BANKER'S JOURNAL MALAYSIA

KDN PP 3781/05/2013 (032406) No. 138-2012

Institut Bank-Bank Malaysia
Institute *of* Bankers Malaysia

Banker's Journal Malaysia

Readers are encouraged to submit papers for consideration to be published in the Banker's Journal.

Published twice yearly by:
Institut Bank-Bank Malaysia
(35880-P)
Wisma IBI, 5 Jalan Semantan
Damansara Heights
50490 Kuala Lumpur
Malaysia
Tel: (603) 2095 6833
Fax: (603) 2095 2322
Website: www.ibbm.org.my
Email: info@ibbm.org.my

Printed by:
Graphic Lyckas Sdn. Bhd.
(348225-W)
A27-1st Floor, Jalan Tuanku 1
Taman Salak Selatan
57100 Kuala Lumpur
Malaysia.
Tel: (603) 7981 1237
Fax: (603) 7981 3668
Email: lyckas@streamyx.com

The Institute's Mission Statement

To be a professional and effective training adviser and provider in developing practitioners of the banking and financial services industry to enable them to function effectively in an evolving financial services environment

Banker's Journal Malaysia
The Journal of the Institute of Bankers Malaysia

KDN PP 3781/05/2013 (032406)
ISSN 0126-9534

Issue No. 138 - June 2012

Contents

Editor's Note

This issue brings together four themes that are of particular importance to the Malaysian banking scene. The first theme relates to the role of social networks in influencing directors' remuneration, and has been motivated by academic literature that argues that Malaysian capitalism is relationship-based rather than market-based. The results reported in the first paper confirm the existence of network effects in the short- and long-term, but that overall, directors' remuneration do reflect corporate performance.

A second theme is the role of deposit insurance. Although in place in advanced countries like the US and UK for some time, it has also gained popularity in Asia, with Malaysia instituting this scheme after the Asian Financial Crisis. In reviewing the history of this scheme and the types of deposit insurance available, the second paper alerts readers to the potential issue of moral hazard, but argues that this risk can be minimised by prudential regulation. It is in guarded support of such a scheme, alluding to its role as a minimiser of risks.

The third paper deals with yet another area in banking – that of personnel, specifically how to retain talent. The group of workers of concern is the technology-savvy 'generation y', the children of the 'generation x'ers'. Through responses from 80 respondents in two locations, the authors identified five organisational attributes that would keep this cohort of workers in the banking industry. However, to what extent the so-called 'uniqueness' of this group is reflected in a set of preferred attributes different from previous cohorts was not explored.

Like paper 3, the fourth paper is a study of perceptions – in this case of non-Muslims towards Islamic banking. While this form of banking has seen healthy growth, favourable perception of the non-Muslim community has the potential to increase substantially the client base and hence further fuel the growth of Islamic banking. The paper's authors, who undertook fieldwork in Kuching, Sarawak, found not only that non-Muslim perceptions were indeed favourable but also that it was felt that Islamic banking was fully competitive with conventional banking.

The significance of these studies lies in the empirical basis for the conclusions reached in three of the four studies. Yet the limited number of respondents in one study and geographic coverage in another speaks to the need for caution in generalising results, however significant they might have been.

Deposit Insurance: Concept and Theory

Sharifah Adlina Syed Abdullah
is currently a PhD candidate in Finance at the Faculty of Business and Accountancy, University Malaya. Her research interest is in deposit insurance. Prior to her PhD quest, she was with the Ministry of Finance, Malaysia from the year 2000. She was employed with United Overseas Bank (Malaysia) Berhad from 1997-2000, during which her last appointment was that of Account Relationship Manager in the Credit and Marketing Department.

Rubi Ahmad
is an Associate Professor, Head of Department of Banking and Finance, Faculty of Business and Accountancy, University Malaya

ABSTRACT
While liquidity assistance is provided for under the lender of last resort facility for solvent banks, deposit insurance is a depositors' protection tool to sustain depositors' confidence in the banking system and to ensure there is financial stability in the market. If a bank fails, depositors are confident that they will get their deposits reimbursed up to the maximum of their insured deposits meaning that their deposits are safe with the banking system and they will get back their deposits in a timely manner. Unfortunately, similar to other types of insurance, deposit insurance suffers from a moral hazard problem. Prudential regulation and supervision will limit this problem. Added to this is the credible design feature of deposit insurance. Our paper offers an understanding of the deposit insurance concept and theory which is fundamental in limiting the moral hazard problem that may trigger financial instability.

INTRODUCTION

Deposit insurance is one of the elements of the financial safety net. Safety net is not a particularly apt metaphor. In a circus, a safety net catches those who are falling from a height. However, in banking, financial safety nets are meant both to encourage prudent risk taking and to provide assistance (Kane, 2000) to depositors of insolvent banks who have miscalculated the risks involved. In addition, safety nets prevent disintermediation from the banking system and bank failures (Calomiris, 1999). Financial safety nets preserve soundness and confidence in the financial sector. However, there is no consensus in the literature on a single definition for the key elements of the financial safety net.

According to the Financial Stability Forum[1] (2001), financial safety nets consist of three elements and they are (a) a deposit insurance system, (b) lender of last resort and (c) a prudential supervisory and regulatory framework. Walter and Weinberg (2002) define federal safety nets as the explicit or implicit government guarantees to deposit taking institutions and the role of these governments in protecting depositors from losses sustained by insolvent financial institutions. Schich (2008) provides an extended definition of financial safety nets. He includes failure resolution as an additional element of the financial safety nets on top of the three elements proposed by the the Financial Stability Forum (2001).

Generally, financial safety nets consist of the entire financial regulations and institutions that are involved in preventing or limiting depositors' losses and preservation of depositors' confidence in the event of a banking failure. Under this definition, safety nets include implicit and explicit deposit insurance frameworks, a lender of last resort function, prudential regulation and supervision as well as failure resolution.

---

1 The Financial Stability Forum is an international cooperation forum to promote international financial stability. The forum was established in February 1999.

Government insurance and other assistance protect the financial systems in many countries. Policy makers in general are proponents of deposit insurance and they argue that the deposit insurance system promotes financial stability in the banking system and enhances depositors' confidence in the banking system given that any disruption in a country's banks can potentially create social costs outside the banking system. Hence, it is vital to insulate banks, depositors and debtors from adverse shocks particularly from systemic bank runs that occur when depositors lose confidence in one or more banks.

Although deposit insurance was formally introduced in the US in the 1900s, the history of deposit insurance system started in the early 1800s. The insurance system back then was known as the New York's Safety Fund that covered only the State of New York. The objective of this insurance scheme was to protect deposits and to circulate notes in the event of a bank failure. However, the scheme was unsuccessful and became insolvent in 1842 as it was administered by a private-owned entity which did not have the funding capacity like that of a government-owned entity. Subsequently, eight new insurance schemes were introduced in the early 1920s and these schemes also failed due to limited funding and insufficient monitoring (Calomiris, 1990).

The first federal government sponsored deposit insurance system in the world was the Federal Deposit Insurance Corporation (FDIC), introduced in the United States of America in 1934. In contrast to the previous schemes, the FDIC was funded through capital provided by the Treasury and the Federal Reserve Bank. This limited deposits guarantee provided under the FDIC scheme continues to exist until today with several reforms in the deposit insurance design features to restore depositors' confidence and ensure financial system stability.

In Europe, Norway was amongst the earliest countries to adopt deposit insurance for its savings institutions in 1921 and this was later extended to commercial banks in 1938. Meanwhile, in Western European countries, deposit insurance started between the late 1970s and the early 1980s. The failure of banks in Western Europe such as the Bankhaus Herstatt in Germany in 1974 resulted in the adoption of the deposit insurance system in some European countries like Belgium, Austria and France in 1974, 1979 and 1980 respectively. Further, in 1994, most European countries had an explicit deposit insurance system in place to comply with the European Union's Directive on Deposit Insurance.

In the United Kingdom, formal deposit insurance was first introduced in 1986 to protect depositors and members of the Building Societies Association. The introduction of the Financial Services Compensation Scheme in 2000 extended the deposit protection to all financial institutions including insurance companies. Elsewhere, in Canada, deposit insurance was introduced in 1967 and administered by the Canada Deposit Insurance Corporation.

India was the first country in Asia to adopt a deposit insurance system in 1961. Philippine was the next to do so in 1963. Other countries in Asia like Malaysia and Indonesia introduced a formal deposit insurance system in 2005 in response to the Asian financial crisis in 1998/1999. In 1998, the deposit insurance system was recognised by the International Monetary Fund as 'best-international practice'. The financial crisis in 2007/2008 brought renewed attention to the concept and practice of deposit insurance by regulators around the world. Many countries that had yet to adopt or delayed in adopting a deposit insurance system have done so in the wake of the crisis. For instance, Australia in response to the crisis was among the last countries to implement the explicit deposit insurance system in October 2008.

From only 12 countries[2] implementing explicit deposit insurance in 1974 (Demirguc-Kunt & Sobaci, 2001), the numbers have steadily increased to 111 countries including Malaysia as at 31 March 2011.[3] Elsewhere, the 41 countries that have no formal deposit insurance system are constructing or studying the implementation of an explicit deposit insurance system[4] (refer to Tables 1 and 2 in the Appendix). For countries, that do not implement an explicit deposit insurance system, there exists an implicit deposit insurance system with a discretionary government guarantee or protection for the depositors.

---

2 Belgium(1974), Canada(1967), Dominican Republic(1962), Finland(1969), Germany (1966), India(1961), Japan(1971), Lebanon(1967), Micronesia(1963), Norway(1961), Philippine(1963) and United States(1934).
3 International Association of Deposit Insurer website http://www.iadi.org
4 International Association of Deposit Insurer website http://www.iadi.org

To share knowledge and expertise among the deposit insurers around the world, the International Association Deposit Insurance (IADI) was founded on 6 May 2002. IADI originated in 2000 as a Working Group on Deposit Insurance established by the Financial Stability Forum (FSF). Later on 8 June 2009, the *Core Principles for Effective Deposit Insurance System* was jointly issued by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers to promote a framework for effective deposit insurance practices. The Core Principles of the Effective Deposit Insurance System covered a wide range of issues like deposit insurance coverage, deposit insurer mandates and governance structures, membership and funding. These principles also advocated prompt reimbursement to depositors during a crisis to maintain stability. The principles also highlighted the importance of creating public awareness of deposit insurance and cooperation with other financial safety net players particularly governments via their Ministry of Finance and central banks. In brief, the Core Principles for an effective deposit insurance system are an international set of design features for effective deposit insurance system.

TYPES OF DEPOSIT INSURANCE

Deposit insurance can be in the form of either a full or limited guarantee to depositors that their deposits will be reimbursed by the deposit insurer to them in the event that a bank fails. If the guarantee is explicitly defined in the legislation of a country, then this form of guarantee is known as an explicit deposit insurance system. Otherwise, a form of implicit deposit insurance system exists from the verbal promises and/or past actions of the governments.

Implicit Deposit Insurance

Implicit deposit insurance is a form of deposit insurance not explicitly provided for by law or regulation. It is a form of a government guarantee to prevent systemic failure to other banks when a bank experiences a bank failure due to insolvency or a bank run. Deposit insurance is implicit when its enforceability builds public confidence to avoid a bank run on banks that become economically insolvent. To reiterate, for implicit deposit insurance, there is no official communication by the government to the public or bankers on the deposit insurance coverage or the amount of its coverage (Demirguc-Kunt & Sobaci, 2001). Therefore, the government is not legally bound to provide a deposit guarantee to depositors.

Even in an explicit deposit insurance system, there exists a form of implicit deposit insurance system to avoid the contagion effects of a troubled bank crashing the entire country's economy. The onset of a banking crisis creates political incentives for any government even those with an explicit deposit insurance system to extend a guarantee coverage that exceeds the limit of the explicit deposit insurance specified in the country's law and regulations. This is evident in Malaysia where the government introduced a blanket guarantee known as the Government Deposit Guarantee in 1998 during the 1997/98 Asian financial crisis. Added to that is the Government Deposit Guarantee which was introduced on 16 October 2008 and lasted until 31 December 2010 in response to the 2007/2008 financial crisis. In addition, an implicit deposit insurance system is prevalent in countries with one or more state-owned banks (Kane, 2000). Despite being unfunded, an implicit deposit insurance system is important and exists everywhere in the world.

