The “Legalization” of Corporate Social Responsibility: The Hong Kong Experience on ESG Reporting

Haitian Lu
Associate Professor in Law
Deputy Director, Center for Economic Sustainability and Entrepreneurial Finance
The Hong Kong Polytechnic University

Motivation

- The "Contested" Concept of CSR
- Prior focus on CSR's "Voluntary Dimensions"
- Increasing "CSR Legislations /Regulations" Around the World
- Increasing Environmental, Social and Governance (ESG) reporting required by Stock Exchanges for publicly traded firms

Examples of CSR law & Regulations

- India's Companies Bill 2013 mandates prescribed companies to spend at least 2% of their yearly net profit on social welfare initiatives.

- In Norway, the law requires no lower than 40% of board members to be women, and quoted companies must explain how ESG issues are managed in the management discussion and analysis (MD&A) of annual reports.

- In Indonesia, the Limited Liability Company Law (2007) requires ***all*** companies in the natural resources sector to disclose their "CSR activities"

The Research Question

- ✓ What drives this wave of CSR regulation?
- ✓ How are CSR Regulatory policies formulated?
- ✓ Are they concrete and operational?
- ✓ What are the responses from corporations and their stakeholders?

- This article addresses these questions from a Government / Regulator's perspective, using Hong Kong ESG Reporting as a major case for study

Three Views on Government's Interest in CSR Regulation

"Societal Governance View" (Moon 2004)

- Governments actively promote CSR partly as a response to the social and environmental problems caused by corporations, and partly to use CSR policies to achieve its societal governance objectives.

- These social governance objectives include *welfare provision, emission reduction, energy consumption, non-discriminatory workplace, supply chain management, and anti-bribery*, etc. (Campbell 2007)

- CSR activities as useful supplements for the poor domestic institutions and regulations (Matten and Moon, 2008)

Three Views on Government's Interest in CSR Regulation

The "Political Actor view"

- MNCs as agents of change for local institutions in the International Business literature(Jones et al. 2007).
- Corporations as a political actor contribute directly to the public goods provision in the countries and industries that they operate (Scherer and Palazzo, 2007)
- Leading companies well known for their CSR programs may demand leveled playing field for all players, especially when they operate in an opaque regulatory environment. (Knudsen and Brown 2015)

Three Views on Government's Interest in CSR Regulation

"National Competitiveness View"

- Governments actively pursue CSR regulation as a "value capturing strategy" , "positioning strategy", or "differentiation strategy" to enhance its national competitiveness. (Boulouta and Pitelis 2014)

- Many CSR practices are related to **innovative solutions** to the more effective use of resources, cost reduction, and improved productivity (Porter and Van der Linde 1995).

- Socially responsible investment, which represents an investment strategy that incorporates ESG standards into consideration, brings **new market opportunity**.

To Regulate or Not to Regulate CSR?

Benefits

- ✓ Overcome the market failure
- ✓ Enhanced public goods provision by private firms
- ✓ Improved societal governance
- ✓ enhance international competitiveness
- ✓ …

Costs

- ◆ Significant cost on business?
- ◆ Benefit a few company but harm the economy?
- ◆ Good for large firms but detrimental to SMEs?
- ◆ Create "non-tariff" trade barriers?
- ◆ Cost of legislation, monitoring, and enforcement?

Why Study Hong Kong?

- The world's freest economy and a global financial center, the regulator a "**positive non-interventionism**" policy on CSR.

- CSR regulations in Hong Kong has broader implication on its neighboring global power house—**China**.

- Hong Kong possesses unique **data advantage** for this study (Consultation Papers, Submission Details, EDP Survey, etc.)

Voluntary and Legal Dimensions of CSR

- *"[CSR is] when a firm makes it decisions and actions in a transparent and ethical manner, considering the social and environmental impacts of a firm's activities, taking into consideration its stakeholders, complying with the law and exceeding the law to meet internationally recognized norms and expectations, both within the firm, but also in all of its relationships."* (ISO 26000)

- **CSR and the law are not mutually exclusive**

➢ Law institutionalizing and codifying ethics and setting out "*minimum acceptable standards of behaviour*." (Crane and Matten 2007)

➢ CSR being "*beyond law, through law [and] for law.*" (McBarnet 2009)

CSR Regulation through ESG Reporting

- CSR reporting started as firm's voluntary response to the demand of investors and stakeholders for corporate non-financial information.
- "CSR report", "CR report", "CC report" or "sustainability report", etc.
- The term "ESG" first proposed by the United Nations Global Compact (UNGC) in 2004 as a way to stress the importance of the environmental, social and governance issues on investors and sustainability of the firm.
- Common ESG aspects include *corporate governance, environmental protection, labour practices, community involvement, consumer issues, anti-corruption, supply chain management*, etc.

