies, board size, conduct of board meetings, access to information, the role of company secretary, board committees, business ethics, corporate social responsibilities and strategic plan, etc. In respect of board effectiveness, the additional elements such as nominating committee, composition, training and performance evaluation are required. Sound corporate governance needs to exercise sound objective judgment, keep up proper capabilities and skill in individually and collectively.

Bank Negara Malaysia guidelines consist of a wide standard principles to deal with board matters and management oversight, and emphasize board responsibility, composition, meetings, performance and committees. Under the board responsibilities, a clear separation between the roles and responsibilities of the Chairman and the CEO (Chief Executive Officer) should be practiced by the bank to ensure that the roles and responsibilities given are appropriate and proportionate to their jurisdiction and accountability, respectively. The main disadvantage of CEO duality is the negative impact on the monitoring activity of the board that influences the decisions when managerial power is increased. In addition, CEOs who are also the Chairman will have a strong influence in the selection of board members and could further limit the dissemination of information to other board members (Haan & Vlahu, 2013).

The other important element in this category is board expertise and training, performance evaluation, corporate social responsibilities and also awards obtained. This element actually shows that directors must be a high caliber person who can devote the time and commitment to their duties with high credibility and integrity in line with their skills and experience required. Corporate social responsibility must be disclosed in details, especially in the environment, community, marketplace and workplace. Additionally, the award obtained shows that the bank is excellent in corporate governance practices and has gained recognition. Thus, the bank who gains the award could give bonus points to their score. This category aims to investigate the board effectiveness and practices of corporate governance in the company.

DIRECTORS REMUNERATION

An effective remuneration committee can bring significant benefits to the company if it is properly established and operated by the appropriate personnel. The remuneration committee should ensure that all of the directors and senior management are rewarded equally based on their performance and contribution to the company as a whole (BM, 2008). The purpose of this section is to clarify the remuneration policy transparently for the directors, CEOs and senior management officers in order to ensure that the compensation given is in line with the culture, strategy and objectives of the banking institutions. The increase of responsibilities and expectations of directors must be parallel to the level of remuneration, especially to the responsibilities undertaken and the contribution to the company. Additionally, the remuneration must also take into account the director's experience and expertise, which contributes to the effectiveness of the board.

RISK MANAGEMENT

Risk management is the most important part in business, especially in the banking sector. The Malaysian Code on Corporate Governance (2012) also highlights a sound risk management, through which the board should monitor and determine the level of risk for assessing the risk of the company's business in detail in order to protect investors and shareholders by ensuring that the risk management processes are implemented. Based on the Bank Negara Malaysia Guidelines (BNM, 2011), the banks should include an explanation of the nature of risk, methods, assessment and the frequency of any review conducted by the institutions to represent the effectiveness of the risk management system.

Understanding and managing risks are critical for protecting the company's value, which is highlighted in "The Green Book: Enhancing Board Effectiveness" created by Putrajaya Committee on GLC High Performance (PCG, 2006). The board has three specific roles – understanding the major risk exposure that could increase the possibility of company failure, setting the parameter of company's risk and considering the risk factor in all major decisions. To avoid the risk caused by the failure of business, the board should manage risks well and remain focused on the company's principal risk.

ACCOUNTABILITY AND AUDIT

This category is based on the attributes developed in the Bank Negara Malaysia guidelines (2011). One of the responsibilities of the board of directors is to be directly accountable to the shareholder of the firms (Haat, 2006). The primary oversight of accountability and audit lies with the Audit Committee. The Audit Committee plays an important role in assisting the board with its financial monitoring and reporting responsibilities and ensuring the independence of the company's auditor. In addition, Love and Rachinsky (2006) highlighted the internal and external audit, which is important under this category. Appropriate disclosure is needed so that shareholders, stakeholders and market participants can effectively gain an understanding of the financial position and the company's management.

SHAREHOLDER RIGHTS

Shareholders contribute to the activities of the bank and enjoy many rights, such as voting rights at the Annual General Meeting (AGM), dividend policy, share rights and other related information. The AGM is an important mechanism for communicating with the shareholder because it gives the public direct access to the board and the opportunity to express their views in relation to the bank. The communication policy should be maintained by the board in order to communicate with their shareholders, stakeholders and public effectively, either through disclosure in annual reports or AGM (BNM, 2011).

