



Report Summary
The State of Environmental, Social and
Sustainability Reporting in Hong Kong

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INTRODUCTION

This report is an abridged version of more in-depth research which assessed the state of environmental, social and sustainability performance reporting in Hong Kong. The assessment was based on:

- a review of standards, statutory and other requirements for the disclosure of environmental and social performance information
 - a review of environmental, health and safety (EHS), social and sustainability performance information disclosed by the public and private sectors in either stand-alone or annual reports
 - a survey of the top 100 companies (based on market capitalisation) and the organisations certified to ISO 14001 in Hong Kong
- and
- interviews with key stakeholders.

Based on this review, there are encouraging signs for reporting in Hong Kong, such as the groundbreaking requirement that public sector organisations report on their environmental performance and the emergence of two sustainability reports within the private sector. However, the overall depth and breadth of reporting is at an early stage and a culture for reporting is yet to be established.

HISTORY OF REPORTING IN HONG KONG: AN OVERVIEW

Environmental Reporting

Since the early 1990s, environmental reporting has emerged as an important environmental management tool that is increasingly demanded by stakeholders, primarily in Europe and North America. In Hong Kong, the first report, covering environmental, health and safety (EHS) performance, was produced by CLP Holdings (CLP) and issued in 1997.

Following the lead of CLP, a number of large corporations, mostly in the transport, property management and electronics sectors, soon followed suit and produced environmental reports, highlight documents or summary pamphlets. As of July 2002, 17 private sector organisations have reported on their environmental performance and two have produced sustainability reports. With over 230 environmental reports prepared in Japan, over 380 in the United States and over 740 in the

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United Kingdom, the uptake of reporting by the private sector in Hong Kong has been comparatively slow even considering the differences between these countries.

In addition to the private sector, several forward looking government organisations began producing environmental reports in 1998, in advance of the compulsory environmental reporting requirements for the HKSAR Government.

In the 1998 Policy Address, the Chief Executive launched an environmental reporting initiative for all government departments, bureaux and government-owned organisations. All of these organisations are mandated to produce yearly reports, disclosing their environmental performance from the year 1998 onwards. A total of 87 departments, bureaux and semi-governmental organisations have subsequently produced environmental reports.

Social Reporting

In contrast to environmental reporting, social reporting in Hong Kong has a longer yet limited history with only 13 organisations disclosing information. A number of large, Hong Kong based corporations have historically disclosed information on their monetary donations to social and charitable groups in their annual reports. However, it was not until recently that the comprehensiveness and depth of social reporting began to extend to include performance in areas such as community service, employee health and benefits, internal training and external educational programmes for the wider community. Nonetheless, the comprehensiveness and depth of social disclosure still varies largely among reporting organisations and the coverage of social issues in annual reports remains limited in breadth and depth.

Sustainability Reporting

Recently, sustainability reporting emerged on the scene as the Mass Transit Railway Corporation (MTRC) and Shell Hong Kong Limited issued their first reports, in April and July 2002 respectively, covering economic, environmental and social performance issues.

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ACCOUNTING STANDARDS AND STATUTORY AND MANDATORY REQUIREMENTS FOR ENVIRONMENTAL AND SOCIAL REPORTING IN HONG KONG

In Hong Kong, statutory requirements and accounting standards govern the disclosure of financial information by publicly listed companies. At present, none of the Statements of Standard Accounting Practice (SSAPs) directly require the production of environmental or social performance reports.

The disclosure of specific environmental information is required by several statutory requirements, such as the *Environmental Impact Assessment Ordinance (Cap 499)*. While these statutory requirements govern issues that are relevant to environmental and social disclosure, they fall short of requiring stand-alone environmental reporting.

The only mandatory requirement for producing stand-alone environmental reports, the *Planning, Environment and Lands Bureau General Circular No. 2/99 Controlling Officer's Environmental Report*, is applicable to HKSAR Government bureaux and departments and government-owned organisations.

While there are no mandatory reporting requirements for the private sector directly, the government hopes that by leading by example with its environmental reporting initiative, companies will follow suit.