Explicit Deposit Insurance

The previous section highlighted the distinct features of an implicit deposit insurance system as a system that is neither officially communicated by the government nor by deposit insurance coverage. However, an explicit deposit insurance system is well defined by the government in laws and other regulations which indicate the existence of a deposit insurance system and the amount covered. Under this system, the government clearly outlined its commitment through regulation a specific amount of guaranteed protection on deposits. Both implicit and explicit deposit insurance systems can co-exist particularly in a serious financial crisis to minimise the social costs involved (McCoy, 2007).

Unlike the implicit deposit insurance system, the explicit deposit insurance system has four distinct design features; (i) the funding type, (ii) sources of funds, (iii) insurance premiums systems and (iv) the coverage limits and coinsurance (see for example Schooner & Taylor, 2010; Demirguc-Kunt, Kane, & Laeven, 2008; LaBrosse & Mayes, 2007; Demirguc-Kunt & Detragiache, 2002; Demirguc-Kunt & Sobaci, 2001).

Explicit deposit insurance funding consists of three components, namely, ex-ante funding, ex-post funding and hybrid funding. In ex-post funding, there are no advance contributions and members only contribute to the fund after a bank failure. In ex-ante funding, members contribute to an established permanent fund periodically while hybrid funding is a combined ex-ante and ex-post funding mechanism.

For the sources of funds, there are government sources for instance in the form of grants, private sources from members premium contribution and also a combination of both government and private sources. For private sources of funding, the amount each bank has to pay can be either a fixed rate (uniform) insurance premium or a differential (risk-based/adjusted) insurance premium. The difference between the two is the premiums calculation method. With the fixed rate insurance premium, all member banks pay comparable insurance premium amounts notwithstanding their risk portfolios. Differential insurance premiums however incorporate the risk of each bank's assets into the premium structure.

Apart from the above mentioned three design features of deposit insurance (funding type, sources of fund and insurance premiums systems), the final design features for explicit deposit insurance system are the limit of coverage and coinsurance. Limited coverage of deposit insurance will still instill market discipline among the sophisticated depositors like corporate depositors whose value of deposits with the banks will never be fully insured under the deposit insurance because they make up a substantial amount of banks' deposits. Coinsurance (as opposed to reimbursing the whole insured amount) requires the depositor to cover some of the losses of a bank failure. For example, say a deposit is covered up to the maximum of $20,000. In the event of a bank failure, depositors will not be reimbursed the maximum protection limit of $20,000. The shortfall is the coinsurance amount or the loss borne by the depositors.

Implicit Deposit Insurance vs Explicit Deposit Insurance

The decision by governments to establish an explicit deposit insurance system is usually influenced by a number of objectives (see for example Blair, Carns, & Kushmeider, 2007).

The first objective is to provide protection to small unsophisticated depositors who, due to their incapacity or availability of asymmetric information, are unable to assess the risk nature of the banks in which they deposit their savings. Secondly, a deposit insurance system will assist in the preservation of confidence towards the deposit taking institutions. It will, discursively reduce the probability of a systemic run that could crumble the banking system as a whole.

Thirdly, an explicit deposit insurance system limits the government's liability to the established limit of coverage that is stipulated within a country's legislation. As the coverage limit is clearly specified, it reduces the government's off balance sheet items or contingent liabilities. In addition, it provides the avenues to strengthen depositors' protection in a time of crisis with a more formal mechanism.

One of the strongest arguments for explicit but limited deposit insurance is that only some deposits will be protected and hence the incentive to monitor and discipline the banks will still be prevalent.

MORAL HAZARD: THE PROBLEM OF DEPOSIT INSURANCE

One may also view a deposit insurance system as a double-edged sword. On one hand, the deposit insurance system is one of the regulatory policies that will protect depositors as well as prevent banks from excessive risk taking and minimise the impact of a financial crisis (Gropp, Hakenes, & Schnabel, 2011) whilst on the other hand it may also increase the banking system fragility arising from moral hazard consequences (Demirguc-Kunt, Kane, & Laeven, 2008). Drawing a thin line between the moral hazard problems and maximising the potential benefits[5] of deposit insurance remains the badgering issue among academics and policy makers.

A moral hazard occurs when the bank does not execute the desires or commands of the depositor. The incentives of the depositor and bank change and alter the riskiness of the contract and this raises a moral hazard problem. The moral hazard problem from the bank's position also happens due to the existence of an asymmetric information problem. A bank usually has more information about its actions or intentions than depositors as the depositors usually cannot completely scrutinise the banks.

5 Deposit insurance as a tool for depositor protection has become an important feature of most banking systems to provide stability, minimise the probability of crisis and increased financial intermediation (eg. Cull, Senbet, & Sorge, 2005; Maysami & Sakellariou, 2008; Angkinand, 2009)

If the depositors' lackadaisical attitude to monitor the bank's activities is known to the bank, the riskiness of the contract may alter as the bank may divulge in riskier activities than it would in the presence of close monitoring. This illustrates the classic problem of a moral hazard.

In the case of deposit insurance, both banks and depositors are subjected to moral hazards. A moral hazard alters the willingness of both banks and depositors to assume greater risks. Moral hazard behaviour from banks can be observed in the form of increased risk taking. Merton (1977) was the first to quantify the moral hazard problem. He identified the value of deposit insurance as equivalent to the US Federal Deposit Insurance put option. At that time, a fixed rate insurance premium was charged irrespective of the risk profile of the banks. The fixed rate premium provided the incentives for banks to alter their riskiness because they were only incurring part of the losses if the assets became non-performing assets. Hence, a moral hazard may occur even in normal times if the incentives to increase risk taking are sufficiently attractive.

Depositors also experience a moral hazard due to lax monitoring or disciplining of the banks. In the presence of government guarantees although not explicitly expressed, depositors waive their monitoring and disciplining role because they assume that it is no longer necessary. Depositors no longer consider the risk factor associated with their choice of banks. The main objective of the deposit insurance system is to protect depositors which in turn protects the banking system from bank runs or market liquidity failures that are comparable to a bank run.

Limiting Moral Hazard

Deposit insurance has a downside which increases the moral hazard problem when unaccompanied by stringent regulatory frameworks that permit excessive risk taking by banks. Thus, regulators must figuratively step into the shoes of depositors to control this moral hazard problem not only in the conventional banks but in Islamic banks as well. Regulators attempt to do this through the use of various regulatory controls like imposing minimum capital requirements that are aimed at forcing the bank to internalise the costs of increased risk. In addition, the moral hazard problem created by regulators with the introduction of deposit insurance could be minimised by ensuring credible design features[6] including an insurance premium system that is compatible with the risks undertaken by the banks. More specifically, a risk-based insurance premium will mitigate the moral hazard problem rather than the fixed rate premium.

In the early stages of introducing explicit deposit insurance systems, most countries introduced an insurance premium that did not commensurate with the risks. Hence, the moral hazard problem became worse because there was no incentive for banks to avoid taking excessive risks in their portfolios. The International Association of Deposit Insurance survey on 9 September 2011 revealed that only 24[7] countries including Malaysia introduced a risk-based insurance premium replacing the fixed rate premium to mitigate the moral hazard problem. The risk-based premium prompts the insured banks to think twice before embarking on higher risk activities as the higher the risk in their asset portfolios the higher the premiums the insured banks have to pay. This is seen as some sort of penalty to the banks if they engage in risky activities. In addition, it is believed that because of this penalty, banks will improve their risk management practices.

THE RATIONALE FOR DEPOSIT INSURANCE

If deposit insurance is the reason for moral hazards (i.e. increases in bank risk taking) as discussed in the previous paragraph then why does it continue to exist? The seminal work by Diamond and Dybvig (1983) shows that even healthy banks can default due to a bank run. As the banking landscape is changing rapidly following liberalisation, banks rely on market forces and hence become more vulnerable and submit themselves to greater instability (Caprio & Honohan, 1999). In response to the 1997/98 Asian financial crisis, the Financial Stability Forum was formed by the G7 Finance Ministers and Central Bank Governors to promote global financial stability. In April 2008, this forum recommended that deposit insurance be incorporated as part of the robust mechanism

6 Deposit insurance system has four distinct design features; (i) the funding type, (ii) sources of funds, (iii) insurance premiums systems and (iv) the coverage limits and coinsurance.

7 Argentina, Canada, Colombia, Finland, France, Germany, Italy, Kazakhstan, Malaysia, Marshal Island, Micronesia, Netherlands, Nicaragua, Nigeria, Peru, Poland, Portugal, Romania, Singapore, Sweden, Taiwan, Turkey, United States & Uruguay.

that deals with financial institutions in distress. The systemic risk that financial institutions may pass off towards the financial system is a vital argument to regulate financial institutions beyond their institutional risk (Nijskens & Wagner, 2011).

Deposit Insurance and Depositors' Protection

In confronting information asymmetries, it is vital to provide protection for small depositors who are likely to cause a bank run (Dewatripont & Tirole, 1994). These small depositors cannot correctly assess the risks they take when depositing their savings in a particular bank and/or do not have the incentive to monitor banks. Nevertheless, like any other insurance, the deposit insurance system creates a moral hazard by reducing depositors' incentives to monitor risk taking by banks, as depositors are free of the consequences of their actions and the banks' actions.

Notwithstanding this, even if a crisis occurs, at least the deposit insurance system acts as a "risk minimiser" by protecting the majority of the depositors' deposits. Anticipating that their deposits are guaranteed under a deposit insurance system, depositors without immediate consumption needs will not rush to withdraw their money from the banks, so a contagious bank run will not occur and this reduces the social cost of a banking crisis. Bank runs may lead to systemic banking system failures that incur real costs. Hence, to prevent this contagious bank run, a government backed deposit insurance is the optimal solution. The restoration of depositors' confidence is crucial as it not only encourages individuals to deposit money in the banks but also stretches the banks' size in the form of increased deposits (see Chernykh & Cole, 2011).

Several historical cases appear to support the argument for the implementation of a deposit insurance system that hinders bank runs and their contagious effects. For instance, none of the member banks under the Indiana deposit insurance system failed during its 30 years history (Calomiris, 1990). Added to this is the success story of the FDIC to reduce the occurences of bank failures from 50 bank failures a year in 1939 to 17 a year in 1944 and continued to maintain an average of 12 a year until 1982 before the Savings and Loans association crisis (Matthews & Thompson, 2008). Thus, not only theoretical appeals but also historical events support the view that the deposit insurance system prevents bank runs. While creating a moral hazard, deposit insurance as a tool for depositor protection has become an important feature of most banking systems to reduce the instability and minimise the probability of crises (see Talley, 1994; Cull, Senbet, & Sorge, 2005; Maysami & Sakellariou, 2008; Angkinand, 2009; DeLong & Saunders, 2011).

Deposit Insurance and Financial Stability

Deposit insurance undoubtedly protects depositors and maintains their confidence in the banking system. In theory, the deposit insurance system provides financial stability in the banking system by preventing bank runs. The seminal paper by Diamond and Dybig (1983) advocates that the benefits of deposit insurance in preventing bank runs relate to the main function of financial institutions as asset transformation agents as well as liquidity providers. If depositors know that their deposits are safe with the banks they will not irrationally withdraw their deposits out of fear of losing their funds.

However, when they see other depositors queuing in the banks to withdraw their money, it would appear rational for them to do likewise. No one wants to be the last in the queue and bear the risk of losing their hard earned deposits. So, if depositors know that their deposits are safe with the banks then they will not start a run on a bank that could be spread to the entire financial system. In the same vein, the implementation of a deposit insurance system in countries that have a well developed and liberalised banking system would probably reduce the occurrence of a banking crisis and thus provide financial stability (DeLong & Saunders, 2011). Hence, it is clear that a deposit insurance system promotes financial stability by assuring depositors that their deposits are protected and safe.