METHODOLOGY

Sample Selection

This study seeks to evaluate the performance of foreign and domestic banks in Malaysia, which are comprised of commercial banks, Islamic banks, International Islamic banks, and investment banks. At present, a total of 65 banks including domestic and foreign banks are operating in Malaysia. However, the sample for this study only included 35 banks with the available financial data covering the period of 2008-2012 (161 observations) because of the unavailability of annual reports due to some banks that are newly operated in Malaysia.

Data Collection

The source of data in this study is a secondary data adopting the content analysis approach. The data of this study were taken from the compilation of information from the bank's annual reports. Other useful sources of data used in this study are from Bank Negara Malaysia publications and internet websites. This study involved the analysis of five years of annual reports of 35 banks from 2008 to 2012.

Measurement

The reporting score was measured based on the attributes provided in the guidelines by Bank Negara Malaysia (BNM), Malaysian Code on Corporate Governance (MCCG), Corporate Governance Guide Bursa Malaysia, Minority Shareholder Watchdog Group (MSWG) and other international best practices. This study evaluated the data by using assessment questionnaire based on zero-to-three point of Rubric scale which was also used by Ariff (2011) and Palmer (2008). According to Ibrahim (2011) and Wanyama and Olweny (2013), Rubric scale is the best technique used in the attitude measurement because the scales are easiest to construct and based on assumption, the scale has equal attitudinal weight which reflects the attitude towards the issue in question. The scores given from the scale is 0 to 3 which is based on the information provided in the annual report. Greater specificity of information means greater quality scores. Thus, the corporate governance disclosure of this study was measured using the following ranges:

0 = Applies when it discloses minimal information of corporate governance
1 = Applies when the sentence only discloses certain guidelines of corporate governance in the annual report.
2 = Applies when the sentence meets the requirements of the corporate governance guidelines in the annual report.
3 = Applies when the sentence gives details about the corporate governance guidelines in the annual report with additional information.

RESULTS

Test on Reliability of Scale

Reliability is the extent to which measures are tested and produce consistent results. Measurement errors that affect reliability are random errors. As this study implemented the corporate governance score of banks, the reliability test should be performed to prove that the study is free from random errors and internal consistency. Wells and Wollack (2003) emphasised that the most popular statistics in measuring the internal consistency is referred to as Cronbach's alpha. According to Eisinga, Grotenhuis, and Pelzer (2012), Cronbach's alpha is an accurate estimate of reliability under rather restrictive assumptions. Cronbach's alpha ranges from 0 to 1.00 whereby values close to 1.00 indicate high consistency.

In addition, professionally developed high-stakes standardised tests should have internal consistency coefficients of at least 0.9 (Wells & Wollack, 2003). However, Nunnally (1978) indicated that 0.7 is an acceptable reliability coefficient. This study used STATA for the MBGRS that had five attributes and 50 items in total. Based on the result of the reliability test in Table 1, the Cronbach's Alpha coefficient was 0.969 and is thus above the 0.7 minimum level as recommended by Nunnally (1978) and Wells and Wollack (2003).

Table 1: Results for Reliability Test on MBGRS

N = 50
Cronbach's Alpha = 0.969
Cronbach's Alpha Based on Standardized Items = 0.971

Item	Item test Correlation	Item rest Correlation	Average Interim Correlation	Cronbach's Alpha
Attribute 1				
a)	0.7511	0.7371	0.4017	0.9705
b)	0.7408	0.7264	0.4020	0.9705
c)	0.6069	0.5868	0.4056	0.9710
d)	0.4680	0.4433	0.4094	0.9714
e)	0.6040	0.5838	0.4057	0.9710
f)	0.6655	0.6477	0.4040	0.9708
g)	0.2866	0.2578	0.4144	0.9720
h)	0.4844	0.4602	0.4090	0.9714
i)	0.0672	0.0362	0.4204	0.9726
j)	0.6395	0.6207	0.4047	0.9709
k)	0.3512	0.3236	0.4126	0.9718
l)	0.7842	0.7718	0.4008	0.9704
m)	0.7154	0.6997	0.4027	0.9706
n)	0.7539	0.7400	0.4016	0.9705
o)	0.6842	0.6672	0.4035	0.9707
p)	0.6381	0.6192	0.4048	0.9709
q)	0.4253	0.3995	0.4106	0.9715
r)	0.7416	0.7271	0.4019	0.9705
s)	0.6118	0.5919	0.4055	0.9709
t)	0.5494	0.5272	0.4072	0.9711
u)	0.7796	0.7670	0.4009	0.9704
v)	0.7728	0.7599	0.4011	0.9704
w)	0.8065	0.7952	0.4002	0.9703
Attribute 2				
a)	0.6891	0.6723	0.4034	0.9707
b)	0.6723	0.6548	0.4038	0.9708
c)	0.5309	0.5081	0.4077	0.9712
d)	0.7997	0.7881	0.4003	0.9703