CURRENT STATUS OF ENVIRONMENTAL, SOCIAL AND SUSTAINABILITY REPORTING IN HONG KONG

Environmental Reports: Report Content Analysis

The quality of each of the environmental reports produced by Hong Kong based organisations, including 87 by the public sector and 17 by the private sector, was assessed against criteria that were developed based upon the *ACCA UK Environmental Reporting Awards Criteria* and *ACCA's Guide to Environment and Energy Reporting and Accounting 1997*. Key findings of the analysis of both public and private sector environmental reports are listed and expanded upon in Table 1.

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In all the analyses, the disclosures in annual or stand-alone reports were evaluated against the assessment issues and criteria and a subjective determination was made on whether each criterion was:

- 'Extensively covered' – the disclosure addressed the criterion for the key issue in a meaningful or detailed way. For example, and depending on the context, qualitative or quantitative information was presented to substantiate coverage of the issue or performance results. In these cases it was deemed that 'comprehensive' information had been provided.
- 'Partially covered' – the disclosure addressed the criterion for the key issue, either meaningfully or not. For example, the disclosure provided some information relating to the key issue but the criterion was either not 'comprehensively/fully' addressed or substantiated. In these cases, it was deemed that

the information provided ranged from 'limited' to 'partial' in its depth or breadth.

- 'Not covered' – the disclosure did not address the key issue or provide information to demonstrate that the issue had been considered.

Table 1: Environmental Reports – Findings of Report Content Analysis

Key assessment issues	Criteria	Public sector (%)			Private sector (%)		
		Extensively covered	Partially covered	Not covered	Extensively covered	Partially covered	Not covered
1. Corporate Context	• Major products and/or services	24	48	28	41	59	0
	• Financial performance	5	17	78	29	6	65
	• Geographical location	5	21	74	6	65	29
	• Employment information	8	30	62	18	41	41
2. Policy and Commitment	• Environmental policy	2	83	15	47	12	41
	• Management commitment	4	21	75	35	35	30
3. Vision, Scope of the Report and Target Audience	• Appropriate scope by business entity	7	80	13	24	41	35
	• Report audience identified	0	1	99	0	24	76
4. Key Environmental Impacts	• Key environmental impacts considered	12	86	2	24	58	18
	• Key environmental impacts explained	2	14	84	12	23	65
5. Environmental Management	• Environmental management structure	5	24	71	24	41	35
	• Environmental management approach	3	32	65	18	47	35
	• Environmental management initiatives	10	90	0	18	76	6
6. Performance Indicators	• Use of environmental performance indicators (EPIs)	13	71	16	29	42	29
	• Rationale behind choice of EPIs	1	3	96	0	24	76
7. Legal Compliance	• Legal issues and compliance	2	15	83	6	41	53
8. Objectives and Targets	• Environmental objectives and targets	7	61	32	24	24	52
9. Product/Service Stewardship and Supplier Management	• Product/service stewardship (e.g. design, life cycle analysis)	3	28	69	12	35	53
	• Supplier procurement policies and issues	1	24	75	12	35	53
10. Environmental Accounting and Sustainability	• Environmental accounting policies	0	13	87	6	29	65
	• Linkages between environmental reporting and sustainability issues	0	9	91	0	18	82
11. Independent Verification	• Verification/opinion statements	7	0	93	18	0	82

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KEY FINDINGS:

ENVIRONMENTAL REPORT ANALYSIS

Setting of Policy, Objectives and Targets

Over 80% of the public sector reports included an environmental policy although only 2% of these were considered extensive. Comparatively, only 59% of the private sector reports included an environmental policy but more detail on the purpose and implementation of the policy was provided.

The majority of the reports, 99% and 76% for the public and private sectors respectively, did not identify their target audiences or indicate that their views had been considered.

Nearly 70% of the public sector reports disclosed information on environmental objectives and targets, while less than 50% of the private sector reports identified objectives and targets for future environmental improvement.

All of the public sector reports and 94% of the private sector reports provided limited information on the organisation's environmental management programmes/initiatives. However, substantive reporting on the organisation's environmental management structure and approach has yet to be undertaken by the majority of reporters in both sectors.