CONCLUSION

It is obvious that the institutional structure of the deposit insurance system coupled with prudential supervision and regulation (Demirguc-Kunt & Detragiache, 2002) exerts an important deterrent effect which mitigates a moral hazard problem and ensures financial stability. If financial instability other than bank runs causes bank failures, then to conclude that the deposit insurance system is unsuccessful is not correct. Bank failures may be caused by many other outside factors like bad economic environments, political instability or non-credible designs of existing deposit insurance systems that are more prone to banking instabilities. In our view, despite criticisms from several opponents particularly from the efficient market school, deposit insurance is here to stay. Deposit insurance cannot prevent a financial crisis or instability but it is certainly a risk-minimiser that reduces the contagious effect due to a financial crisis.

References

Angkinand, A. P. (2009). Banking regulation and the output cost of banking crisises. *Journal of International Financial Markets, Institutions and Money, 19,* 240-257.

Bagehot, W. (1873). *Lombart Street: A Description of the Money Market.* London: William Clowes and Sons.

Blair, C. E., Carns, F., & Kushmeider, R. M. (2007). Instituting a deposit insurance system: Why? How? In *Deposit Insurance* (pp. 71-91). New York: Palgrave Macmillan.

Calomiris, C. W. (1999). Building an incentive-compatible safety net. *Journal of Banking & Finance, 23,* 1499-1519.

Calomiris, C. W. (1990). Is deposit insurance necessary? A historical perspective. *Journal of Economic History, 50 (2),* 283-295.

Caprio, G., & Honohan, P. (1999). Restoring banking stability: Beyond supervised capital requirements. *Journal of Economic Perspectives, 13,* 43-64.

Chernykh, L., & Cole, R. A. (2011). Does deposit insurance improve financial intermediation? Evidence from the Russian experiment. *Journal of Banking nd Finance,* 388-402.

Cull, R., Senbet, L. W., & Sorge, M. (2005). Deposit insurance and financial development. *Journal of Money, Credit and Banking, 37,* 43-82.

DeLong, G., & Saunders, A. (2011). Did the introduction of fixed-rate federal deposit insurance increase long-term bank risk taking? *Journal of Financial Stability, 7,* 19-25.

Demirguc-Kunt, A., & Detragiache, E. (2002). Does deposit insurance increase banking system stability? An empirical investigation. *Journal of Monetary Economics, 49,* 1272-1406.

Demirguc-Kunt, A., & Sobaci, T. (2001). A new development database: Deposit insurance around the world. *The World Bank Economic Review, 15,* 481-490.

Demirguc-Kunt, A., Kane, E. J., & Laeven, L. (2008). Determinants of deposit-insurance adoption and design. *Journal of Financial Intermediation, 17,* 407-438.

Dewatripont, M., & Tirole, J. (1994). *The Prudential Reputation of Banks.* Cambridge, MA: MIT Press.

Diamond, D. W., & Dybvig, P. H. (1983). Bank runs, deposit insurance and liquidity. *Journal of Political Economy,* 401-419.

Financial Stability Forum (FSF). (2008, April). *Report of the Financial Stability Forum on Enhancing Market and Institutional Reliance.* Retrieved from http://www.fsforum.org/publications/r_0804.pdf

Financial Stability Forum. (2001). *Guidance for developing effective deposit insurance system.*

Gropp, R., Hakenes, H., & Schnabel, I. (2011). Competition, risk-shifting and public bail-out policies. *The Review of Financial Studies, 24,* 2084-2120.

Kane, E. J. (2000). Designing financial safety nets to fit country circumstances. *World Bank Policy Research Working Paper No. 2453.*

LaBrosse, J. R., & Mayes, D. G. (2007). Promoting financial stability through effective depositor protection: The case for explicit limited deposit insurance. In A. Campbell, J. R. LaBrosse, D. G. Mayes, & D. Singh (Eds.), *Deposit Insurance* (pp. 1-39). New York: Palgrave Macmillan.

Matthews, K., & Thompson, J. (2008). *The Economics of Banking.* Chichester: Wiley.

Maysami, R. C., & Sakellariou, C. (2008). Financial liberalisation, deposit insurance and bank stability. *Applied Economics Letters, 15,* 743–747.

McCoy, P. A. (2007). The moral hazards implications of deposit insurance: Theory and evidence. *International Monetary Fund Seminar on Current Developments in Monetary and Financial Law.*

Merton, R. C. (1977). An analytic derivation of the cost of deposit insurance and loan guarantees. *Journal of Banking and Finance, 1,* 3-11.

Nijskens, R., & Wagner, W. (2011). Credit risk transfer activities and systemic risk: How banks became less risky individually but posed greater risks to the financial system at the same time. *Journal of Banking and Finance, 35,* 1391-1398.

Schich, S. (2008). Financial crisis: Deposit insurance and related financial safety net aspects. *Financial Market Trends 2,* 76-121.

Schooner, H. M., & Taylor, M. W. (2010). *Global Bank Regulation: Principles and Policies.* United States of America: Elsevier.

Talley, S. H. (1994). *Deposit protection and the spread of deposit insurance: Some guidelines for developing countries.* Washington: The World Bank.

Walter, J. R., & Weinberg, J. A. (2002). How large is the federal financial safety nets? *Cato Journal, 21,* 369-393.

Appendix

Table 1: List of Countries Implementing an Explicit Deposit Insurance System

1. Afghanistan	38. Gibraltar	75. Nicaragua
2. Albania	39. Greece	76. Nigeria
3. Algeria	40. Guatemala	77. Northern Mariana Island
4. Argentina	41. Honduras	78. Norway
5. Armenia	42. Hong Kong	79. Oman
6. Australia	43. Hungary	80. Paraguay
7. Austria	44. Iceland	81. Peru
8. Azerbaijan	45. India	82. Philippines
9. Bahamas	46. Indonesia	83. Poland
10. Bahrain	47. Ireland	84. Portugal
11. Bailiwick of Jersey	48. Isle of Man	85. Puerto Rico
12. Bailiwick of Guernsey	49. Italy	86. Romania
13. Bangladesh	50. Jamaica	87. Russian Federation
14. Barbados	51. Japan	88. Serbia
15. Belarus	52. Jordan	89. Singapore
16. Belgium	53. Kazakhstan	90. Slovakia
17. Bermuda	54. Kenya	91. Slovenia
18. Bosnia and Herzegovina	55. Korea	92. Spain
19. Brazil	56. Kyrgyz Republic	93. Sri Lanka
20. British Virgin Islands	57. Lao PDR	94. Sudan
21. Brunei	58. Latvia	95. Sweden
22. Bulgaria	59. Lebanon	96. Switzerland
23. Canada (and Quebec)	60. Libya	97. Tajikistan
24. Chile	61. Liechtenstein	98. Tanzania
25. Chinese Taipei	62. Lithuania	99. Thailand
26. Colombia	63. Luxembourg	100. Trinidad and Tobago
27. Croatia	64. Macedonia	101. Turkey
28. Cyprus	65. Malaysia	102. Uganda
29. Czech Republic	66. Malta	103. Ukraine
30. Denmark	67. Mexico	104. United Kingdom
31. Dominican Republic	68. Micronesia	105. United States
32. Ecuador	69. Moldova	106. Uruguay
33. El Salvador	70. Montenegro	107. Uzbekistan
34. Estonia	71. Morocco	108. Venezuela
35. Finland	72. Netherlands	109. Vietnam
36. France	73. Nepal	110. Yemen
37. Germany	74. New Zealand	111. Zimbabwe

Table 2: List of Countries Constructing or Studying an Explicit Deposit Insurance System

Deposit Insurance System Under Construction

1. Costa Rica	4. Mozambique	7. Turks and Caicos Island
2. Kosovo	5. Palestine	8. Zambia
3. Mauritius	6. Syria	

Deposit Insurance System Under Study

1. Angola	12.Gabon	23. Mongolia
2. Bhutan	13. Gambia	24. Namibia
3. Cambodia	14. Georgia	25. Pakistan
4. Cameroon	15. Ghana	26. Qatar
5. Central African Republic	16. Grenada	27. Rwanda
6. Chad	17. Iran	28. Senegal
7. China	18. Israel	29. Seychelles
8. Congo	19. Lesotho	30. South Africa
9. Curacao and Saint Maarten	20. Liberia	31. Swaziland
10. Equatorial Guinea	21. Macao	32. Tunisia
11. Ethiopia	22. Malawi	33.United Arab Emirates

Perceptions of non-Muslims towards Islamic banking

Ricardo Baba* **and Ricky Lang****

ABSTRACT

Purpose – This paper examines the perceptions that non-Muslims have of Islamic banks particularly in a dual banking environment, and in a state like Sarawak where more than 75 percent of the population are non-Muslims.

Design/methodology/approach – The paper presents primary data collected by self-administered questionnaires involving a sample of 350 respondents from Kuching, Sarawak. The data collected from the survey are analysed using descriptive statistics.

Findings – The study reveals that non-Muslims in Kuching are well-versed with Islamic banking. It also reveals that non-Muslims are willing to patronise Islamic banks, and they believe Islamic banks offer quality products and services. Non-Muslims are also confident that Islamic banks can compete with the conventional banks.

Practical implications – The empirical evidence of this paper has one major implication; that Islamic banking has the potential to be marketed to customers beyond those who are concerned with Islamic principles.

Originality/value – The paper reports findings from the first study on Islamic banking carried out in Sarawak where the population is more than 75 percent non-Muslim.

Keywords Bank, Islamic banking, consumer behaviour, Sarawak.

INTRODUCTION

An Islamic bank is a financial and social institution whose objectives and operations as well as principles and practices must conform to the principles of Islamic *Shariah* (Hassan and Ahmed, 2002). Islamic banking provides services to its customers free of interest, as the giving and taking of interest is prohibited in all transactions (Lewis and Algaoud, 2001). Alternatively, Islamic banking provides awards or returns on the basis of Islamic banking performance through profit and loss sharing as well as *hibah* (gifts).

Some pioneering Islamic banks were established in Egypt on a very modest scale in the 1960s and operated as rural social banks along the Nile Delta (Hassan and Ahmed, 2002; Khan, 2000). Among the first institutions was the Nasser Social Bank, which started operations in Cairo, Egypt in 1972. Then, in 1975 the Dubai Islamic Bank was established (Khan, 2000). During the last decade the growth of Islamic financial services has been phenomenal, ranging from 10 percent to 20 percent, and the number of financial institutions reached 300 operating in 75 countries in 2008 (Gulf One Investment Bank, 2008). According to the Islamic Development Bank, the global Islamic banking assets and assets under management reached USD800 billion in 2007 (Ali, 2009). In Malaysia the first Islamic bank, Bank Islam Malaysia Berhad (BIMB) started its operations in 1983. Today, Malaysia has 16 full-fledged Islamic banks including 6 foreign owned branches, and Islamic banking assets have reached USD65.6 billion with an average growth rate of 18 - 20% annually (Bank Negara Malaysia, 2012).

---

*   Associate Professor, Faculty of Economics and Business, Universiti Malaysia Sarawak
**   Final Year Student, Faculty of Economics and Business, Universiti Malaysia Sarawak

Against this background, the current study investigates the perceptions of non-Muslims towards Islamic banking. Specifically, the study attempts to answer the following questions:

- Are non-Muslims knowledgeable about Islamic banking?
- Are non-Muslims confident of Islamic banking?
- What are non-Muslims' perceptions of the quality of services and products offered by Islamic banks?

Our analysis is based on a survey conducted among the general public in Kuching, Sarawak. The main reason for choosing Kuching is because Sarawak has the highest percentage of non-Muslims in the country. According to the Department of Statistics, Malaysia 2010, Sarawak has the population of 2.5 million, and 75 percent are non-Muslims. The market size is quite substantial especially for retail banking business. For Islamic banks to increase their market share in this predominantly non-Muslim state it is inevitable for them to understand the non-Muslims' perceptions of Islamic banking.

Literature Review

Empirical studies on customers' perceptions on Islamic banking

The earliest study on Islamic banking in Malaysia is found in the work of Haron, Ahmad & Planisek (1994). They studied the bank patronage factors of both Muslim and non-Muslim Malaysians, and sought to establish the criteria used by Muslim customers in selecting their banks. The study revealed that Muslims in Malaysia perceived fast and efficient service, speed of transactions, and friendliness as important criteria in selecting their banks. Another finding of the study indicated that conventional bank customers were willing to patronise Islamic banks if they had sufficient knowledge of Islamic banking practice. Eighty percent of Muslim and 53% of non-Muslim respondents indicated that they would consider patronising an Islamic bank if they understood its operations.