Attribute 3				
a)	0.5879	0.5671	0.4062	0.9710
b)	0.6863	0.6694	0.4035	0.9707
c)	0.3862	0.3593	0.4117	0.9717
d)	0.6139	0.5941	0.4054	0.9709
Attribute 4				
a)	0.4228	0.3969	0.4107	0.9715
b)	0.6120	0.5921	0.4055	0.9709
c)	0.6599	0.6418	0.4042	0.9708
d)	0.7130	0.6973	0.4027	0.9706
e)	0.7500	0.7359	0.4017	0.9705
f)	0.8442	0.8350	0.3991	0.9702
g)	0.738	0.7233	0.402	0.9705
h)	0.6784	0.6611	0.4037	0.9707
i)	0.5958	0.5753	0.4059	0.9710
j)	0.6796	0.6624	0.4036	0.9707
Attribute 5				
a)	0.7608	0.7472	0.4014	0.9705
b)	0.7402	0.7257	0.4020	0.9705
c)	0.8439	0.8346	0.3991	0.9702
d)	0.7681	0.7549	0.4012	0.9704
e)	0.6190	0.5993	0.4053	0.9709
f)	0.6366	0.6177	0.4048	0.9709
g)	0.7336	0.7187	0.4022	0.9706
h)	0.8334	0.8235	0.3994	0.9702
i)	0.7441	0.7297	0.4019	0.9705

Overall Scores

Table 2 presents the composition of MBGRS. The MBGRS comprised of 50 items representing five major sections. For each item, a score of "3" was the highest score given when the bank complied and disclosed details of such compliance accordingly. If an item was not disclosed or only disclosed the minimum information, it was marked as "0". Table 1 illustrates the weights attached to the major sections of the score towards the overall MBGRS. The highest weighted 46 percent of this score is from the board structures, and duties and effectiveness, while accountability and audit represents 20 percent of the weighted scores.

Table 2: Composition of the MBGRS

Major Section of Bank Governance Score	Items	Total Raw Score	Weights
Board Structures, Duties and Effectiveness	23	69	46
Directors Remuneration	4	12	8
Risk Management	4	12	8
Accountability and Audit	9	30	20
Shareholder Rights	10	27	18
Total	**50**	**150**	**100%**

Based on the summary statistics in Table 3, the sample size of this score is 35 banks and the maximum score obtained is 134 points out of 150, which is equivalent to 89.33 percent. The banks obtained 59.18 (or 39.45 percent) of MBGRS raw score on mean. However, the minimum score obtained is 3 (or 2 percent) of the total 150 points. It showed a very low minimum score for a banking institution which should be more transparent in disclosing information in the annual report. The score comes from the foreign bank of Sumitomo Mitsui Banking Corporation Malaysia Berhad which originates from Tokyo, Japan. Perhaps it has a good disclosure on corporate governance in Japan but for the annual report in Malaysia, the bank only have little disclosure on corporate governance. The summary statistics of Bank Governance Score for five years period are as follow:

Table 3: Summary Statistics of Bank Governance Score

Item	Overall Value
Sample Size	35
Maximum Score	134
Minimum Score	3
Mean	59.18
Standard Deviation	30.32
Median	54

Since Sumitomo Mitsui Banking Corporation Malaysia Berhad is newly operated in Malaysia, the bank may actually be in the process of finalizing their annual report, especially in the section of corporate governance. Meanwhile, the midpoint of the score is 54 (or 36 percent).