International Efforts to standardize the voluntary ESG reporting practices

- Global Reporting Initiative (GRI)

◆6 reporting principles "*Balance, Comparability, Accuracy, Timeliness, Clarity, and Reliability*".

- ISO 26000
- Carbon Disclosure Project (CDP)
- United Nations Global Compact (UNGC)
- OECD Guidelines for Multinational Enterprises
- International Integrated Reporting Committee ("IIRC")

The Regulation of ESG Reporting

Three Levels of Regulation:

① **<u>Highest:</u> Mandatory ESG reporting** (e.g. France, Denmark, India, South Africa, Malaysia, etc)

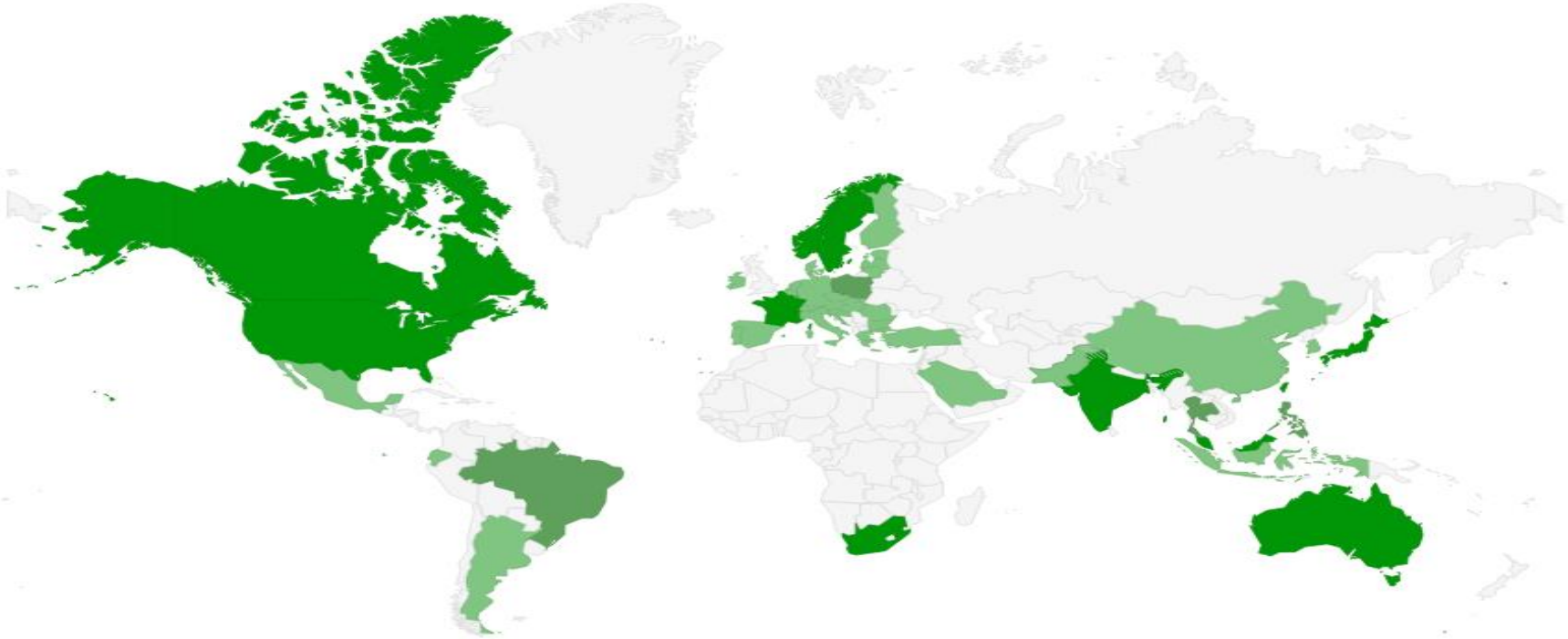
② **<u>Middle:</u> "Comply or Explain" approach**: Deviation from the required is not considered non-compliance if the issuer can provide "considered reasons" why it fails to disclose.