Ahmad and Haron (2002) studied the perceptions of non-Muslim corporate customers in Malaysia towards Islamic banking, and found that their knowledge of Islamic banking was limited. The study indicated that Islamic banking products and services were not popular among the non-Muslim corporate customers. The study also revealed that the most important factor perceived by corporate customers in selecting their banks was the cost of the services and products.

Dusuki and Abdullah (2007) replicated Haron *et al's* study in Malaysia, and found that the selection of Islamic banks appeared to be predominantly a combination of Islamic and financial reputations and quality service offered by the banks. Other factors perceived to be important included good social responsibility practices, convenience and product prices. Dusuki and Abdullah also argued that Islamic bankers could no longer depend on the marketing strategy of attracting pious and religious customers who might only be concerned about the Islamicity of financial products. The important insights identified in the ranking of various banking selection criteria implies the need for Islamic banks to enhance their service quality which is now considered a critical success factor that affects an organisation's competitiveness.

Baba and Amin (2009) studied the perceptions of predominantly non-Muslim offshore bankers in Labuan, and found that the Labuan offshore bankers did not have a clear idea of Islamic banking principles and practices. The finding was similar to that of Ahmad and Haron (2002) that Islamic banking products and services were not popular among the non-Muslims. The study revealed that the offshore bankers had three major concerns. Firstly, Islamic banking makes lending structures complicated, secondly Islamic banking turns banks into non-voting equity holders, and thirdly, Islamic banking makes risk mitigation complicated. However, the finding also indicated that offshore bankers were willing to be trained in Islamic banking skills and to participate in future Islamic banking deals.

Mahamad and Tahir (2010) studied the perceptions of non-Muslims in Kuala Terengganu towards Islamic banking, and found that non-Muslims had limited knowledge of Islamic banking. The finding concurs with Baba and Amin (2009), and Ahmad and Haron (2002) that Islamic banking products and services were not popular among the non-Muslims. The study also revealed that most non-Muslim respondents were not confident that Islamic banks could compete with conventional banks.

Research Methodology

Instrument

The data were collected through self-administered questionnaires from respondents in Kuching, Sarawak. The questionnaires comprised of two sections: the first section gathered information on the respondents' personal, demographic and economic characteristics. In the second section the respondents were asked to indicate, on a five-point Likert-type scale, ranging from "strongly disagree" to "strongly agree," the factors they perceived about Islamic banking. Most of these factors were adapted from previous Islamic banking studies (Haron, Ahmad & Planisek (1994); Baba and Amin, 2009).

Data collection

Respondents were selected from public places in Kuching such as shopping malls, fast food outlets and banks. They were politely approached, and the purpose of the study was explained. Then they were asked if they would be prepared to fill in the questionnaires. Once they agreed to participate, the researcher then handed over the designated questionnaires to the participating respondents to be answered. The researcher then left the respondents alone to answer the questionnaires and did not interfere in any way, to avoid any potential bias such as the respondents feeling intimidated, threatened or being influenced by the researcher.

Sample and data analysis

A total of 500 questionnaires were distributed, 400 were returned out of which 350 were usable yielding a response rate of about 70 percent. This relatively high response rate was attributed to the self administered technique employed in distributing the questionnaires, and approaching respondents at various places. The descriptive statistics were the main statistical tools – frequency counts.

Analysis of the Results

Profile of respondents

As depicted Table 1, the majority of the respondents were Sarawak Indigenous people (61.8%). Chinese made up 26.2% and Indians 12%. A large group of respondents were from the 15-24 age group (75.1%) followed by the 25-34 age group (17.4%). In terms of religion, the majority of respondents were Christians (65.1%), followed by Buddhists (22.3%). As for education, 49.1% held Bachelor degrees and higher, and 38.9% held diplomas or had completed Sijil Tinggi Persekolahan Malaysia (STPM).

Table 1: Respondents demographic profile

Descriptions	Frequency	Percentage
Ethnicity		
Sarawak Indigenous	216	61.8
Chinese	92	26.2
Indian	42	12.0
Age		
15-24	263	75.1
25-34	61	17.4
35-44	14	4.0
45-54	12	3.4
Religion		
Hindu	42	12.0
Christian	228	65.1
Buddhist	78	22.3
Others	2	0.6
Education level		
LCE/SPR/PMR	5	1.4
MCE/SPM/SPMV	37	10.6
STPM/Diploma	136	38.9
Bachelor Degree or higher	172	49.1

Knowledge of Islamic banking

As depicted in Table 2, an overwhelming majority (82.3%) disagreed with the statement that "Islamic bank is for Muslim customers only". As regards to the reputation of Islamic banks, 74.6% agreed that Islamic banks had good reputations, and another 74.6% expressed their willingness to patronise Islamic banks if they understood how the banks operated. This finding concurs with that of Haron *et al.* (1994), and Baba and Amin (2009).

Table 2: Knowledge of Islamic banking

	Strongly agree	Agree	Disagree	Strongly disagree
Islamic bank is for Muslim customers only	(20) 5.7%	(42) 12.0%	(173) 49.4%	(115) 32.9%
Islamic banks have good reputation	(59) 16.9%	(202) 57.7%	(79) 22.6%	(10) 2.9%
I would patronise Islamic bank if I understand how it operates.	(45) 12.9%	(216) 61.7%	(81) 23.1%	(8) 2.3%

Confidence in Islamic Banking

As depicted in Table 3, 70.2% of the respondents believed that savings in Islamic banks were more secure than those in conventional banks, and 69.4% were of the perception that investments in Islamic banks were less risky than those in conventional banks. As for the ability of Islamic banks to compete with conventional banks, 76.8% of the respondents were of the opinion that Islamic banks could compete with conventional banks. This finding contradicts that of Mahamad and Tahir (2010) where non-Muslims respondents did not have the confidence that Islamic banks had the ability to compete with conventional banks. A plausible explanation for this could be in the youth of the respondents, 75.1% of whom are between 15 - 24 years old, and some probably don't even have saving accounts with any bank. Whereas in the Mahamad and Tahir (2010) study the respondents were matured and seasoned businessmen who had a lot of experiences in dealing with different kinds of banks.

Table 3: Confidence in Islamic Banking

	Strongly agree	Agree	Disagree	Strongly disagree
Saving in Islamic bank are more secured than conventional bank	(46) 13.1%	(200) 57.1%	(96) 27.4%	(8) 2.3%
Investment in Islamic bank is less risky than conventional banks	(47) 13.4%	(196) 56.0%	(102) 29.1%	(5) 1.4%
Islamic banks can compete with conventional banks	(53) 15.1%	(216) 61.7%	(73) 20.9%	(8) 2.3%

Islamic banking products and services

As depicted in Table 4, the majority (72.8%) agreed that Islamic banks provided fast and efficient services, and an overwhelming 82% also agreed that Islamic banks staff were polite and friendly. On the variety of products and services, 77.1% agreed that Islamic banks provided a variety of products and services.

Table 4: Islamic banking products and services

	Strongly agree	Agree	Disagree	Strongly disagree
Islamic banks provide fast and efficient services	(48) 13.7%	(207) 59.1%	(67) 19.1%	(28) 8%
Islamic banks staff are polite and friendly	(74) 21.1%	(213) 60.9%	(53) 15.1%	(10) 2.9%
Islamic bank provides a variety of products and services	(61) 17.4%	(209) 59.7%	(67) 19.1%	(13) 3.7%

CONCLUSION

The purpose of this study was to determine non-Muslims' awareness towards Islamic banking in the predominantly non-Muslim state of Sarawak. The most significant fact revealed by this study is that non-Muslims in Kuching are well-versed with Islamic banking. The study also revealed that non-Muslims are willing to patronise Islamic banks, and they believe Islamic banks offer quality products and services. Another interesting finding is that non-Muslims are confident that Islamic banks could compete with the conventional banks. As with all empirical work this study has several limitations that warrant mentioning. First the study employed the convenience sampling method that might have biased the study result. Another limitation is that the study has drawn from a relatively small sample of young people in Kuching only, therefore limiting the generalisability of the findings to other geographical areas and contexts. Nevertheless, the implications of this study is that Islamic banking has the potential to be marketed to customers beyond those who are concerned with compliance with Islamic *Shariah*, especially the younger generation in Sarawak.

References

Ahmad, N., & Haron, S. (2002). The potentiality of Islamic products and services in fulfilling corporate customers' banking requirements, paper presented to The 1st International Conference on Islamic Banking, Finance & Insurance, Labuan 30-31 Jan.

Ali, A. (2009) Impact of the Global Financial and Economic Crisis on the IDB Member Countries: IDB Group response to the Crisis. *Economic Cooperation and Development Review*, 2(2), September 2009, pp.10-24.

Baba, R., & Amin, H. (2009). Offshore bankers' perceptions on Islamic banking niche for Labuan: An analysis. *International Journal of Commerce and Management*, 9(4), 293-308.

Bank Negara Malaysia (2012), List of Licensed Financial Institutions: Islamic Banks [Online, accessed 26 August 2012]. http://www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0

Bank Negara Malaysia (2012), Overview of Islamic Finance in Malaysia [Online, accessed 26 August 2012]. http://www.bnm.gov.my/index.php?ch=fs_mfs&pg=fs_mfs_bank&lang=en

Department of Statistics, Malaysia (2010). *Population and Housing Census of Malaysia, 2010* [Online, accessed 28 August 2012 http://www.statistics.gov.my/portal/download_Population/files/population/05Jadual_Mukim_negeri/Mukim_Sarawak.pdf

Dusuki, A., & Abdullah, I. (2007). Why do Malaysian customers patronise Islamic banks? *International Journal of Bank Marketing*, 25(3), 142-60.

Gulf One Investment Bank (2008). Islamic Finance: opportunities and challenges. *Gulf One Investment Bank Bulletin*, 1(12), December 2008.

Haron, S. Ahmad, N., & Planisek, S. (1994). Bank patronage factors of Muslims and non-Muslims customers. *International Journal of Bank Marketing*, 12(1), 32-40.

Hassan, M., & Ahmed, M. (2002). Islamic banking versus conventional banking: a questionnaire survey of their apparent similarities and differences. Seminar proceedings, *The 1st International Conference on Islamic Banking, Finance & Insurance*, Labuan 30-31 Janunary 2002 .

Khan, Z. (2000). *Islamic banking and its operations*, Institute of Islamic Banking and Insurance, London.

Lewis, M., & Algaoud, L. (2001). *Islamic banking*. Cheltenham: Edward Elgar.

Mahamad, M. & Tahir, I. (2010), Persepsi pelanggan bukan Islam terhadap perbankan Islam: Satu kajian rintis. *Jurnal Kemanusian*, (16), 44-60.

Social Networks and Directors Remuneration Determination: Malaysian Evidence

Rashidah Abdul Rahman and Wan Mohammad Taufik Wan Abdullah
Accounting Research Institute, Universiti Teknologi MARA

INTRODUCTION

Social network theory contends that humans' preferences and decisions are influenced by the acts of others. In the corporate setting, a significant effect of social networking among Boards of Directors (BODs) is that the relationship between directors may impair independence and affect behaviour. As stated by Granovetter (2005), social networks affect economic results based on the premise that information flow and quality act as a vital basis for reward and punishment. They also build up trust that others will do the "right" thing despite a clear balance of evidence to the contrary. The focus of this study is to examine whether social networks reveal an association between executive and non-executive directors' remuneration. The question of how much companies should pay their directors is not an easy task. Identifying a better understanding of directors' remuneration in Malaysia would provide an insight to the interested parties of the firm in evaluating the reasonableness of existing directors' compensation packages as the Malaysian Code of Corporate Governance (MCCG, 2000 and 2007) provides that "levels of remuneration should be sufficient to attract and retain the directors to run the company successfully".