This indicates that there are banks in Malaysia with possibly low levels of practiced corporate governance. The minimum score is very low and resulted from a foreign bank that is newly operated in Malaysia. Therefore, the high gap between the minimum and maximum scores shows that the lack of banks in disclosing the best practice of corporate governance are obvious and should be improved. Figure 1 demonstrates the mean score of MBGRS from 2008 to 2012.

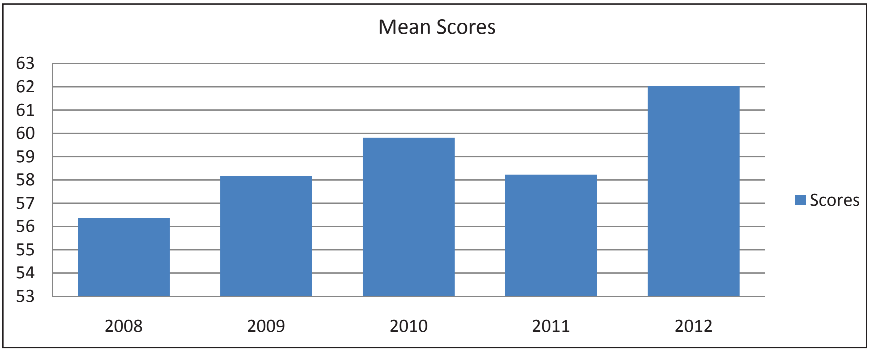

Figure 1: Mean Score of MBGRS (2008-2012)

The chart shows that the score increases uniformly from 2008 to 2010. The Malaysian Corporate Governance Report (2010) published by Minority Shareholder Watchdog Group (MSWG) also revealed the upward graph for three years (2008-2010). This demonstrates the continuing commitment shown by banks towards achieving the requirements of corporate governance. However, the mean scores decreased in 2011, reflecting the increased number of banks embracing the recommended corporate governance best practices, but perhaps at a slower pace to adapt to the guidelines needed. Therefore, there should not be any room for complacency as there are opportunities for improvement. The decline in the mean scores for 2011 is due to the inclusion of several new foreign banks in Malaysia since Bank Negara Malaysia has announced the issuance of new commercial bank licenses on 27 April 2009.

Three new foreign banks have been newly operated in Malaysia in 2011. Thus, the low score obtained are due to the newcomers in the industry that presents severe disclosure. Additionally, certain banks are possibly in the phase of updating their annual reports to meet the required guidelines set by Bank Negara Malaysia Guidelines for Licensed Institutions (BNM, 2011). However, it is noted that the mean score in 2011 is higher than the mean score in 2009. The surge of the scores from the 2011 to 2012 shows that the banks were motivated to improve the corporate governance best practices as recommended.

Table 4 presents the statistics of MBGRS for 2011 based on the sample of 35 banks with the maximum score of 131 and minimum score of 3 points. The average score is 58.23 of the total points of 150, which is 33.27 percent. In 2012, the maximum score increases to 134 and the minimum score is 8. Additionally, the mean score also increases to 62.03 (35.44 percent). It indicates that the corporate governance score is increased from 2011 to 2012.

Table 4: Summary Statistics of MBGRS for 35 Banks (2011 and 2012)

Item	Overall Value	
	2011	2012
Sample Size	35	35
Maximum Score	131	134
Minimum Score	3	8
Mean	58.23	62.03

Figure 2 is the distribution of MBG raw scores for 35 banks in 2012. The chart shows that the higher the score, the less the number of banks, and indicates that only a few banks have earned high scores. Additionally, most of the scores are clustered in 40 (26.67 percent) and 60 (40 percent) which reflects that there is much space for improvement in the reporting of Malaysian banks on their corporate governance practices.