③ **<u>Lowest:</u> "Recommended Best Practices"**

Global ESG Reporting Requirements by 2015

Environmental, Social, and Governance (ESG) Reporting Requirements

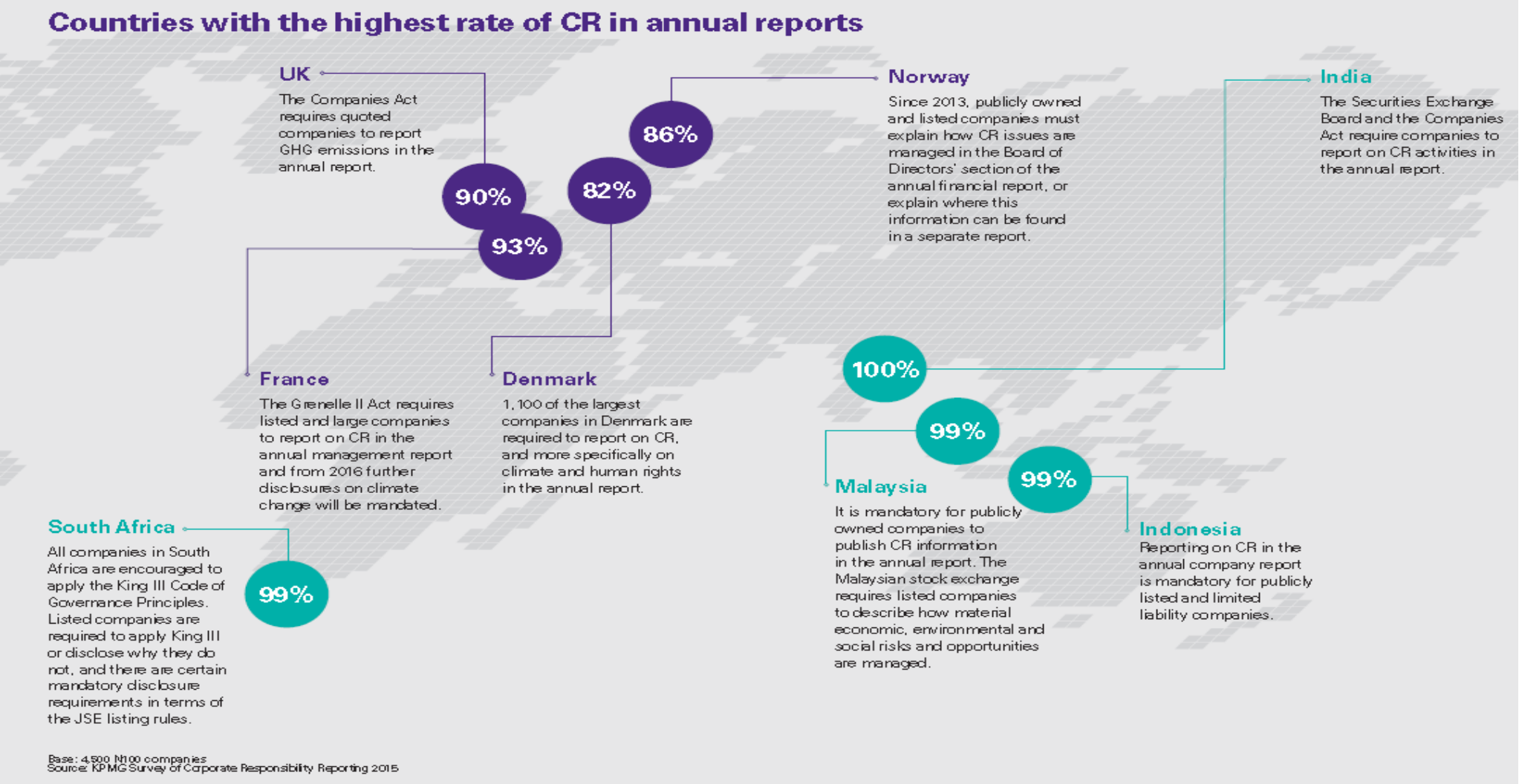
There has been a steady increase in the number of social reporting requirements driven by regulatory bodies and stock exchanges around the world, which has in turn played a key role in advancing the field of social reporting. This map, drawing on the Initiative for Responsible Investment at Harvard University's work on global CSR disclosure requirements, summarizes recent requirements by governments and stock exchanges related to CSR/ESG disclosure by country.



