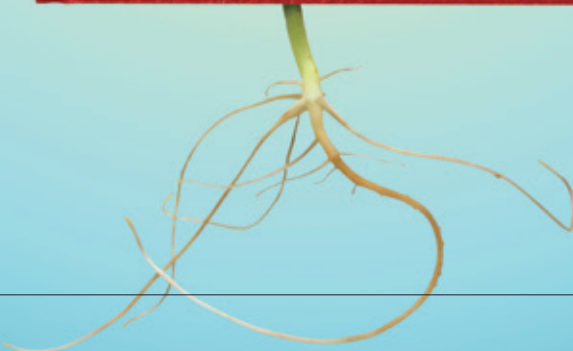


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Sustainability report



Wanted: Cleaners for corporate Hong Kong

Hong Kong's haphazard approach to sustainability reporting has left it covered in dust, reports *Naomi Martig*

A global push for greener initiatives has put companies under increasing pressure to publish environmental and sustainability reports. But in the race to the green line, Hong Kong is trailing behind other financial capitals.

"Only one sixth of the territory's listed corporations publish a sustainability report," says Richard Welford, chairman of CSR Asia, a Hong Kong-based research and consultancy firm that focuses on sustainable business practices in Asia.

That is far below London, where around two thirds of the FTSE 100 companies issue some kind of an environmental or sustainability report every year, he says.

Nowadays, the different terms used to promote green reporting often create confusion. Environmental reporting – the most common form of reporting for most companies involved in green initiatives – refers to the disclosure of data such as water and air pollution. Corporate social responsibility reporting, another popular term, goes a step further by including figures about how a company's business activities affect its surrounding neighbourhood and workforce.

Sustainability reporting, the latest initiative brought forth by green

activists, uses a standard called the "triple bottom line," which takes into account a company's effect on the environment, society *and* economy. For accountants, it means putting actual monetary figures to such things as the percentage of recycled waste used, total carbon dioxide emissions and energy saved due to conservation – and integrating such figures into the company's profit-and-loss statements.

While environmental reporting remains voluntary in Hong Kong, European countries such as France, Denmark, Norway and the Netherlands have made the disclosure of environmental data in company reports mandatory. Sweden goes as far as requiring all state-owned companies to file sustainability reports.

In the United States, 74 percent of the top 100 companies voluntarily published sustainability data last year, up a staggering 50 percent from 2005, according to a KPMG report issued in October.

Corporations in Australia, Japan and New Zealand lead the way in producing environmental reports in Asia. Even China, notorious for its lax environmental standards, recently introduced legislation requiring listed companies from heavily polluting industries to provide environmental data.

Stumbling blocks

"What you don't get in Hong Kong that you get in places like Europe is a lot of green groups knocking on your door and a lot of consumers asking a lot of questions," says Welford.

Only eight non-government environmental organizations operate in Hong Kong, compared with 14 in Australia and more than 29 in the United Kingdom.

Peter Wong, a consultant with Deloitte and a former lawmaker who has been pushing for decades to raise environmental awareness here, says a lack of activism prevents shareholders from learning the risks of environmental degradation.

"Stakeholders of various companies need to be educated in what sustainability is about and demand those companies be accountable in their actions by reporting. Regrettably, none of our NGOs fulfil that function," he says.

Wong represented Hong Kong's accounting profession in the legislature from 1988 to 1995 and chaired the Environmental Affairs Committee and the Advisory Council on the Environment during his time in office. These days, he serves on the board of the Global Reporting Initiative, which sets the worldwide de facto standard on sustainability reporting.

While NGOs such as Friends of the Earth and WWF Hong Kong step in on issues such as air or water pollution, Wong says none of them have pushed for sustainability reports. “It is a missed opportunity by the NGOs,” he says.

And for the government too, which in Wong’s opinion is “too timid” to demand that big business in Hong Kong carry out sustainability reporting.

Despite the heavy criticism placed on Hong Kong for not greening up as quickly as other developed countries, the territory has made progress in recent years.

