

# LOSING THE GREEN RACE

Hong Kong has the worst record for sustainability reporting among developed countries. Alex Frew McMillan talks to companies and accountants about what should be done



A

new scoreboard launched by the index company FTSE Group last month highlights an embarrassing and alarming fact: For all its accountants, finance professionals and talk of setting international standards, Hong Kong ranks dead last in the race to measure the sustainability of its business activities.

Hong Kong was ranked worst among 26 developed territories, its companies scoring 1.34 out of five, a figure that is well below the global average of 2.76. The scoreboard measures environmental, social and governance ethics at more than 2,300 companies worldwide.

Hong Kong's Asian friends kept it company in the basement, with Singapore coming in second worst at 1.91, while South Korea was third from the bottom at 2.31. Scandinavian countries topped the list, with Norway scoring 3.73, Sweden coming in third place and Finland fourth. The Netherlands clinched the second spot and New Zealand came in fifth.

Sustainability reporting in Asia is still far behind Europe, considered the vanguard of the practice, and to a lesser extent, it trails North America too.

"Coming to Hong Kong now really reminds me of working in the U.K. 10 years ago," says Toby Kent, an associate director in the sustainability and climate change team at PwC, who moved to Hong Kong from

London six months ago.

Sustainability is an umbrella term for corporate interaction with the environment and the people within its realm of influence. Measuring that impact allows the company to focus its efforts better and gives investors another metric by which to compare companies.

And investors do care, because they know that sustainability translates into profits. The equations can be as simple as companies saving money by being more energy-efficient and turning off the office lights at night. Or it can mean a company avoiding lawsuits and costly environmental clean-ups by treading lightly when it extracts natural resources.

"Sustainability is about ways that companies manage their environmental and economic impact in ways that are commercially rational," Kent says. "It is a full spectrum from what happens now to the long-term implications of what you do."

## Seeking a standard

Sitting aboard his sailboat in Hong Kong waters, Peter H.Y. Wong ponders why the territory has fared so badly.

"The best you can do is really to benchmark against best practice," says Wong, a past president of the Institute. "And even to that extent I think Hong Kong has done pretty awfully."



Wong says the government has put little pressure on companies to report how they are performing and while Hong Kongers express dismay over the state of the air quality, they don't follow through with questions for companies as long as their bills don't go up.

Part of the problem is that it is very hard to measure sustainability across industries and countries, and to get companies to collect data that's comparable.

Global Reporting Initiative, an Amsterdam-based body, has come up with one of the most widely used sets of standards for sustainability reporting. But Wong, who sits on its board, admits that even this standard needs refining.

The GRI guidelines set 71 different reporting requirements for both small and large companies.

"Many people find it very daunting," Wong says. "As in anything, you tend to report on too much rather than too little. And there hasn't been agreement as to what is relevant. It is difficult to have a standard for one size fits all."

For example, when measuring greenhouse gas emissions and a company's carbon footprint, it is tough to assess how far employees have to travel to work, whether they bike, drive or take the train, and how the company should mitigate those miles. Even if it can do that, how do you account for, say, the cost in terms of

biodiversity of a company turning a field into a parking lot so commuters can park?

The challenge to create a measurement standard has attracted no less than Britain's Prince Charles, who set up the Accounting for Sustainability Project, or A4S, to gauge and account for the business impacts of sustainability. The Institute, through the Global Accounting Alliance, is a member of A4S and participates in its activities.

A joint initiative between A4S and GRI is the International Integrated Reporting Committee, set up last August to produce a clear, comprehensive and comparable system of integrated reporting, bringing sustainability, governance and social reporting into the financial-data fold.

The committee brings together members of the Big Four, accountancy institutes and the standard setting bodies with representatives from businesses, nonprofit organizations and regulators such as the International Organization of Securities Commissions as well as representatives from the United Nations and the International Monetary Fund. They met in Beijing in January and will meet again in New York and Sao Paulo later this year. Their goal is to create integrated reporting that can work across borders.

At the Institute's annual conference slated for

#### GLOBAL SUSTAINABILITY RANKING

Country	Rating
Norway	3.73
Netherlands	3.59
Sweden	3.57
Finland	3.31
New Zealand	3.29
France	3.29
Spain	3.24
U.K.	3.18
Italy	3.17
Switzerland	3.11
Greece	3.06
Denmark	3.01
Belgium	2.98
Germany	2.98
Australia	2.93
Portugal	2.86
Canada	2.81
Global average	2.76
Austria	2.74
Ireland	2.64
Japan	2.63
U.S.A.	2.62
Israel	2.60
Korea	2.31
Singapore	1.91
Hong Kong	1.34

Source: FTSE Group



An oil slick in Repulse Bay last July.

17 and 18 June, local and international experts will speak on topics such as what integrated reporting means for businesses and sustainability in Hong Kong.

Jeanne Ng, the director of group environmental affairs at CLP, Hong Kong's largest power producer, and one of the speakers at the conference, says it will be beneficial for business executives to consult with accountants to figure out how accounting rules are devised in order to do better reporting on sustainability.