- Requirements by Governments
- Requirements by Stock Exchanges
- Requirements by Governments *AND* Stock Exchanges

Data provided by: INITIATIVE FOR RESPONSIBLE INVESTMENT

KPMG (2015) based on largest 100 firms in 45 countries



Research Methodology

- A *Political Discourse Analysis* (Van Dijk 1985) on the Hong Kong Exchange's policy communications materials and public consultation submissions from 2011 to 2015

- Empirical *Event Study* on the stock price reaction to policy shocks for adopters and non-adopters of voluntary ESG reporting.

The Hong Kong Experience

The 2015 ESG Reporting Requirements: An Overview

- In December 2015, the HKEx amended its "***Environmental, Social and Governance Reporting Guidelines***" to require ESG reporting on a "comply or explain" basis for all publicly traded firms starting from **2016**.
- Two main areas: "**Environmental**" and "**Social**".
- A combination of two levels of disclosure: "Comply or Explain" Items and "Recommended Disclosure" items.
- Narrative General Disclosure are required on ALL items.
- **Key Performance Indicators (KPIs)** under "Environmental" are for "Comply or Explain". KPIs under "Social" are for "Recommended Disclosure".

Environmental
"Comply or explain" Provisions

- A1: Emissions
  - **KPI A1.1**—The types of emissions and respective emissions data
  - **KPI A1.2**—Greenhouse gas emissions in total and where appropriate, intensity
  - **KPI A1.3**—Total hazardous waste produced and where appropriate, intensity
  - **KPI A1.4**—Total non-hazardous waste produced and where appropriate, intensity
  - **KPI A1.5**—Description of measures to mitigate emissions and results achieved
  - **KPI A1.6**—Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved
- A2: Use of Resources
  - **KPI A2.1**—Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity
  - **KPI A2.2**—Water consumption in total and intensity
  - **KPI A2.3**—Description of energy use efficiency initiatives and results achieved
  - **KPI A2.4**—Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved
  - **KPI A2.5**—Total packaging material used for finished products and, if applicable, with reference to per unit produced.
- A3: The Environment and Natural Resources
  - **KPI A3.1**—Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them

Social *Recommended Disclosures*		
	B1: Employment	**KPI B1.1**—Total workforce by gender, employment type, age group and geographical region
		KPI B1.2—Employee turnover rate by gender, age group and geographical region
	B2: Health and Safety	**KPI B2.1**—Number and rate of work-related fatalities
		KPI B2.2—Lost days due to work injury
		KPI B2.3—Description of occupational health and safety measures adopted, how implemented and monitored
	B3: Development and Training	**KPI B3.1**—The percentage of employees trained by gender and employee category
		KPI B3.2—The average training hours completed per employee by gender and employee category
	B4: Labour Standards	**KPI B4.1**—Description of measures to review employment practices to avoid child and forced labour
		KPI B4.2—Description of steps taken to eliminate such practices when discovered
	B5: Supply Chain Management	**KPI B5.1**—Number of suppliers by geographical region
		KPI B5.2—Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored
	B6: Product Responsibility	**KPI B6.1**—Percentage of total products sold or shipped subject to recalls for safety and health reasons
		KPI B6.2—Number of products and service related complaints received and how they are dealt with
		KPI B6.3—Description of practices relating to observing and protecting intellectual property rights
		KPI B6.4—Description of quality assurance process and recall procedures
		KPI B6.5—Description of consumer data protection and privacy policies, how implemented and monitored
	B7: Anti-corruption	**KPI B7.1**—Number of concluded legal cases regarding corrupt practices and the outcomes of the cases
		KPI B7.2—Description of preventive measures and whistle-blowing procedures, how implemented and monitored
	B8: Community Investment	**KPI B8.1**—Focus areas of contribution (e.g. education, environment, labour needs, health, culture, sport)
		KPI B8.2—Resources contributed (e.g. money or time) to the focus area