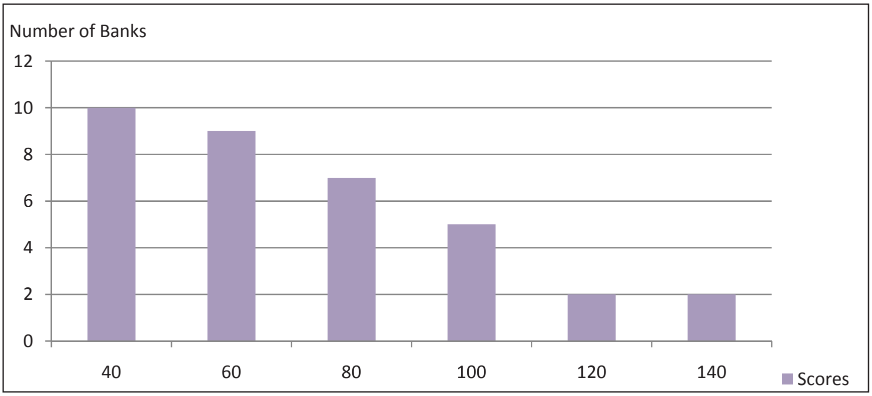

Figure 2: Distribution of MBG Raw Scores for 35 Banks (2012)

Table 5 presents the mean percentage for each attribute of MBGRS for the period of 2008 to 2012. Based on Table 4, the scores of Board Structures, Duties, and Effectiveness, Directors Remuneration, and Accountability and Audit are nearly 50 percent. The attribute that scores below 50 percent is Shareholder Rights. The unsatisfactory score indicates that banks do not meet the required guidelines. This shows that the banking sector in Malaysia is not sufficiently focused on the importance of disclosure, though it is important to be transparent to their shareholders, stakeholders, and depositors.

Table 5: Mean Percentage of MBGRS

No.	Bank Governance Attributes	Max. Score	Mean Raw Score	Mean Percentage Score
1.	Board Structures, Duties and Effectiveness	59	29.07	42.13
2.	Directors Remuneration	12	5.95	49.6
3.	Risk Management	12	6.32	52.7*
4.	Accountability and Audit	27	12.44	41.47
5.	Shareholder Rights	27	5.25	19.4

** Higher than 50%*

Table 6 shows the difference between the mean percentage score in 2011 and 2012. Generally, the mean percentage score in 2012 has obtained a better result as compared to the mean percentage score in 2011 for each attributes. This might be due to improvement in the annual report by the banks in Malaysia that is based on the Guidelines of Corporate Governance of Licensed Institution issued in 2011. Meanwhile, the score for risk management is similar for both years. The lowest mean percentage score can be seen in shareholder rights for 2011 and 2012, which is 18.41 percent and 21.50 percent, respectively. This shows that the attribute of shareholder rights has obtained an unsatisfactory score in 2011 and 2012. Thus, it can be said that the banking sector in Malaysia has ineffective communication policies with poor disclosure practices. The banking sector in Malaysia still lacks transparency to their shareholders and stakeholders as well as depositors, perhaps in order to conceal their underperformance with most banks with the lower score on this attribute being small.

Table 6: Mean Percentage of MBGRS (2011 and 2012)

No.	Bank Governance Attributes	Mean Percentage Score	
		2011	2012
1.	Board Structures, Duties and Effectiveness	40.94	44.14
2.	Directors Remuneration	51.67*	54.30*
3.	Risk Management	55.00*	55.00*
4.	Accountability and Audit	41.53	42.20
5.	Shareholder Rights	18.41	21.50

The Malaysian Code of Corporate Governance (MCCG, 2012) and the Guidelines of Corporate Governance of Licensed Institution (BNM, 2011) emphasise a sound framework of risk management. Therefore, risk management attributes ranked the highest, possibly due to their focus on the guidelines. However, the score of board structures, duties, and effectiveness, director's remuneration, and accountability and audit differed little from risk management. This portrays that the banking sector in Malaysia has a good disclosure on the attributes as they scored above 50 percent and are similar in scores. In addition, the banking sector is bound to the BAFIA as compulsory guidelines, especially related to the attributes of board structures, duties and effectiveness, and accountability and audit.

DISCUSSION AND CONCLUSION

The attributes have been measured to reveal their contribution and importance for the bank governance scores in this study. Higher weight scores prove that the guideline requirements have been met by the banks. The results showed that efforts by the banks have thus far produced the desired outcomes and represent a commitment and willingness on the part of the banks to enhance their corporate governance practices. It is parallel to the objective of Bank Negara Malaysia to encourage the banking sector in Malaysia in reporting the corporate governance by adopting either international or local best practices.