In Malaysia, the justification for embarking on further research on social networks is motivated by what Gomez and Jomo (1999) and Johnson and Mitton (2003) have stated in their studies. They mention that the scenario of politically connected firms in Malaysia is rather unique compared to similar firms in capital markets around the world due to their diverse ethnic ownership and due to the fact that these firms were created to ensure a fair distribution of corporate wealth among the major ethnic groups. In another study, Gomez (2002) argues that the multi-faceted relationship between business and politics in East Asia (including Malaysia) indicates that "relationship based" or "cronyrelated motives" rather than "market-based" capitalism also play an important role. A significant aspect of this study addresses the role of political connections as a determinant of directors' remuneration in Malaysian firms.

In a nutshell, the current study aims to minimise some of the unsupported rhetoric in academic literature and practitioner discussions on directors' remuneration. This study does not aim to resolve all of these controversies, but instead tries to reveal how the social networks can influence the determination of directors' remuneration.

The next section provides the literature review and hypotheses development, followed by research methods in Section 3. The results are discussed in Section 4, and Section 5 outlines the conclusion of the study.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory commends that BODs are formed to monitor managers in the absence of the principals. Shareholders and stakeholders insist on the importance of having independent directors, but who they appoint remains doubtful. Meanwhile, resource dependence theory suggests that new board members will be attracted using rational characteristics as a basis to increase the diversity in the boardroom which leads to a selection of directors that provides complementary resources to business organisations (Hillman and Dalzie, 2003). On the other hand, social network theory suggests that existing connections and networks as well as experience from multiple directorships influence the behaviour of the independent directors.

In addition to that, Kirchmaier and Kollo (2006) argued that titles are an indicator of the unobservable prestige of outside directors. They empirically identified a positive association between titles and a director's expertise. Directors in the U.K. may carry titles in their names including 'Sir', 'Lord', 'The Rt. Honourable' and 'Professor. Similarly, in Malaysia, directors and Chief Executive Officers (CEOs) carry titles like 'Tun', 'Tan Sri', 'Datuk Seri' and 'Datuk' that portray their own reputation and reflect their recognised achievements. They are basically awarded for outstanding achievements or exceptional service to the community and therefore act as public signals of directors' reputations that can enhance public confidence.

Kirchmaier and Kollo (2006) observed that prestige facilitates directors to obtain multiple directorships. For this study, prestige power is measured by the outside directors' titles and the education level of an executive is considered as well. The unique features of Malaysia also advocate that political power (political connections) might be an additional important dimension that influences the determination of a director's remuneration. A unique feature in Malaysia is the close links of many large conglomerates to the government[1]. Many large corporations with substantial loans provided by the state are usually owned by the state and non-performing as a result of the 2007 financial crisis. The results of prior studies indicate that politically connected firms in Malaysia are favoured by the government. Thus, it is hypothesised that the social network elements independent directors[2], interlocked boards, prestige and political connection) are significantly related to directors' remuneration.

This leads to the hypotheses that social network elements are associated with a) directors' total remuneration which is equal to the total of short-term directors' remuneration and long-term directors' remuneration, b) short term directors' remuneration that is the total executive and non-executive directors' pay which include salary, fees, allowances, benefits and bonuses and c) long term directors' remuneration which include the share or stock option grants offered to the directors.

SAMPLE & MEASUREMENT

The data used for this sample is obtained from the annual reports of Malaysian public listed companies in the Bursa Malaysia database[3] and the reports of the General Elections 1999, 2004 and 2008. It is chosen as the data source for this study because of the reason that it provides the complete collections of public listed companies' annual reports. This is consistent with the major concern of the present study that examines directors' profiles and looks at the disclosure of directors' remuneration. Based on stratified random sampling, the panel data set for this study consists of 221 companies for a five-year period from 2006-2010.

The directors are considered politically connected if they are politicians or ex-politicians at the Federal/State government level or ministers or any other top appointed bureaucrats, and/or current prominent government officers. This is consistent with the studies done by Jaafar, Abdul Shukor and Md Nor (2010) which are also supported by earlier studies by Fan et al. (2007) and Faccio (2006). Directors' prestige is measured by the number of directors on the Board that have titles awarded by the Malaysian government such as Tun, Tan Sri, Dato' Seri, Dato' and/or the number of Professors or Doctorates (PHD holders). They are accolades and act as public signals of directors' reputations and prestige (Kirchmaier and Kollo, 2006). The short-term pay is measured as the executive director's total remuneration which consists of salary, fees and allowances, benefits and bonuses whereas the non-executive director's remuneration consists only of fees and allowances, benefits and bonuses. The long-term pay is measured as the value of stock options granted to and exercised by executives.

FINDINGS AND DISCUSSION

Descriptive Statistics

As shown in Table 1, the descriptive statistics of the social networks elements show that the average percentages of independent directors and non-independent directors that make up the composition of outside directors are 45.2% and 38.5% respectively. Apart from that, the average

1 The rise of these politically linked firms is the result of the New Economic Policy Plan introduced in 1970 with the objective of achieving economic parity for the Bumiputras.
2 The appointment of the majority of non-executive independent directors of Malaysian PLCs was based on personal contacts, either with the Chairman or with the CEO (PricewaterhouseCoopers and KLSE, 2002).
3 Accessed from http://www.bursamalaysia.com.my/website/bm/listed_companies/annual reports/

portion of executive directors in the composition of the board is 35%. On average, the mean for the interlocked boards is 3.4 meaning most of the directors are holding within 3 to 4 positions at one time in different companies. Meanwhile, the mean for the number of directors who are politically connected is 2.9. The other variable in the directors' prestige gives an average of 40.9% indicating that there are about 40.9% of directors who have specific titles awarded by the government such as Tan Sri and Dato' Seri which also include titles that reflect the highest academic achievements like Professor, Associate Professor and Doctor of Philosophy. Besides, the description of the dependent variables in the remuneration of directors indicates that the average for the amount of long-term pay paid by the companies to directors is RM629,114, while the short-term pay is RM1,935,100. It also indicates that the average level of directors' total remuneration within the sample is RM2,562,500.

Independent Variables (IV)	**Denotation**	**Mean**
Independent Directors	INEDs	0.45
Non-Independent Directors	NON INEDs	0.38
Executive Directors	EDs	0.35
Interlocked Boards	IB	3.43
Political Connection	PC	2.94
Directors' Prestige	DP	0.41
Dependent Variables (DV)		
Long-Term Pay (RM)	LTP	629,114
Short-Term Pay (RM)	STP	1,935,100
Total Directors' Remuneration (RM)	TDR	2,562,500

Table 1: Overall Descriptive Statistics for the Period under Study 2006 - 2010

Table 2 depicts that there is no significant change in the pattern of the INED from 2006 to 2008. However, the average slightly increased from 2008 to 2010 from 44.92% to 47.05% respectively. On the other hand, the pattern of NON-INED kept on decreasing from 2006 to 2010 from 40.04% to 37.3%. This indicates that most of the companies were aware of the importance of having independent directors as suggested by the Malaysian Code of Corporate Governance (MCCG, 2000 and 2007), which states that by having more independent directors, it will enhance the monitoring function of the Board. As far as EDs are concerned, the trend shows that there is no significant change in the percentage of EDs in the board composition among the companies selected in the sample.

Year / **Variables**	**Mean**				
	2006	**2007**	**2008**	**2009**	**2010**
INEDs	0.4324	0.4454	0.4492	0.4600	0.4705
NON INEDs	0.4004	0.3874	0.3868	0.3771	0.3730
EDs	0.3654	0.3571	0.3565	0.3385	0.3318
IB	3.5876	2.7573	5.1622	2.8313	2.7914
PC	3.2764	2.7939	2.7996	2.7478	3.0746
DP	0.4019	0.3895	0.2637	0.2643	0.4214
LTP	958,520	552,844	465,433	502,952	665,972
STP	1,620,900	1,830,000	2,024,300	1,993,700	2,197,900
TDR	2,579,400	2,382,800	2,489,700	2,496,700	2,863,800

Table 2: Yearly Descriptive Statistics for the Period under Study 2006 - 2010

The trend of interlocked boards (IB) shows a fluctuation in the number of IB practices by the directors. The average of IB in 2006 was 3.58, and then it decreased slightly to 2.76 in 2007. However, it increased significantly to 5.16 in 2008. Nevertheless, the trend is again reduced to 2.83 and 2.79 in 2009 and 2010 respectively. It shows that most of the directors in the sampled companies were very busy and tended to have less focus on their responsibilities in 2008 when they had more interlocking directorships at one time.

The trend of political connections (PC) among the directors is also mixed. In 2006, the average of the directors who were involved in politics was 3.28, and this reduced slightly in 2007 to 2.79 and marginally increased to 2.80 in 2008. However, it was again on the downward trend in 2009 to 2.75 which might be reflective of the transitional period where there was a change in Prime Ministers from Tun Abdullah Ahmad Badawi to Datuk Seri Najib Tun Razak and consequent results show an increase of the number of political connections to 3.07 in 2010.

The average percentage of directors' prestige (DP) in 2006 was 40%, but then it marginally reduced in 2007 to 39%, but significantly dropped to 26% in 2008 and started to hike again in 2009 and finally reached 42%. It indicates that there was a significant increase in the number of directors who had prestige, like having honorary titles awarded by the government and also titles that reflected their highest academic achievement such as Professor, Associate Professor and Doctor of Philosophy. This shows that most of the companies were looking for directors who had prestige since this reflected their recognised achievements or exceptional and outstanding accolades.

As for the pattern of directors' remuneration, it shows that the trend is moving downward in the long-term pay in contrast to the short-term pay which shows an upward trend. The downward trend of the long-term pay from the year 2006 to 2008 might be due to the effect of the financial crisis that started in 2007 and ended in the late 2008. It signals that most of the companies were suffering from the financial problems that affected their capabilities to offer good long-term pay schemes to most of the directors. However, the trend showed an upward pattern starting from 2009 to 2010 which indicates that most of the companies revised their long-term pay packages to motivate the board members to be more committed and dedicated in helping the companies to recover from the financial crisis. The share-options granted to the directors may have created the sense of belonging to them that finally motivated them to work harder to improve the companies' performance.

The trend of the short-term pay packages for 2006 to 2008 showed that short-term pays kept on increasing even though the companies were suffering from the effects of the economic downturn in 2008. This might be because the companies could still afford to pay cash compensation to the board members by utilising the funds available from their retained earnings from prior financial years. From the other aspect, it might also be similar to that in the US where most directors were resistant to downward revisions regardless of the economic downturn. However, as indicated by the results for 2009, the mean for the short-term pay was slightly reduced which signalled that the companies had to revise the short-term pay for the year due to the effect of the 2008 business performance. The mean for the short-term pay for 2010 was again increased which shows that most of the companies were experiencing very good recovery from the economic downturn.

The trend for the total directors' remuneration shows the same pattern as what is shown by the short-term pay. Thus, it can be concluded that most of the companies keep on revising the remuneration scheme for directors to ensure that the remuneration paid is sufficient to attract and retain the directors needed to run the company successfully (MCCG, 2007 and 2007). This also indicates that the main contribution to the level of total directors' remuneration comes from the short-term pay rather than the long-term pay packages. Directors should be adequately compensated for the risks and responsibilities they assume.