Other Key Requirements

- ESG report must cover the same period as its annual report, and shall be available on both the website of HKEx and the issuer no later than 3 months after the publication of the annual report.
- The ***board*** to take overall responsibility for the company's ESG strategy and reporting
- The ***Directors' business review*** ("MD&A") to include a discussion of the company's environmental policies and performance, compliance with the relevant laws and regulations, and an account of the company's key relationships with employees, customers and suppliers and other important stakeholders.
- ***Reporting Principles***: *Materiality, Quantitative, Balance, Consistency*

The Policy Making Process and Key Event Dates

May to July, 2011
HKEx held 15 free workshops on ESG reporting

December 9, 2011
HKEx published a consultation paper on the proposed ESG reporting guidelines

August 31, 2012
HKEx issued press release that the Guide was appended to the listing rule as a recommended practice

July 17, 2015
HKEx published a 2nd Consultation Paper on the 'Comply or Explain' ESG reporting guideline

Dec 21, 2015
HKEx published its decision to append the "2015 Guide" to the listing rule

By 2010, only 16.6% mainboard issuers disclosed some level of social and environmental information (HK Gov)
By 2013, only 46.4% of the issuers reported their ESG performance (Bloomberg Study based on 330 random issuers)

Highly Transparent Political Communications

- HKEx's Public Consultation Documents, Consultation Conclusions, and Press Releases
- http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/ex_publication.htm

- Submissions by Respondents with identity
- http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp201507r.htm

- ESG Reporting Guidance, Toolkits, and Training Webcasts
- http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/howtoprepare.htm

- ESG Resource Hyperlinks
- http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/hyperlinks.htm

Table 1: Respondent Category in the HKEx's 2015 Public Consultation

Respondent Category	Number of Resonses	Percentage of Responses
Institutions		
Market Practitioners:	43	23%
Investment Managers	23	12%
Accountancy Firms	6	3%
Law Firms	1	1%
Consultancy/Advisory Firms	13	7%
Professional Bodies	17	9%
Listed Companies	32	17%
Non-Governmental/Charitable Organizations	18	10%
None of the Above	14	8%
Individuals		
Retail Investors	13	7%
Listed Company Staff	14	8%
HKEx Participant Staff	1	1%
None of the Above	34	18%
Total	186	100%

Note: Table from the HKEx's Consultation Conclusions (Dec 27 2015). The HKEx's July 2015 Consultation Paper received a total 203 submissions. Given 17 submissions were entirely identical in content to all the others, they are excluded from the statistics.

Key Issues of Debates

A Discourse Analysis

Whether ESG reporting should be voluntary or mandatory?

- Whilst 96% respondents supported elevating ESG reporting to "comply or explain", a handful of **companies** still question whether is necessary:

➢ *"the cost burden associated with ESG reporting will affect future willingness of companies to list in Hong Kong"*. (**China Petroleum**)

➢ *"it will be a burden to cover all aspects, especially for small-and-medium cap issuers"* (**HK Ferry**)

➢ *'low polluters' incur cost without bring benefit"* (List Co. No. 5)

➢ *"for issuers operate in multiple jurisdictions, comply or explain is very burdensome"*. (List Co. No. 14)

➢ *"yearly data but biennial reporting"* (**Pacific Andes**)

➢ *"flexible timeframe for ESG reporting for initial 2 years"* (List Co. No. 17)

Whether ESG reporting should be voluntary or mandatory? (Cont')

Supporting Voices:

✓ *"HKEx should be an Asia Pioneer in* (ESG reporting)" (List Co. No. 10)

✓ "HKEx's this initiative is a "*positive step for market efficiency and transparency*." (**CalPERS**)

✓ *"fair markets require material ESG reporting, […] this initiative aligns HKEx with its global peers and ensures that the same level of diligence that investors, intermediaries and issuers bring to other markets will have an appropriated and disciplined context in Hong Kong."* (**TIAA-CREF**)

✓ *"increased ESG disclosure will be a catalyst for increased dialogue between investors and investee companies. […] We would like to encourage HKEx not to disregard their interest in ESG reporting just because they may not generally be as attractive to institutional investors as larger-cap companies. In our experience, there are leaders amongst the small- and mid-cap companies that have shown genuine interest and support towards ESG reporting, and the ESG reporting can enhance their competitiveness and reputation."* (**RS Group, a HK based Private Family Office**)