Disclosure of Key Environmental Impacts

Nearly all of the public sector reports (98%) and over 80% of the private sector reports identified key environmental impact areas. However, only a minority of the reports, 16% in the public sector and 35% in the private sector, provided explanations of their key impact areas, and their causes and severity.

Performance Measurement

Most of the reports, 84% and 71% for the public and private sector respectively, provided information on the use of environmental performance indicators (EPIs) to

measure and track performance. However, nearly all of the public sector reports failed to explain the rationale behind the choice of EPIs.

Supplier Management, Environmental Accounting, Sustainability and Verification

Only a minority of the public sector reports (25%), addressed the issue of supplier management.

None of the public sector reports and only 6% of the private sector reports provided comprehensive information on environmental accounting policies or sustainability. The majority of the reports from both sectors did not link environmental reporting and performance with sustainability issues.

The content of the majority of the reports, 93% and 82% for the public and private sectors respectively, were not verified by an independent professional.

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SOCIAL REPORTS: REPORT CONTENT ANALYSIS

The 13 reports that disclosed social performance information, including one prepared by a public sector organisation, were subject to a review based upon the ACCA/*AccountAbility UK Social Reporting Awards Criteria* and the relevant elements of ACCA's *Guide to Environment and Energy Reporting and Accounting 1997*. Key findings are shown in Table 2.

KEY FINDINGS: SOCIAL REPORT ANALYSIS

Except for the area of Corporate Context, none of the 13 social reports provided extensive information on any of the other key issues of the assessment.

Setting of Policy, Objectives and Targets

None of the social reports included an explicit social mission, policy or vision statement. 62% of the reports provided limited information on the organisation's social commitment (e.g. charitable contributions).

Only two of the reports (15%) provided objectives and targets for future improvement in social performance.

Disclosure of Key Social Impacts

Nearly 70% of the reports reviewed provided limited information on the organisations' key social issues and the majority of these did not disclose information related to the core issues

arising from the organisations' operations.

Performance Measurement

Though none of the social reports explained the rationale behind the choice of social indicators, seven of the reports (54%) did give limited consideration to the use of indicators to measure social performance.

Stewardship, Social Accounting, Sustainability and Verification

Only three of the reports (23%) provided limited information on the organisation's consideration of the health, safety and community impacts arising from the design, manufacture, use and disposal of their products.

Seven of the reports (54%) provided limited evidence of social accounting within the organisation in the form of charitable donations or time spent by employees on community issues.

None of the reports' contents were verified by an independent professional.

Table 2: Social Reports – Findings of Report Content Analysis

Key assessment issues	Criteria	Disclosure (%)		
		Extensively covered	Partially covered	Not covered
1. Corporate Context	• Major products and/or services	85	15	0
	• Financial performance	84	8	8
	• Geographical location	30	62	8
	• Employment information	77	23	0
2. Vision, Policy and Commitment	• Mission, values and statement of vision	0	62	38
	• Detail and clarity of social policies	0	23	77
3. Scope of the Report and Target Audience	• Appropriate scope by business entity	0	54	46
	• Report audience identified	0	0	100
4. Key Social Impacts	• Key social impacts considered	0	69	31
	• Key social impacts explained	0	8	92
5. Social Issues Management	• Social issue management structure	0	0	100
	• Description of process	0	8	92
	• Social issue management programmes/initiatives	0	85	15
6. Performance Indicators	• Use of social indicators	0	54	46
	• Rationale behind choice of social indicators	0	0	100
7. Legal Compliance	• Legal issues and compliance	0	0	100
8. Objectives and Targets	• Social objectives and targets	0	15	85
9. Product/Service Stewardship and Supplier Management	• Product/service stewardship (e.g. design, life cycle analysis)	0	23	77
	• Supplier procurement policies and outsourcing issues	0	0	100
10. Social Accounting and Sustainability	• Reporting and accounting policies	0	54	46
	• Linkages between social reporting and sustainability issues	0	15	85
11. Independent Verification	• Verification/opinion statements	0	0	100

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Sustainability Disclosures

The sustainability reports prepared by MTRC and Shell Hong Kong were reviewed against criteria that were based on the ACCA *UK Awards for Sustainability Reporting Criteria* and the relevant elements of ACCA's *Guide to Environment and Energy Reporting and Accounting 1997*. The review reflected the fact that the two reports varied in scope and content. The MTRC report was produced as a comprehensive stand-alone sustainability report accessible through the company's web site. The majority of the key issues in the assessment criteria were either partially or comprehensively covered in the report. On the other hand, the Shell Hong Kong report is a highlight document that provides local information to supplement the comprehensive sustainability report prepared by the international Shell Group covering its global operations. This document partially addressed over half of the assessment criteria.