Table 6 lists the top ten banks that scored more than 50 percent. The highest weighted score is Public Bank Berhad, followed by CIMB Bank, Malayan Banking Berhad, AmBank (M) Berhad, and Hong Leong Bank Berhad. It is worth noting that Public Bank Berhad has scored the highest for corporate governance since 2008 and has been awarded the best bank awards and excellence in corporate governance by national and international publications in 2011 and 2012.

Table 6: Mean Percentage of MBGRS

Rank	Name of Bank	Weighted Score (%)
1.	Public Bank	89.3
2.	CIMB Bank	82.0
3.	Malayan Banking	80.0
4.	AmBank	70.7
5.	Hong Leong Bank	66.0
6.	Kenanga Investment Bank	65.3
7.	RHB Bank	62.7
8.	Alliance Bank Malaysia	62.0
9.	Affin Bank	58.0
10.	Bank Muamalat Malaysia	51.3

Evidence of improved corporate governance performance should motivate other banks. The other five banks which are Kenanga Investment Bank Berhad, RHB Bank Berhad, Alliance Bank Malaysia Berhad, Affin Bank Berhad, and Bank Muamalat Malaysia Berhad were also committed to disclosing their corporate governance report to compete with other banks, especially Kenanga Investment Bank Berhad and Bank Muamalat Malaysia Berhad. Kenanga Investment Bank Berhad was ranked ninth in 2011 and ranked sixth in the 2012 while Bank Muamalat Malaysia Berhad ranked eleventh in 2011, competing with Bank Islam Malaysia Berhad and was ranked tenth in 2012.

Findings from this study suggest that the banking sector in Malaysia has ineffective communication policies with poor disclosure practices. The banking sector in Malaysia still lacks transparency to their shareholders and stakeholders as well as depositors, perhaps in order to conceal their underperformance with most banks with the lower score on this attribute being small. The Malaysian Code of Corporate Governance (MCCG, 2012) and the Guidelines of Corporate Governance of Licensed Institution (BNM, 2011) emphasise a sound framework for risk management. Therefore, risk management attributes ranked the highest, possibly due to their focus on the guidelines. However, the score of board structures, duties, and effectiveness, director's remuneration, and accountability and audit differed little from risk management. This portrays that the banking sector in Malaysia has a good disclosure on the attributes as they scored above 50 percent and are similar in scores. In addition, the banking sector is bound to the BAFIA as compulsory guidelines, especially in relation to the attributes of board structures, duties and effectiveness, and accountability and audit.

Banking institutions should have better transparency towards the shareholders as well as depositors. Adeyemi and Olowu (2013) also reported that banks disclose inadequate information and that low transparency leads to obtaining a low overall score for bank performance. According to Muttakin and Ullah (2012), better corporate governance is important to the banking sector, which encourages the interests of investors and other stakeholders in the bank, while, based on Nworji, Adebayo and David (2011), banks that provide weak protection for their investors have worse corporate governance. Therefore, the banking sector in Malaysia should improve its corporate governance with respect to high quality disclosure through accountability and audit and better transparency, especially in respect of shareholder rights. This will enable them to achieve sound corporate governance disclosure as well as to ensure that the interests of depositors and creditors are adequately protected.

The overall findings of bank governance score in this study have provided a signal for banks in Malaysia to identify their lacking area the improvement. As reported in this study, the bank governance score reveals that the reporting is lacking in areas such as Board Structures, Duties and Effectiveness, Accountability and Audit, and Shareholder Rights. This study gives further guideline for banks to improve their corporate governance by virtue of the recommendation by the Corporate Governance Blueprint, the new and revised code that is previously mentioned. The limitation of this study is the annual report for several banks, especially for foreign banks, is not complete and the information required has to be obtained from their websites. Additionally, since the study evaluated the board of directors of the bank, the intermediaries' banks such as CIMB Islamic Bank and CIMB Investment Bank are led by the same people or board of directors with the commercial bank of CIMB Bank. Thus, the intermediary banks cannot be included for the evaluation as the result will become similar when measuring their corporate governance reporting, especially in the part of information on the board of directors.

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