Whether ESG reporting should be voluntary or mandatory? (Cont')

In relation to "Hong Kong's Competitiveness":

- ✓ *"We believe the benefits of ESG reporting outweighs its disadvantages. It helps issuers to understand that ESG reporting is not just a report, but a process by which issuer can* ***gather*** *and* ***analyze*** *data it needs to* ***create long term value*** *and resilience to environmental and social changes. Globally we see many companies are using the process of ESG reporting to bring ESG matters to the heart of their business strategy. With this in mind, we believe it is in the very interest of the Hong Kong market to align with recent development in other jurisdictions and international best practice."* (**KPMG**)

- ✓ *"It is important that HK is not seen as a laggard in this (ESG reporting) area"*, and it is necessary to report carbon and air emissions and waste generation, because "*they are / will be increasingly legislated anyway*". (**HKIQEP**)

- ✓ *Responsible investing is a growing trend globally and increasingly attracting younger professional talent. If Hong Kong does not act quickly and offer enough relevant job opportunities, it would suffer from a "brain drain" and risk losing valuable workforce to overseas competitor markets."* (**RS Group**)

Whether ESG reporting should be voluntary or mandatory? (Cont')

- *"an exceptional opportunity for Hong Kong to secure the retention and attraction of impact capital, and become the leading international sustainable financial center of Asia."* (**RS Group**)
- *"An added pressure for Hong Kong is the 'international financial market' role it plays for Mainland China - given their increasing commitments to ESG topics like air quality and clean energy, more ESG disclosures are likely to follow suit"* (**Red Links**)

- *"To respond to those in favour of the voluntary approach, we believe that the long term benefits of requiring ESG reporting (on a "comply or explain" basis) will outweigh the disadvantages. […] We believe that our proposed regulatory approach is appropriate given this trend, and also in view of the current level of reporting and the variance in reporting capabilities amongst our issuers."* (**Response by HKEx**)

Whether Key Performance Indicators should be Mandatory

Opponents (Companies):

- *"quantitative KPI disclosure is not international norm"* (List Co. No. 5)
- *"KPI should remain strictly voluntary"* (List Co. No. 3, 12, 13)
- *"not all KPIs are applicable to every issuer"* (List Co. No. 1)

Supporters (Institutional Investors)

- ✓ *"All KPIs in the 'recommended category' shall be elevated to mandatory."* (**Black Rock**)
- ✓ [KPIs are] *"material to our businesses"* (**BMO Global Asset Management**)
- ✓ [KPIs are] *"readily accessible by the firm"*, and *"it can promote the investment interest of the funds"* (**LAPFF**)

Whether Key Performance Indicators should be Mandatory

- *"We assert again, that the purpose of a firm's ESG reporting should be to facilitate the identification of risks and opportunities […] in the process of creating long-term value for the firm, to let the firm fulfil its fundamental objective function. If the aim becomes slanted towards suiting some reporting guide's prescription to achieve good scorecards, the focus on risks and opportunities blurs. We could end up in a trap where boards and management pursue with corporate resources their own personal favourite social causes in the name of corporate social responsibility, leading only to firms engaging in behaviour in the name of increasing social welfare but that in fact undermines the value seeking objective."* (**HKEx's Response**)

Quality Assurance?

- ✓Requiring third party assurance? (several respondents)
- ✓*"whether there is a mechanism to examine the reasons provided by the issuers, lack of such mechanism may undermine the effectiveness of ESG reporting*. (**Hong Kong Consumer Council**)
- ✓ *"The exchange should put in place a monitoring process, whereby failure to adequately explain non-compliance lead to consequences"* (Legal and General Investment Management, or **LGIM**)

HKEx's Response:

- ✓*"many issuers are still at the beginning stage of reporting and to require 3rd party assurance would impose a greater cost burden"*
- ✓ HKEx may *"spot-check issuers' compliance with the 'comply or explain' provisions."*

Timeliness of ESG Reporting (The Maximum 3 Month lag Rule)

Too short! (Companies)

✓ The 3 month lag rule is "unduly prescriptive" (**Swire**)

✓ "*some early [voluntary] adopters already have their ESG reporting cycle*." (List Co. No. 15)

✓ "longer preparation period, such as 6 to 8 months after the annual report." (List Co. No. 4 and 18)