Multiple Regression Analysis

Regression is a statistical technique to explain the relationship between a dependent variable and one or more independent variables in a mathematical order. The following regression models are constructed:

Model 1:

$$STP = \beta 1\ [INEDs] + \beta 2\ [Non\ INEDs] + \beta 3\ [EDs] + \beta 4\ [IB] + \beta 5\ [PC] + \beta 6\ [DP] + \varepsilon$$

Model 2:

$$LTP = \beta 1\ [INEDs] + \beta 2\ [Non\ INEDs] + \beta 3\ [EDs] + \beta 4\ [IB] + \beta 5\ [PC] + \beta 6\ [DP] + \varepsilon$$

Model 3:

$$TDR = \beta 1\ [INEDs] + \beta 2\ [Non\ INEDs] + \beta 3\ [EDs] + \beta 4\ [IB] + \beta 5\ [PC] + \beta 6\ [DP] + \varepsilon$$

STP	:	Short-Term Pay
LTP	:	Long-Term Pay
TDR	:	Total Directors Remuneration
$\beta 1$to $\beta 6$	:	Variable coefficients
INEDs	:	Independent Non Executive Directors
Non INEDs	:	Non-Independent Non Executive Directors
EDs	:	Executive Directors
IB	:	Interlocked Boards
PC	:	Political Connection
DP	:	Directors' Prestige
ε	:	Error variable

The correlation coefficients, R-Squared and adjusted R-Squared are displayed in Table 3. A value of R-Square close to one indicates that the model fits the data well. The R-Squared of 0.118 indicates that the -INEDs, EDs, PC, and DP can only explain about 11.8% of the total variation of STP. However, the ANOVA results display that the multiple regression model 1 is significant (F = 18.354, p-value = 0.000 < 0.05). It is interpreted that, though the model is fit, the relationship between the independent variables of social network elements with the dependent variable of STP is found to be very weak. It indicates that though the relationship exists, the influence of social network elements in designing the short-term pay package for directors is not material. This might be due to the effective monitoring of the independent directors in the Remuneration Committee who work in designing the package. In corporate governance, the monitoring is always emphasised. Thus, the formation of Remuneration Committee within the boardroom is to ensure the objectivity and reasonableness of the remuneration scheme offered to the directors.

Table 4 depicts the regression model 2 coefficient results. The R-Squared of 0.0788 indicates that the Non-INEDs, EDs, and DP can only explain about 7.9% of the total variation of LTP. Nevertheless, the ANOVA results display that the multiple regression model 2 is significant (F = 11.595, p-value = 0.000 < 0.05). This shows that the relationship between the independent variables of social network elements with the dependent variable of LTP is found to be weaker than what is found for the first model. It also shows that the social networks of directors do not have any significant effect on the process of designing the long-term pay packages. Thus, this study shows that the monitoring function of the INEDs in designing the long-term pay for directors is extremely effective. This is consistent with the arguments of the resource-dependency theory that highlights the importance of the selection of independent board members to enhance the monitoring function. Additionally, this is also aligned with the agency theory that insists on the importance of the BODs' role to monitor, supervise and control the agents in the absence of the principals. When the monitoring is effectively implemented, it will convey the complimentary resources to the companies in the sense that the process of designing the directors' remuneration will not be significantly affected by the social networks elements.

All Years	Beta	t	Sig.
(Constant)		- 2.589	.010
Independent Director	- .002	- .054	.957
Non - Independent Director	.163	4.615	.000
Executive Director	.279	8.344	.000
Interlock Director	.009	.314	.753
Political Connection	- .275	- 4.507	.000
Director Prestige	.206	6.556	.000
Model Summary			
R - Squared	0.118		
Adjusted R - Squared	0.112		
F - Statistics	18.354		
p - value	0.000		

Table 3: Regression Model 1 Coefficients Results

All Years	Beta	t	Sig.
(Constant)		- 3.22	.001
Independent Director	.024	.682	.496
Non - Independent Director	.111	3.077	.002
Executive Director	.246	7.196	.000
Interlock Director	.013	.461	.645
Political Connection	- .072	- 1.158	.247
Director Prestige	.189	5.901	.000
Model Summary			
R - Squared	0.078		
Adjusted R - Squared	0.071		
F - Statistics	11.595		
p - value	0.000		

Table 4: Regression Model 2 Coefficients Results

Finally, Table 5 shows the regression model 3 coefficient results. It indicates that the R-Squared is only 0.15 which means that the influence of the Non-INEDs, EDs, PC and DP towards the total variation of LTP is only 15%. Even so, the ANOVA results show that the multiple regression model 3 is still significant (F = 24.053, p-value = 0.000 < 0.05). Hence, though the model is fit, the relationship between the independent variables of social network elements and the dependent variable of TDR is still found to be weak but seems to have stronger influence than in Models 1 and 2. This might be due to the combined effects of the two previous models. Hence, hypothesis H1 is accepted since the relationship between the social elements and total directors' remuneration is found to be significant. Based on the analysis, the study finds that the argument of the resource-dependency theory is applicable in the sense that the independent directors are responsible for initiating and maintaining control over relationships, assets and contacts with the other external business networks.

All Years	Beta	t	Sig.
(Constant)		- 3.765	.000
Independent Director	.013	.391	.696
Non - Independent Director	.174	5.015	.000
Executive Director	.333	10.118	.000
Interlock Director	.014	.502	.616
Political Connection	- .224	- 3.729	.000
Director Prestige	.250	8.112	.000
Model Summary			
R - Squared	0.15		
Adjusted R - Squared	0.143		
F - Statistics	24.053		
p - value	0.000		

Table 5: Regression Model 3 Coefficients Results

Apart from the effective monitoring by the Remuneration Committee in designing the pay packages for directors, another possible factor that might be taken into consideration is institutional investors' and shareholders' participation in passing resolutions on directors' pays during annual general meetings (AGM). Institutional investors play an important role in corporate governance by exercising their rights to elect directors, reducing agency problems and also voting for the directors' remuneration resolution during the AGM. This is consistent with the managerial power theory's argument which states that the gap between executive pay and firm performance is the power imbalance between executives and shareholders. This is strongly supported by Monks and Minow (2004) who state that shareholders can withhold votes for directors who a) do not attend meetings, b) serve on committees that approve bad compensation schemes, or c) have conflicts of interest. This has to be explored further in future studies.

CONCLUSION

In a nutshell, previous studies examining the relationship between corporate governance and directors' remuneration were inconclusive and provided conflicting results. This paper shows that there is an association between corporate governance and directors' remuneration in Malaysia focusing on financial and non-financial industries. The study also indicates a relationship between several social network elements like non-independent directors, non-executive directors, executive directors, political connections, and directors' prestige on the short-term pays. However, the effects of these elements are controlled by having very effective monitoring by the independent directors since they are people whose only nontrivial professional, familial, or financial connection to the organisation, its chairman, CEO or any other executive officer is his or her directorship. Apart from that, the study also found that the non-independent directors, independent directors, executive directors, and directors' prestige are associated with long-term pays. Lastly, the results also indicate that there is a significant relationship between non-independent directors, non-executive directors, executive directors, political connections, and directors' prestige and directors' total remuneration.

The determination of executive compensation has become an important issue among academics and managements. A central theme in the debate is whether a director's pay is adequately tied to measures of corporate performance and BODs' performance. Much of the evidence gathered indicates that a link between pay and firms' performance can be established (Abdul Rahman and Mohamed Yoosuf, 2005; Abdul Rahman and Mohamed Zawawi, 2005; and Ibrahim et al. 2005). One reform is to link a director's remuneration to the director's own performance. That is, an increase in salary should correlate with the executive director's performance. The Financial Institutions Directors' Education (FIDE) programme has launched a report entitled Performance Pays – A study of Financial Institutions Directors Remuneration in June 2010. This programme was developed by Bank Negara Malaysia (BNM) and Perbadanan Insurans Deposit Malaysia (PIDM) to enhance the link between Financial Institutions' (FIs) BODs' performance and their remunerations. Thus, public non-financial listed companies also need to develop well-designed directors' remuneration packages by considering influencing factors like social networks and firm performance which should be considered in the future studies.

However, this study has a number of limitations that should be noted and thus provide an opportunity for further research. Firstly, this study focuses on Malaysian Public Listed Companies including financial institutions which results in different findings when compared to other countries. Secondly, similar to the caveat expressed in the FIDE's report, future research should investigate the effectiveness of the programme in looking at the linkage between directors' remuneration and directors' own performance. In addition, this study does not look at the market-based criteria to measure firm performance as an influencing factor that may influence the determination of directors' remuneration. Thus, future research should consider market-based criteria and include the effect of the Global Financial Crisis that began in 2008 on firm performance in Malaysia. Furthermore, future studies should also measure the interlocked board by using different measurements instead of looking at the number of interlocking per director per se. Finally, the shareholders' actions are also another potential element that may affect the design of the pay package that needs to be considered in future studies.

References

Abdul Rahman, R. and Mohamad Yoosuf, H. M., (2005). "Executive Directors Remuneration, Company's Performance and Board Structure", A Working Paper at the Faculty of Accountancy, Universiti Teknologi MARA, Shah Alam, Malaysia.

Abdul Rahman, R. and Mohamed Zawawi, S. N. H. (2005). "Is there a Relationship between Directors Remuneration and Firm performance", International Journal of Board, Role, Duties & Composition, Vol. 1, Issue 2, 2005, 39-48.

Basel Committee on Banking Supervision (2005). "International Convergence of Capital Measurement and Capital Standards, A Revised Framework".

Cooper, E. W. (2009), "Monitoring and Governance of Private Banks", The Quarterly Review of Economics and Finance, 49, 253-264.

De Anderas, P. and Vallelado, E. (2008). "Corporate Governance in Banking: The Role of the board of directors", Journal of Banking and Finance, 32, 2570 – 2580.

Finkelstein, S. (1992). "Power in Top Management Teams: Dimensions, Measurement, and Validation", Academy of Management Journal, 35, 505-538.

Gomez, E. T. (2002). "Political Business in Malaysia. In: L. Gomez (Ed.), Political Business in East Asia, London, Routledge.

Gomez, E. T., & Jommo, K. S. (1999). "Malaysia's Political Economy: Politics, Patronage and Profits", New York, Cambridge University Press, Second Edition.

Granovetter, M., (2005). "The Impact of Social Structure on Economic Outcomes", Journal of Economic Perspectives, 19, 33-50.

Gujarati, D. (Editor), 1995, "Basic Econometrics", McGraw Hill, New York.

Hillman, Amy J. and Dalzie, T., (2003). "Boards of Directors and Firm Performance: Integrating agency and Resource Dependence Perspectives", The Academy of Management Review, 28, 3, 383.

Ibrahim, MuhdKamil, Ibrahim, Norhazlina, Kamarudin, KhairulAnuar and Wan Ismail, Wan Adibah (2005). “Determinants od Directors’ Remuneration: Malaysian Evidence”, Social and Management Research Journal, Vol. 2, No. 1.

Johnson, S., & Mitton, T. (2003). “Cronyism and Capital Controls: Evidence from Malaysia”, Journal of Financial Economics 67-2, 351-382.

Kirchmaier, T. and Kollo, M. G. (2006). “The Role of Prestige and Networks in Outside Director Appointment”, Discussion Paper 582.

Malaysian Code of Corporate Governance (2000, Revised 2007), Malayan Law Journal Sdn. Bhd., Malaysia.

Mulber, P.O. (2009), “Corporate Governance of Banks”, Journal of Financial regulation and Compliance, 14(4), 375-382.

The Financial Institutions Directors’ Education (FIDE) Report (2010). “Performance Pays – A study of Financial Institutions Directors Remuneration”.

Sahut, J.M. and Bouleme, S. (2010), “Flaws in Banking Governance”, International Journal of Business, 15(3), 319-332.

The Five Major Organisational Attributes that Motivate Generation Y to Stay the Banking Industry

Ricardo Baba* and Paul Sliong**

ABSTRACT

Purpose – This paper examines the organisational attributes that motivate Generation Y (Gen Yers) to stay in the Malaysian banking industry. It discusses the challenges faced by banks in retaining this new breed of employees.

Design/methodology/approach – The paper presents primary data collected by self-administered questionnaires involving a sample of 80 respondents from Kuala Lumpur, Petaling Jaya and Miri. The data is analysed using descriptive statistics.

Findings – The study reveals that the five most important organisational attributes are: "sensible company rules, regulations, procedures and policies", "a friendly and informal culture", "job security and responsibility", "a highly prestigious employer with good reputation" and "pure meritocracy."

Practical implications – The empirical evidence of this paper enhances Managers' and Human Resource personnel's understanding of Gen Yers attitudes towards the banking industry. Such knowledge would help banks to reap the best from this group of employees and gain a competitive edge to stay ahead of the fast changing industry.

Originality/value – The paper reports findings from the first study in Malaysia on Gen Yers in the banking industry.

Keywords: Banking, Generation Y, organisation attributes, work attitudes

INTRODUCTION

The Malaysian banking industry is moving into a more competitive environment where banks are offering a greater variety of financial products and services. Banks develop differentiated strategies in order to create a niche and to stay ahead of the competition. A strategy such as service differentiation is the key to building a strong competitive position in today's competitive environment. Banks with a limited number of branches develop young mobile sales personnel, mainly Gen Yers, instead of purely depending on extra physical branches to reach out to the market.