In 2003, Chief Executive Donald Tsang established the Council for Sustainable Development, a forum for exchanging views related to Hong Kong’s long-term development. The council meets three to four times a year and advises the government on environmental strategies for issues such as solid waste management, renewable energy and urban living space. It also has a HK\$100 million fund to support initiatives that encourage sustainable practices. A government spokesman said eight projects – mostly school and public community programmes – worth a total of HK\$7.28 million were approved last year. The government is also developing a long-term strategy to improve air quality.

Among the business community, even fashion manufacturers and retailers have joined forces to promote sustainable business. The Hong Kong Sustainable Fashion Business Consortium co-organized a three-day workshop last month with the Clothing Industry Training Authority and the Asia Pacific Leather Fair Ltd. for manufacturers, sourcing companies, brands, retailers and government agencies. They discussed topics such as how to implement carbon trading in the apparel industry and finding supplies of sustainable products.

“The issues of sustainability can be controversial and manufacturers may in an economic downturn find it difficult to follow,” said Michael Duck, a director of the Asia Pacific Leather Fair. “However, being sustainable... should not be just one-sided. Perhaps players in all sectors of the supply chain should work harder now, more than ever, to make [it] sustainable.”

Even with government help, however, problems remain. One barrier preventing Hong Kong companies from green reporting is the family-dominated structure of many of the territory’s top listed companies, according to Welford of CSR Asia. “One of the biggest pressures back in Europe is actually coming from investors and stakeholders who are getting very worried about the risks associated with climate change.

“In Hong Kong, we have a lot of companies where dominant shares are still owned by families. Although they are listed companies, they are still operating in the same way as private companies,” he says.

The Hong Kong stock exchange says it does not keep figures showing the percentage of listed companies with family-dominated shares. Such businesses significantly contributed to the early development of Hong Kong’s economy and many have since transformed into large conglomerates.

Emerald in the rough

The few exceptions worth lauding are energy giant CLP Group, MTR Corp., Swire Pacific Ltd. and HSBC Holdings PLC, which have chosen to file either sustainability or environmental and social reports.

CLP began publishing environmental and safety reports in 1997, becoming the first listed Hong Kong company to annually publish environmental data. By 2002, as CLP expanded operations to other Asia-Pacific areas, the company

released its first group-wide corporate social responsibility report. Five years later, it made the leap to publishing its first sustainability report to stakeholders.

“The culture of the company itself is to be transparent, to be accountable and honest,” says Jeanne Ng, CLP’s director of group environmental affairs, in explaining the company’s decision to publish such reports.

CLP’s sustainability reports follow guidelines recommended by the Global Reporting Initiative, such as releasing data on the energy efficiency level of fossil fuel consumption and emissions of air pollutants and greenhouse gases from power plants.

Ng says CLP felt vulnerable about how stakeholders would respond when it first began reporting in 1997 but later overcame the anxiety. “Once we report globally, people hold us accountable if we say we are going to set this goal and don’t deliver,” she says. “But the key is to report honestly on the adverse news as well as the positive ones.”

There were times, Ng admits, when CLP was unable to deliver on safety goals such as zero accidents in the workplace, but at the same time, it did achieve other key environmental goals including emission targets and clean energy initiatives.

The fear of being open and accountable for their actions is one of the reasons why Ng believes other companies in Hong Kong are hesitant to publish environmental data. “When you report, you will be judged. And I think that is what companies have to come to grips with. There are situations in which they look at their company’s performance and it doesn’t look very good, so they don’t want to stick their heads out,” she says.

Cost is another concern. Corporations, especially small and medium enterprises, need to be prepared to commit extra



resources if they go down the environmental reporting route, but spending extra on something voluntary can be difficult even in good economic conditions, Ng notes. “There are a lot of implementation barriers, a lot of mindset barriers and a lot of resource barriers,” she says. “So the company really has to resolve the issues.”

Ng says CLP’s accountants were a help in incorporating environmental data into economic reports. “When it came to such things as how to calculate carbon intensity in terms of per dollar profit, it required them to do extra calculations, which was not an easy thing. But once we got them on board and started having a process, people got comfortable and understood why having an economic link was important,” she says.

HSBC Holdings PLC also produces worldwide sustainability reports that

follow Global Reporting Initiative guidelines.