Too long! (Investors)

✓ "*We want to evaluate the ESG report <u>together and in conjunction with</u> annual report*" (**Investeco Asset Management**)

✓ "*Issuers, especially SMEs, may argue difficulties in working on the ESG report at the same time as they are finalising the annual report, citing time pressure, lack of resources, and etc. <u>We disagree with such view, as we think personnel who work on ESG reporting do not necessarily overlap with those who work on the annual report. The overlap may occur on a management or board level</u>, where ESG strategies should be reviewed before the publication of the report. <u>We view that this is a necessary burden for the management and board to take on the company's behalf</u>.*" (**APG Investment Asia**)

Eclectic View

✓ "*as companies go through an initial learning curve, we would recommend allowing flexibility in the report timing to reflect the growing and changing interests from their shareholders*" (**FTSE Russel**)

CG Concerns on the Lag between AR and ESG Report

- ✓ [The Lag] "*raises the possibility that ESG reporting would <u>not be subject to the same board oversight</u> that is common to traditional annual reporting*." (**ACGA**)

- ✓ *for many investors, <u>proxy voting</u> is a significant, if not the main, avenue by which they engage with corporations. If they are not provided with this information prior to an annual meeting, it could deprive them of the opportunity to fully evaluate a company and its performance.*" (**Glass Lewis & Co**)

HKEx's Response:

"*at present over half of the issuers are not yet reporting, and consider ESG reporting to together with their annual report pose significant difficulties for some issuers, and could be unduly onerous*. [the current proposal] *draws reasonable balance of opposing views*".

Lessons learned from the HK CSR Regulation

1. The "Societal Governance" view ? ☹

- HK's uniqueness, offshore financial center, service and external oriented economy, "big market, small government" style of capitalism➔ In contrast to China
- less likely ESG challenges comes from "domestic"

2. The "Political Actor view"? ☹

- the oppositions to elevate the standard come unexceptionally from the listed companies, including big name multinationals.
- Local market leaders (except a few) are either indifferent to, or lobby against implementation.➔ Their primary playing field is abroad!
- The overall policy making process appears to be *stock exchange-driven* rather than corporate-driven

Lessons learned from the HK CSR Regulation (Cont')

3. "National Competitiveness View" ☺

✓ the highest frequency words appeared were "competitiveness", "international standards", and "market opportunities", etc.➔ Peer Pressure

✓ HKEx's pragmatic approach HKEx balancing the investors' demand for non-financial information versus the issuers' costs and market compliance actuality

✓Overall stakeholder's support to think more about strategy and the long-term competitiveness of Hong Kong

- What types of companies does HKEx want to attract for listing?
- What kind of institutional investors that Hong Kong market wants to retain?
- How can HK financial service sector grab these eco-opportunities to attract and develop its own talent pool of professionals (directors, auditors, analysts, fund managers, etc.)?
- How to "position" and "differentiate" the competitiveness of HKEx, compared with regional stock markets in Shanghai, Singapore, Tokyo and Shenzhen?