A current challenge that has caught nearly every organisation off guard today is Gen Yers, and organisations have to try new methods and skills to attract, motivate and more importantly, retain Gen Yers (Yoga, 2010). A global study shows that 61% of CEOs have enormous difficulty in attracting and retaining them (Twenge and Campbell, 2008). Gen Yers look at the concept of a career differently, and generally have a reduced sense of urgency in forging a career path. They want to live more than work (Van Geyzel, 2009). Salary and status are not high on their priority list as their parents provide free lodging, pay for their car installments, and education loan repayments (Van Geyzel 2009, Weyland 2011). The Malaysian Gen Yers represents 34% of Malaysia's workforce (Ranstad, 2012), like their counterparts in the rest of the world they do not want to be patronised (PwC 2009). Job longevity is not an important consideration for the Malaysian Gen Yers (Kelly Services, 2012).

Ahmad and Bakar (2003) observe that voluntary turnover is a major problem for companies in Malaysia. For the Malaysia banking sector job-hopping has become rampant, with an annual average turnover rate of 12.12% for the period between June 2010 and July 2011 (Goh, 2012).

---

* Associate Professor, Faculty of Economics and Business, Universiti Malaysia Sarawak, and Ex-GM, Raiffeisen-Boerenleenbank, Labuan

** Ex-Manager, Citigroup Sales

Literature review

The Banking Industry in Malaysia

The Malaysian banking industry has been operating in a relatively stable environment for decades. However, today the industry is facing drastic changes due to aggressive competition in a newly deregulated environment. Competitive pressures and demand on capital for sustainable growth have intensified.

The Asian Financial Crisis in 1997 proved to be the impetus needed to consolidate the banking industry. Waves of mergers and acquisitions (M&As) were carried out as the Malaysian government learnt of the vulnerability of local financial institutions to exogenous factors and this has increased the process of consolidation in the Malaysian banking sector (Shanmugam, 2003). The result is the formation of 10 anchor banks from a total of 54 financial institutions at the end of 2001. Factors such as globalisation, liberalisation and information technology developments have contributed to the need for more competitive, resilient and robust financial systems in Malaysia.

M&A activities have resulted in a big impact on the structure of the Malaysian banking industry. According to Shanmugam (2003), Bank Negara Malaysia (BNM) decided to force banks to merge. On 29 July 1999, BNM announced that there should only be 6 banks in Malaysia and these were termed as 'anchor' banks such as: Maybank, Bumiputra Commerce Bank, Public Bank, Perwira Affin Bank and Southern Bank. However, following much pressure and lobbying, the Malaysian government decided to increase 'anchor' banks from six to ten in February 2000. M&As continued and ongoing exercises were determined by market forces, for example, the acquisition of Southern Bank by CIMB Bank Berhad in March year 2006. Hence, anchor banks were reduced from ten to nine. With the recent acquisition of EON Bank Berhad by Hong Leong Bank Berhad, the number was further reduced from nine to eight anchor banks.

Generation Y (Born Between 1980 and 2000)

While the details of the Greatest Generation, Boomers, and Gen X are fairly well developed, the characteristics of the newest members of the workforce, Gen Yers are less clear with a lot of confusion over how to best describe them. This is illustrated by the number of monikers that have been used to label them, including: Generation Why; the Millennial Generation; the MySpace Generation; the Nexters; the Internet Generations; and the Greater Generation (Sullivan *et al.*, 2009). While the exact birth years that make up Gen Y are not defined, the general measure is those born in and after 1980 (O'Connor, 2009).

Gen Yers have grown up with technology and are used to having technology as a large part of their lives (Wong, Gardiner, Lang and Coulon, 2008). They are also considered to be the most technologically adept (Sullivan *et al.*, 2009) and are much more likely to have a Facebook or MySpace page, to bring their iPods to work and text messages to their friends (Twenge and Campbell, 2008). They are technologically savvy and highly creative (Weyland, 2011) and their technology centred world has strongly influenced how they communicate. They use technology that they can control and which can be accessed when it suits them (e.g., the use of texts). Thus, Gen Yers are master networkers who can spread the word, whether it is positive or negative, at a speed faster than most of us can imagine.

Gen Yers are also known as the 'misunderstood generation' and a major global study shows that 61% of CEOs have enormous difficulty in attracting and retaining them. Gen Yers demonstrate higher self-esteem, narcissism, anxiety and depression, and have a lower need for social approval (Twenge and Campbell, 2008). Millennials are as socially active as Boomers were in their day – confident, team-oriented and used to having structure in their lives (Jayson, 2006). They are seen to be comfortable with change and are less likely to see job security as an important factor (Hart, 2006). Salary and status are not high on their priority list as their parents' financial support will always keep them afloat (Weyland, 2011).

As employees, Gen Yers are typified as valuing skill development and enjoying the challenge of new opportunities. Similar to the Boomers, they are viewed as driven and demanding of the work environment and are also likely to be optimistic (Smola and Sutton, 2002). Displaying a high level of confidence, Gen Yers are described as enjoying collective action and are highly socialised (Hart, 2006; Smola and Sutton, 2002; Tulgan and Martin, 2001). Moreover, they are seen to value having responsibility and having input into decisions and actions (McCrindle and Hooper, 2006). Gen Yer work well alone, but they work better together as they desire collaboration (Martin, 2005). This is because they love the challenge of figuring out 'the best way to do the job' either alone or as a team.

Theoretical Framework and Methodology

The origins of the generational debate are attributed to Karl Mannheim (1952), who introduced the theory of generation and argued that generations could provide a clear framework to analyse social and intellectual movements. This theory states that individuals belonging to the same generational group develop a common view of the world as a result of sharing the same historical moments and cultural events. Individuals sharing a common view of the world tend to exhibit similar attitudes and behaviours at work. Building on these arguments, the theory of generation was used to investigate Malaysian Gen Yers perceptions towards 10 organisational attributes of banks. These attributes are partially adopted from the work of Terjesen, Vinnicombe, and Freeman (2007). Terjesen *et al.*, (2007) investigated the perceptions of graduating university students in Australia and the UK on the attributes of the companies that they intended to work with. The 10 organisational attributes we use in the current study are as follow:

i. Care about employees as individuals
ii. Provide clear opportunities for long-term career progression
iii. Dynamic, forward-looking approach to the business
iv. Have a friendly, informal culture
v. Provide opportunities in the early years, to move around the organisation, work in different areas/roles and to grow through learning new things
vi. Scope for creativity in the employees' work
vii. A pure meritocracy (rewards and promotions based on performance) and potential income
viii. Widely regarded as a highly prestigious employer with good reputation
ix. Provide job security and responsibility
x. Sensible company rules, regulations, procedures, and policies

Data Collection Method

The study used self-administered questionnaires involving a sample of 80 Gen Yers bank employees from Kuala Lumpur, Petaling Jaya and Miri. The data was analysed using descriptive statistics. The questionnaire was divided into two main sections. Section A dealt with the respondents' demographic information such as the banks they were working with, designation, number of years worked with the organisation, status of employment, gross income, highest level of education, gender and ethnicity. Section B dealt with the perceived attractiveness of the 10 organisational attributes.

The Findings

For the purpose of this paper we are going to discuss only five major organisational attributes that motivate Gen Yers to stay in the banking industry.

Sensible company rules, regulations, procedures and policies

As depicted in Table 1, sensible company rules, regulations, procedures, and policies has a mean of 5.2000, median and mode of 5.0000, and ranked 1st with a score of 76% (61 of the respondents). This finding concurs with those of earlier studies. As with other generations, Gen Yers also hate micromanagement (Martin, 2005) because they have enough of millennial parents who breathe down their necks, trying to oversee their work and social activities (Glass, 2007). Malaysian Gen Yers prefer flexible work hours, hoping for a shift from traditional Asian work practices (PwC, 2009), and combine their work day with social activities (Randstad, 2012). They value work condition that allows the use of social media and devices. Social media and constant connectivity is critical to them that they are willing to forgo higher pay (Kumar, 2012).

Table 1: Sensible company rules, regulations, procedures, and policies

Attribute 25: Sensible company rules, regulations, procedures, and policies							
Frequency	Mean (Average)	Median	Mode	Minimum	Maximum	Standard Deviation	Variance
80	5.2000	5.0000	5.0000	2.0000	7.0000	1.1183	1.2506
Likert scale score distribution and percentage							
Scale	VSD (1)	SD (2)	D (3)	N (4)	A (5)	SA (6)	VSA (7)
Frequency	0	2	2	15	30	21	10
%	0.00%	2.50%	2.50%	18.75%	37.50%	26.25%	12.50%

Friendly, informal culture

As presented in Table 2, *friendly, informal culture* has a mean of 5.1375, median and mode of 5.0000, and ranked 2nd with a score of 74% (59 of the respondents). This finding concurs with that of earlier studies conducted by Twenge and Campbell (2008), and Gerdes (2007). Reflecting on this trend, today's young workforce is more relaxed and informal in their dress (Twenge and Campbell, 2008). Gen Ys rolled out of bed and into their college classes wearing wrinkled sweat pants and flip-flops, and this informal attire has made its way into the workplace. Managers and human resource personnel need to have a heads up with this trend. Many banks in Malaysia seem to heed this trend by allowing employees to wear T-shirts that advertise the banks' products or services. Maybe the Banks should do a step further by allowing casual wears of their own choices on certain days.

Table 2: Friendly, informal culture

Attribute 6: Friendly, informal culture							
Frequency	Mean (Average)	Median	Mode	Minimum	Maximum	Standard Deviation	Variance
80	5.1375	5.0000	5.0000	2.0000	7.0000	1.3192	1.7403
Likert scale score distribution and percentage							
Scale	VSD (1)	SD (2)	D (3)	N (4)	A (5)	SA (6)	VSA (7)
Frequency	0	3	6	12	31	12	16
%	0.00%	3.75%	7.50%	15.00%	38.75%	15.00%	20.00%

Provide job security and responsibility

As shown in Table 3, *provide job security and responsibility* has a mean of 5.1375, median and mode of 5.0000, and ranked 3rd with a score of 73% (58 of the respondents). The finding indicates that Gen Yers appreciate jobs with security and responsibility, and this is in line with Dries, Pepermans and Kerpel (2008), De Meuse and Mlodzik (2010). The Malaysian Gen Yers saw with their own eyes their parents going through the early retirement scheme or voluntary separation scheme during and after the 1997-98 Asian Crisis, and read about how many people were wiped out from the workplace during the height of the sub-prime crisis of 2008-2010. This indicates that something very fundamental has changed for Gen Yers: namely the global economic downturn. It has brought home the fact that 'the world is not so much their oyster any more' as revealed in a PwC (2009). However, the Malaysia Gen Yers also want job responsibility which give them personal growth (Kelly Services, 2012), and will only be loyal to the organisation as long as they fulfill their own roles (PwC, 2009).

Table 3: Provide job security and responsibility

Attribute 21: Provide job security and responsibility							
Frequency	Mean (Average)	Median	Mode	Minimum	Maximum	Standard Deviation	Variance
80	5.1375	5.0000	5.0000	1.0000	7.0000	1.1109	1.2340
Likert scale score distribution and percentage							
Scale	VSD (1)	SD (2)	D (3)	N (4)	A (5)	SA (6)	VSA (7)
Frequency	0	1	3	18	31	16	11
%	0.00%	1.25%	3.75%	22.50%	38.75%	20.00%	13.75%

Widely regarded as a highly prestigious employer with good reputation

As presented in Table 4, *widely regarded as a highly prestigious employer with good reputation* has a mean of 5.1500, median and mode of 5.0000, and ranked 4th with a score of 71% (57 of the respondents). This finding is in line with the view of Weyland (2011) that Gen Yers are attracted to strong brands which do not only refer to products and services, but also a company or employer as an entity that provides work to employees. Malaysian Gen Yers are attracted to companies which has the reputation of giving employees the sense of 'meaning' (Kelly Services, 2012), and concern about the environment (PwC, 2009). To retain their Gen Yers employees banks should consider having programmes for rotational development, mentoring, and leadership (The Edge, 2011; PwC, 2009).