CORPORATE AND STAKEHOLDER ATTITUDES TO ENVIRONMENTAL, EHS, SOCIAL AND SUSTAINABILITY REPORTING

To gather stakeholder views on the state of environmental, health and safety (EHS), social and sustainability reporting in Hong Kong, the following two approaches were adopted.

1. Questionnaire

A questionnaire was distributed to the top 100 companies in Hong Kong and 145 of the organisations and companies certified to the ISO 14001 EMS Standard. It aimed to determine the level of awareness and uptake of environmental, social, EHS and sustainability reporting in Hong Kong, the drivers and barriers to reporting, and assistance required for report preparation.

A total of 35 out of the 245 questionnaires distributed were completed and returned, representing a response rate of approximately 14.3%.

The low response rate itself reflects the low awareness of environmental reporting in Hong Kong. The survey results show that out of the 35 respondents, 16 companies (46%) have not disclosed information on EHS, social or sustainability issues. Within the next three years, five companies plan to produce environmental reports, and another 14 companies plan to produce EHS, social, sustainability or other related types of reports. Based on these results, a significant change in the uptake of reporting amongst the respondents is not anticipated in the near future.

Major drivers for reporting mentioned by the respondents included : company values and commitment; education and awareness raising; performance improvement; stakeholder expectations; and benchmarking. The top five barriers to environmental reporting identified by respondents were: cost; lack of expertise; lack of human resources;

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no identified need to prepare a report; and lack of statutory requirements.

2. Informal discussions

Informal discussions were held with a sampling of stakeholders from non-governmental organisations (NGOs), including the Association for Sustainable and Responsible Investment in Asia (ASrIA), the Hong Kong Council of Social Service, the Conservancy Association, Friends of the Earth (HK) and the World Wide Fund for Nature Hong Kong.

The review identified several key issues that provide useful insight into the status of reporting in Hong Kong, including:

- the level of awareness and demand for the disclosure of environmental, EHS, social and sustainability information in Hong Kong is low
- the key benefits of reporting are not well known, including the

improved management of environmental and social issues, enhanced reputation, increased shareholder value and attention from the sustainable and responsible investment community

and

- voluntary approaches are not viewed as effective mechanisms for influencing behaviour and increasing the uptake of reporting in Hong Kong.

CONCLUSION

Reporting is still at an early stage in Hong Kong. It is, however, commendable that the public sector is reporting on its environmental performance and some private sector companies are reporting to varying degrees on their environmental, EHS, social and sustainability performance. While the number of private sector reporters is low, clear links between environmental responsibility and reporting are emerging, with three-quarters of the private sector reporters being certified to ISO 14001.

Based on the results of this review, it can be concluded that there are several conditions that would increase both the quantity and quality of reporting in Hong Kong. These include:

- the establishment of mandatory reporting requirements, beyond the existing requirements for public sector environmental reporting
 - increased demands from stakeholders, particularly shareholders, investors and clients/customers
 - the fostering of a culture for reporting through enhanced awareness, information sharing and support for reporting
- and
- the establishment of a prominent

and substantive awards scheme for reporting, including separate categories for first-time reporters, as well as public, private and SME reporters. As reporting becomes more widespread, additional, sector-specific categories could be included to further encourage reporting.

To keep pace with international trends, the depth and breath of reporting in Hong Kong will need to be expanded in accordance with international, best practice frameworks such as the Global Reporting Initiative's (GRI) *Sustainability Reporting Guidelines*.

The full report, together with a list of other titles relating to environmental, social and sustainability reporting, is available from the ACCA website at www.accaglobal.com/sustainability

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