"Even when we calculate emissions, methodologies can be different," says Ng, who sits on the International Integrated Reporting Committee.

Power plants are an obvious target for politicians to do a bit of grand standing – so it's important for CLP to track exactly what kind of emissions it is making and how it is mitigating them.

The company has installed new information-technology systems at its Castle Peak Power Station in Hong Kong, designed to look at the plant's overall environmental impact, track all emissions and make sure the company stays within emissions caps.

"Making sure the data is accurate and robust is extremely important," says Ng.

The information that CLP gathers on its emissions can help its lobbying efforts, or in making carbon offsets. Europe already has a trading scheme for carbon dioxide that effectively prices that greenhouse gas. China is

considering placing a charge on the same gas, and already charges per ton for three main air pollutants – sulfur dioxide, nitrogen oxide and particulate matter.

"Trying to align our environmental data with the financial data is going to be very important," Ng says. "They will be interlinked, increasingly. Right now it's not that common."

### Leading the way

Many companies are taking what tools they can find and doing what they can to measure their own sustainability. The number of corporate responsibility or sustainability reports worldwide totalled 4,579 last year, up from 823 in 2000, according to *CorporateRegister.com*.

Robert Gibson, who served as the director of sustainable development at John Swire & Sons (H.K.) Ltd. until he retired last year, says the GRI guidelines helped the company come up with a systematic way of measuring sustainability.

Swire developed a stakeholder map of all its employees and partners, the issues that concern them and how the company responds. It also had to ensure it had the right reporting mechanisms to measure sustainability, paying as much attention to greenhouse-gas emissions, water consumption and staff injuries as it did to profits.

"Reporting numbers externally requires a greater

level of accuracy than is often needed for internal management information,” says Gibson, who is now an adviser to the Hong Kong Climate Change Business Forum and will be speaking at the Institute’s conference. “In most companies, the best way to achieve this is to expand the financial reporting system to incorporate sustainability statistics.”

China saw its first sustainability report in 2006, from the State Grid Corp. of China, and KPMG says that 663 mainland companies filed sustainability reports in 2009, up 20 percent from the previous year. But measuring impact on people, the planet and profit with equal diligence is still a fledgling enterprise here.

“It is a reality for a global landscape but in China and Hong Kong, we’re not there yet,” says Leah Jin, the partner in charge of KPMG’s climate change and sustainability practice in China and Hong Kong.

Most sustainability reports read like a laundry list of what the company is doing right, without much sense of what business impact those actions are having, what the company is doing wrong, or what its broader strategy is.

“It’s not that they don’t want to do this, it’s that their internal structure isn’t ready to do this,” Jin says.

Critics fault many efforts at sustainability reporting as “greenwashing,” noting that environmental issues are often bundled up with social responsibilities, charitable donations, or whether the company gave its employees a bonus this year.

It’s revealing that most companies still distribute their sustainability reports through their public relations department.

“You do see quite a bit about community and charitable donations, which is not really what being a sustainable company is about,” PwC’s Kent says. “But you have got to start somewhere.”

Without international standards, companies also report selectively. Rather than using an accounting-based, hard-numbers approach, the reports are often soft on specifics and heavier on corporate propaganda.

“Cathay Pacific are very keen on reducing the amount of fuel they burn, so their environmental report is all about fuel,” GRI’s board member Wong says of the Swire subsidiary. “They are very, very quiet about the amount of waste they produce with catering. So it is very much to fit their own objective on how to maximize profits.”

But Gibson points out that Cathay puts its sustainable-development report online for all to read – although it does concentrate on emissions rather than catering waste. “Cathay pays close attention to all aspects of its environmental impact,” he says. “Fuel burn is the most significant and so gets the most focus.”

## THE PLAYERS

More and more groups are studying ways to set standards for sustainability reporting. Here’s a look at the main initiatives

### **The Global Reporting Initiative**

([www.globalreporting.org](http://www.globalreporting.org)), an Amsterdam-based body, has developed standards for sustainability reporting that are widely used around the world. Companies use the standards to measure and report their economic, environmental and social impact.

### **The Accounting for Sustainability Project**

([www.accountingforsustainability.org](http://www.accountingforsustainability.org)) was established in London by Prince Charles to overhaul corporate reporting, making sure it encapsulates not just profit and loss but also how companies are managed and their social and environmental impact. The Hong Kong Institute of CPAs, through the Global Accounting Alliance, is a member of the project.

### **The International Integrated Reporting Committee**

([www.theiirc.org](http://www.theiirc.org)) was set up by A4S and GRI to work out what an integrated report should include in order to capture the social, environmental and economic performance of an organization. It is due to deliver a discussion paper later this year.

### **The International Finance Corp.**

([www.ifc.org](http://www.ifc.org)) is part of the World Bank and advises developing nations on building their private sectors. Its Good Practice Note sets standards for environmental and social performance that it believes any private-sector investment should follow.