Table 4: Widely regarded as a highly prestigious employer with good reputation

Attribute 14: Widely regarded as a highly prestigious employer with good reputation							
Frequency	Mean (Average)	Median	Mode	Minimum	Maximum	Standard Deviation	Variance
80	5.1500	5.0000	5.0000	1.0000	7.0000	1.1485	1.319
Likert scale score distribution and percentage							
Scale	VSD (1)	SD (2)	D (3)	N (4)	A (5)	SA (6)	VSA (7)
Frequency	0	1	3	19	30	14	13
%	0.00%	1.25%	3.75%	23.75%	37.50%	17.50%	16.25%

A pure meritocracy (rewards and promotions based on performance)

As presented in Table 5, *a pure meritocracy (rewards and promotions based on performance)* has a mean of 5.0875, median and mode of 5.0000, and ranked 5th with a score of 70% (56 of respondents). When Gen Yers are passionate about what they are doing, and there is little differentiation between personal life and work, they can be very hard working to achieve good performances (Weyland, 2011). Malaysian Gen Yers place high priority on career progression. According to a recent survey by Randstad Workmonitor, more than 60% of them said they would quit their jobs should there be no more room for personal development (Randstad, 2012).

Table 5: A pure meritocracy (rewards and promotions based on performance)

Attribute 11: A pure meritocracy (rewards and promotions based on performance)							
Frequency	Mean (Average)	Median	Mode	Minimum	Maximum	Standard Deviation	Variance
80	5.0875	5.0000	5.0000	1.0000	7.0000	1.2847	1.6505
Likert scale score distribution and percentage							
Scale	VSD (1)	SD (2)	D (3)	N (4)	A (5)	SA (6)	VSA (7)
Frequency	2	0	3	19	30	12	14
%	2.50%	0.00%	3.75%	23.75%	37.50%	15.00%	17.50%

CONCLUSION AND IMPLICATIONS

The aim of this study was to explore Malaysian Gen Yers bank employees' perceptions of desirable organisational attributes of banks. We were able to draw out many interesting findings which are coherent with existing literature. Malaysian Gen Yers value work flexibility, informal work culture, job security and personal growth. Additionally, they also expect their employer to be sensitive towards corporate social responsibility and the environment.

Implications for bank management include understanding Gen Yers concept of work-life balance. They want to work for a bank that makes work enjoyable. Banks should provide growth opportunities, as Gen Yers are excited by the desire to take on new challengers to expand their capabilities. Managers should also provide them with challenging assignments. Gen Yers thrive on conquering challenges that come their way. Putting aside a common stereotyping of them, in reality Gen Yers are an affordable generation, but managers have to explore patiently how to make the most of their potential for high productivity. This is because their unique characters can also be their biggest flaws if managed wrongly. Understanding their uniqueness will help managers get the best from them for competitive advantage and stay ahead of the fast changing banking environment.

This study has several limitations. First, the study employed the convenience sampling method that might have biased the study result. Another limitation is that the study has drawn from a relatively small sample ob bank employees in Kuala Lumpur, Petaling Jaya and Miri only, therefore limiting the generalisability of the findings to other geographical areas and contexts. Additionally, the organisational attributes used in the study are too general to reflect Gen Yers' attitudes towards work. For future research, it is suggested that this study be replicated in other industries using bigger sample size, and the organisational attributes further refined to suit Gen Yers' attitude and characteristics. Hence, more solid managerial implications and higher generalisability of the findings can be obtained.

References

Ahmad, K., Bakar, R., (2003), "The association between training and organisation commitment among white-collar workforce in Malaysia", *International Journal of Training & Development*, 7, 166-185.

De Meuse, K., and Mlodzik, K., (2010), "A second look at generational differences in the workforce: Implication for HR and talent management", *People and Strategy*, 33(2), 50-58.

Dries, N., Pepermans, R., and De Kerpel, E., (2008), "Exploring four generations' beliefs about career: Is "satisfied" the new "successful?" *Journal of Managerial Psychology*, 23, 907-928.

Gerdes, L., (2007), "The best places to launch a career", *Business Week*, September 13.

Glass, A., (2007), "Understanding generational differences for competitive success", *Industrial and Commercial Training*, 39(2), 98-103.

Goh, L., (2012), "Why job-hoppers hop", *The Star Online*, February 19, 2012. [Online, accessed 10 2012]. http://thestar.com.my/news/story.asp?file=/2012/2/19/nation/20120219070805&sec=nation

Hart, K., (2006), "Generations in the workplace: finding common ground", available online at: www.mlo-online.com (accessed 14 April 2007).

Jayson, S., (2006), "Generation Y gets involved", *USA Today*, D1.

Kelly Services®, (2012), "Malaysian employees restless and considering job change, according to annual survey by Kelley Services", April 19, 2012. [Online, accessed 11 October 2012]. http://www.kellyservices.com.my/MY/Resource-Centre/Malaysian-employees-restless-and-considering-job-change/

Kumar, A. (2012), Money's not enough: Malaysia's Gen- Y, Computerworld Malaysia, January 26, 2012. [Online, accessed 11 October 2012]. http://computerworld.com.my/resource/management-and-careers/moneys-not-enough-malaysias-gen-y/

McCrindle, M., and Hooper, D., (2006), "Gen Y: attracting, engaging and leading a new generation at work", white paper, University of Tasmania, Hobart.

Mannheim, K., 1952. The problem of generations. In Kecskemeti, P. (Eds.), *Essays on the Sociology of Knowledge:* 276-322. London: Routledge & Kegan Paul.

Martin, C., (2005), "From high maintenance to high productivity: What managers need to know about Generation Y", *Industrial and Commercial Training*, 37(1), 39-44.

O'Connor, J., (Oct 2009), "Wising up: A look at how generation Y workers think and what employers need to do to engage their interest", *Intheblack*, 79(9), 24-27.

PricewaterhouseCoopers, (2009), Malaysia's Gen Y Unplugged: A 2009 PricewaterhouseCoopers Survey on Millennials at Work. [Online, accessed 11 October 2012]. http://www.pwc.com/en_my/my/assets/publications/gen-y.pdf

Randstad, (2012), "Managing Generation Y in the workplace", August 14, 2012. [Online, accessed 10 October 2012]. http//www.randstad.my.jobsdb.com/MY/EN/Resources/.../managing-generation-y?ID=66.

Shanmugam, B., (2003). Mergers and acquisitions of banks in Malaysia. *Managerial Finance*, 30(4), 1-18.

Smola, K., and Sutton, C,. (2002), "Generational differences: Revisiting generation work values for the new millennium", *Journal of Organisational Behavior*, 23, 363-382.

Sullivan, S., Forret, M., Carraher, S. and Mainiero, L., (2009), "Using the kaleidoscope career model to examine generational differences in work attitudes", *Career Development International*, 14(3), 284-302.

Terjesen, S., Vinnicombe, S. and Freeman, C., (2007), "Attracting Generation Y graduates: Organisational attributes, likelihood to apply and sex differences", *Career Development International*, 12(6), 504-522.

The Edge, (2011) "Working Gen Y", Thursday, August 25, 2011. [Online, accessed 11 October 2012]. http://www.theedgemalaysia.com/sports/192025-working-gen-y.html

Tulgan, B., and Martin, C., (2001), Managing Gen Y Global Citizens Born in the Late 70s and Early 80s, HRD Press, Amherst, MA.

Twenge, J., and Campbell, S., (2008), "Generational differences in psychological traits and their impact on the workplace", *Journal of Managerial Psychology*, 23(8), 862-877.

Van Geyzel, M. (2009), "Working with Gen Y", *The Star Online*, Thursday August 20, 2009. [Online, accessed 10 October 2012]. http://thestar.com.my/news/story.asp?file=/2009/8/20/focus/4551076&sec=focus

Weyland, A. (2011), "Engagement and talent management of Gen Y", *Industrial and Commercial Training*, 43(7), 439-445.

Wong, M., Gardiner, E., Lang, W. and Coulon, L. (2008), "Generational differences in personality and motivation", *Journal of Managerial Psychology*, 23 (8), 878-890.

Yoga, N. (2010) "Fresh approach", *Malaysian Business*. May 16, 2010. p. 60.

NOTES FOR CONTRIBUTORS

Contributing articles to the Banker's Journal Malaysia
Articles submitted to the Banker's Journal Malaysia should be original contributions, and they should also not be under consideration by any other publisher at the same time. Articles will only be considered for publication if they have not been published, or accepted for publication elsewhere. Submissions should be emailed to [info@ibbm.org.my] or posted to:

The Editor
Banker's Journal Malaysia
Institut Bank-Bank Malaysia
Wisma IBI, 5 Jalan Semantan
Damansara Heights
50490 Kuala Lumpur, Malaysia

Editorial objectives
The primary objective of the Banker's Journal Malaysia is to present the thinking, practice and research findings on issues/developments which have current and future concern for, or impact on, the banking and finance industry. The focus is to offer readers thought-provoking issues and challenges.

Reviewing of manuscripts
Each article submitted to the Banker's Journal Malaysia is first read by the Editor for suitability to be published. Based on his/her opinion, the article will be forwarded to the Journal's Editorial Advisory Panel for a review. Based on the reviewers' recommendations, the article will either be accepted as it is, revised or rejected. In the event that amendments are suggested, the manuscript is returned to the author for rewriting before it can be accepted for publication.

Features and formats
Authors should note the following before submitting any articles:

Length
Articles should generally be between 1,500 and 2,500 words in length. The Editor may consider requests from authors to submit articles of shorter or longer length.

Title
A title of eight to ten words or less should be provided.

Autobiographical note
A brief autobiographical note should be supplied including full name, appointment, name of organisation, telephone and fax numbers, and e-mail address (if any).

Manuscript
The manuscript should be prepared in double line spacing with a 5 cm margin on both sides. The manuscript should be accompanied by an abstract.

For submission of manuscripts, the following formats are preferred:

- For text prepared on a PC system - MS Word or WordPerfect;
- For text prepared on a Macintosh system - MS Word or WordPerfect;
- For graphics, figures, charts and diagrams please use either EPS or TWF format.

Headings and sub-headings
Headings should be in capitals, and sub-headings should be in upper and lower cases. Headings and sub-headings should not be numbered.

Figures, charts and diagrams
Essential figures, charts and diagrams should be referred to as 'Figures' and they should be numbered consecutively using Arabic numerals. Each figure should have a brief title and labelled axes. Diagrams should be kept as simple as possible. In the text, the position of the figure should be shown by indicating on a separate line with the words: 'Insert Figure 1'.

Tables
Use of tables, where essential, should be printed or typed on a separate sheet of paper and numbered consecutively in Arabic numerals, e.g. Table 1 and contain a brief title. In the text, the position of the table should be indicated on a separate line with the words 'Insert Table 1'.

Photos and illustrations
The reproduction of any photos, illustrations or drawings will be at the Editor's discretion. All computer-generated printouts should be clear and sharp, and should not be folded. They will be scanned in for reproduction.

Emphasis
Words to be emphasised should be limited in number and italicised. Capital letters should be used only at the start of sentences or for proper names.

Abstract
Authors must supply an abstract of 100-300 words. It should be an abbreviated representation of the content of the article. Major results, conclusions and/or recommendations should be given.

Copyright
Authors submitting articles should warrant that the work does not infringe on any existing copyright and will indemnify the publisher against any breach of such warranty. For ease of dissemination and to ensure proper policing of use, published works become the copyright of the publisher unless otherwise agreed.

For more information or assistance to place an order, please contact us at:

INSTITUT BANK-BANK MALAYSIA (35880-P)
Wisma IBI
5 Jalan Semantan, Damansara Heights
50490 Kuala Lumpur, Malaysia
Tel: +603-20956833 Fax: +603-20952322 E-mail: info@ibbm.org.my

INSTITUT BANK-BANK MALAYSIA (35880-P)
Wisma IBI, 5 Jalan Semantan, Damansara Heights, 50490 Kuala Lumpur, Malaysia
Tel: +603-20956833 Fax: +603-20952322 Website: www.ibbm.org.my