“This is not solely an environmental or social agenda, nor is it confined to governance and ethics,” Group Chairman Stephen Green wrote in HSBC’s 2007 sustainability report issued last June. “Sustainability is about bringing all of these issues together into our business model.”

The bank was the first major corporation in the world to become carbon neutral, which involves offsetting the company’s greenhouse gas emissions by buying carbon credits generated by clean energy projects. In September 2007, the bank also introduced the HSBC Global Climate Change Benchmark Index, the first ever created to track the stock performance of companies set to benefit from addressing climate change.

Activism among accountants

Indeed, for sustainability reporting to take off, many advocates say accountants should play a bigger role in promoting it.

Fortunately, the accounting profession’s focus on non-financial reporting, especially in the area of corporate social responsibility, is gaining importance as more non-government agencies, consumers, employees and governments scrutinize the impact of businesses in their community. These days, companies are also ranked globally for sustainable business practices.

This is especially true in the U.K. and the United States. In a survey released in late January by Access Accounting, the largest U.K. independent accounting software developer, respondents rated being “greener” as the third most influential factor driving business growth over the next 12 months, after “surviving” and “reducing costs.” More than 60 percent of the 102 respondents, including accountants and finance professionals, felt their companies should be monitoring their carbon emissions.

Among big accounting firms, PricewaterhouseCoopers is building on what it perceives as a potential boom in services. In January, PwC purchased U.K. environmental finance advisory, Sustainable Finance, as a way to build its sustainability and climate change practice there, for which demand has tripled in the past 18 months.

“It’s an increasingly significant market,” says Simon Copley, managing director in charge of sustainability services for PwC in Hong Kong and China. “We have 500 people around the world working in this area... with 150,000 employees. It’s a relatively small business for us but it’s becoming mainstream pretty fast. It’s risen pretty quickly up the agenda for company CEOs over the last few years.”

Similarly, KPMG has witnessed a 20 percent increase in the number of

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audit clients requesting sustainability services worldwide, says Benjamin Ng, director of KPMG's China risk advisory services.

Accountants in Hong Kong are also beginning to take more notice. Chris Joy, executive director at the Institute, recently represented Hong Kong CPAs at the Accounting for Sustainability conference in London. The conference, initiated by the Prince of Wales, brought together business leaders, regulators and accountants "to see how they can all contribute," Joy says.

The Institute became involved in the project after the Global Accounting Alliance, a 10-member organization that includes the Institute, took interest in Prince Charles' push for sustainability. "The project's looking holistically at how sustainability issues are integral to the ways you manage your business and the long-term sustainability of that business," says Jessica Fries, the project director.

For example, Fries says they will try to develop a standard in which companies conduct a strategic monetary

analysis of water and waste recycling and incorporate it into their overall financial reports.

Although the project will unlikely have an immediate effect on Hong Kong's reporting practices, Joy says it's a step in the right direction. "I think the first thing we need to do in Hong Kong is to actually get a group of people together who are interested in this," he says.

Deloitte's Wong has been trying to do just that for years. Once a month he holds a breakfast meeting to discuss the latest sustainability issues, but he says few accountants attend.

Although the Big Four accounting firms all have global sustainability advisory services for its clients, the demand for such services in Hong Kong remains low. "The biggest accounting firms [in Hong Kong] will only dabble in it just in case an overseas affiliate demands such work in the territory," he says.

Not all hopes are lost, however. PwC's Copley has already noticed an uptick in the number of clients in Greater China asking for sustainability

services, mainly those in the energy and banking sectors. But he admits that such increases are still not very significant. "We're starting from a low base. Even if there is an overall increase of 25 percent, it's still going to be a small number," he says.

KPMG's Greater China offices have also recorded a slight rise in enquiries about its sustainability services, though the practice remains relatively small. "In China, there has been greater focus placed on corporate social responsibility for corporations, both local and foreign invested," says Ng.

Joy, meanwhile, says his experience in London shows the profession can take a bigger role in Hong Kong, especially by bringing discipline to measuring environmental figures.

"I think the Institute or someone else could champion or create some sort of forum to bring together more business leaders, more representatives of the business community and try to explain to them why sustainability reporting is good for Hong Kong and the rest of the world," he says. "It just seems to me to be crying out for a bit of leadership." **A+**