### **The International Organization for Standardization** ([www.iso.org](http://www.iso.org)) aims

to set standards that can be used by businesses, governments and regulators. Its first guidance standards on social responsibility, issued last November, stress the value of public reporting on social responsibility for stakeholders inside and outside of companies.

### **The Forum for the Future**

([www.forumforthefuture.org](http://www.forumforthefuture.org)) is a London-based group that consults with companies to help them build strategies for sustainable growth.

### **The Business Environment Council**

([www.bec.org.hk](http://www.bec.org.hk)) is a Hong Kong nonprofit body that helps businesses become more environmentally conscious through assessing their operations and providing advice. It also operates the Building Environmental Assessment Method, a standard used to certify green property development.

### **The Climate Change Business Forum**

([www.climatechangebusinessforum.com](http://www.climatechangebusinessforum.com)) was set up by the Business Environment Council to bring together leaders in big business to tackle climate change through lobbying, funding research and sharing best practices.

### **The Association for Sustainable and Responsible Investment in Asia**

([www.asria.org](http://www.asria.org)) is another Hong Kong group devoted to companies with an interest in sustainable investment. Its members include institutional investors with more than US\$4 trillion in assets.

**“As more companies begin to understand it is not about being nice but about being commercially successful, the sustainability field will begin to attract more participants.”**

In an email reply, the airline said its last annual report also contained information about the environmental impact of its vehicle fleet, building energy, waste, resource use, noise and water management.

**Investors care**

What many companies fail to see is that measuring sustainability properly can make them more profitable and attract investors, who are already finding ways to rank companies according to how sustainable they are.

Estimates suggest around 12 percent of the US\$25 trillion in assets under management in the United States are devoted to sustainable or socially responsible investing. Attracting those investors is a powerful motivation for companies to put more effort into measuring sustainability.

“Increasingly there will be a price tag connected to the environmental impact that any industry is going to cause,” Ng says.

Investors say the financial reports in China leave a lot to be desired and they are keen to see useful data from companies on sustainability and information that is comparable.

“It’s very important. We need more data and we need more targets,” says Chan Wai-shin, a director at the fund manager Environmental Investment Services Asia Ltd., which runs the Green Dragon Fund. “There are needs for standards although in Asia it is very, very difficult to enforce.”

Besides the difficulty of the scope of the region, Chan says only big companies such as HSBC and Cathay Pacific have the means to collect and report data, while smaller Chinese companies listed in Hong Kong often

don’t have the wherewithal. “It’s very difficult for them to adhere to certain standards,” he says.

Still, the information flow is improving. *Bloomberg* is now reporting metrics such as carbon-dioxide-equivalent intensity as a function of EBITDA, or water intensity per sales, to investment analysts.

In 2007, Bursa Malaysia, the stock exchange in Kuala Lumpur, made it compulsory for all companies to report corporate and social responsibilities initiatives in their annual financial statements. The Shanghai Stock Exchange in 2008 required all companies listed domestically and overseas to file corporate and social responsibility reports. The Singapore stock exchange last year introduced voluntary guidelines on compiling sustainability reports.

Hong Kong’s stock exchange is behind, with a public consultation coming out only this year. It will likely require voluntary reporting at first.

“We are hoping that voluntary becomes mandatory,” Chan says. “When you go in and talk to companies about this, you get some blank faces. If they are being asked to collect this data by stock exchanges, that makes them much better prepared.”

But the debate is likely to be heated. Gibson, for one, doesn’t feel all listed companies should be forced to create sustainability reports, although he does encourage companies to keep investors informed of their sustainability goals and activities.

“We already have an excessive amount of corporate reporting. The more reporting there is, the more costly it is to produce, and the less people read,” he says.

Hong Kong-based index tracker Hang Seng last July introduced a corporate-sustainability index of 30 companies, with another 15 mainland companies in a separate A-share index. But the move is more than a decade behind the creations of the FTSE4Good Index Series in Britain in 2001 or their U.S. counterparts, the Dow Jones Sustainability Indexes, in 1999.

Both the FTSE and Dow Jones indexes can make headlines when they throw companies out – as BP was last September after the Deepwater Horizon oil disaster.

Sustainability, however it is being measured, is being converted into profits in the minds of investors. “As more companies begin to understand it is not about being nice but about being commercially successful, the sustainability field will begin to attract more participants,” Kent says. **A**

HANG SENG CORPORATE SUSTAINABILITY INDEX		
Constituent name	Sector	Overall rating
Hang Seng Bank	Banks	3.8
Hong Kong Exchanges & Clearing	Financial services	3.5
Television Broadcast	Media	3.5
Li & Fung	Personal and household goods	3.4
Link Real Estate Investment Trust	Real estate	3.3
Hysan Development	Real estate	3.2
CLP Holdings	Utilities	3.1
PCCW	Telecoms	3.1
Cathay Pacific Airways	Travel and leisure	3
MTR Corp.	Travel and leisure	2.8
Power Assets Holdings	Utilities	2.8