The Event Study

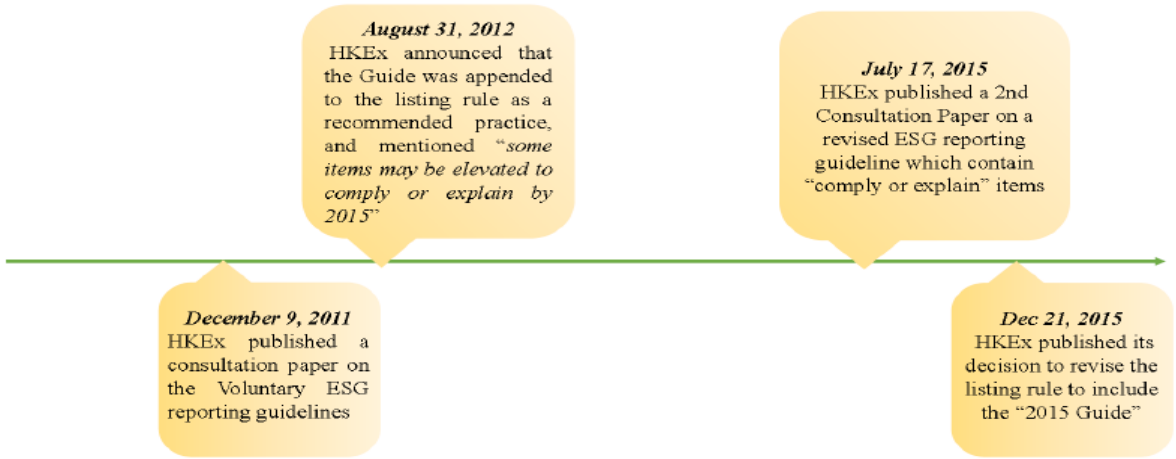
Motivation

- The objective of is to evaluate the potential impact of the ESG reporting on issuers
- A common concern is that ESG reporting and mandatory KPIs add "Compliance Cost", especially for SMEs, and firms in environmentally sensitive industries (ESI).
- Large literature showing that ↑ CSR disclosure is associated with ↓corporate risks, ↑ economic outcomes and stakeholder satisfaction, and ↑ shareholder value. (see Malik 2015 for a survey)

➔ Whether enhanced ESG disclosure is perceived as value increasing or decreasing is an empirical question.

Event Study: Settings and Assumptions

- Assumption: the “efficient market” hypothesis.
- A positive (negative) and significant “abnormal return” means the market interprets the news as “value enhancing (destroying)” to the underlying firm’s shareholders.
- Testing the market abnormal returns on the four announcement dates by HKEx in relation to the ESG reporting policy.



The Empirical Strategy to Create Treatment and Control Group

- I exploit the cross-sectional variation of firms that are subject to ***varying degree of this policy shock***.
- Some firms have voluntarily adopted the ESG reporting practice *before* the relevant announcement date ("**adopters**") whilst other firms have not ("**non-adopters**").
- Data from HK Gov. Environmental Protection Department, and HKEx
- *Testable Hypothesis*: if the ESG reporting brings more cost than benefit, I shall find the stock price reaction of non-adopters to be "more negative" than the adopters (who already incurred such cost)
- I also examined the cross-sectional variation between firms in "**ESI versus non-ESI**"; "**large versus small firms**", and "**China versus non-China related stocks**"

Sample Distribution and Voluntary Adoption Rate

Industry	ESI	Total Obs.	Obs. Adopters	Obs. Non-Adopters	Adopting Rate
Energy	Yes	16	7	9	44%
Material	Yes	32	13	19	41%
Industrial Goods	Yes	38	19	19	50%
Consumer Goods	Yes	49	22	27	45%
Services	No	31	23	8	74%
Telecommunications	No	5	5	0	100%
Utilities	Yes	18	12	6	67%
Financials	No	32	20	12	63%
Properties & Construction	Yes	51	36	15	71%
Information Technology	No	17	10	7	59%
Conglomerates	No	8	7	1	88%
Total	-	297	174	123	59%

Note: the adoption information is as the end of fiscal year 2014.

Cumulative Abnormal Return for the 4 Announcement Dates

		Event Date			
		9-Dec-11	31-Aug-12	17-Jul-15	21-Dec-15
CAR (-1,+1)	Non-Adopter	0.0073	0.0024	0.0210	0.0015
	Adopter	0.0090	0.0071	0.0164	0.0064
	Difference	-0.0017	-0.0047	0.0046	-0.0049
		(-0.38)	(-1.04)	(0.48)	(-1.20)
CAR (-2,+2)	Non-Adopter	0.0036	0.0036	0.0050	0.0039
	Adopter	0.0042	0.0068	-0.0005	0.0091
	Difference	-0.0006	-0.0032	0.0055	-0.0053
		(-0.09)	(-0.48)	(0.60)	(-1.07)
CAR (-3,+3)	Non-Adopter	0.0027	0.0063	-0.0075	-0.0034
	Adopter	0.0043	0.0049	0.0024	0.0006
	Difference	-0.0016	0.0014	-0.0099	-0.0040
		(-0.25)	(0.17)	(-1.01)	(-0.63)
Nadpt Obs.		121	124	120	121
Adpt Obs.		164	165	169	169

CAR for Adopters and Non-Adopters in Environmentally Sensitive or Non-sensitive industries

		Event Date			
		9-Dec-11	31-Aug-12	17-Jul-15	21-Dec-15
ESI	Non-Adopter	0.0093	-0.0020	0.0237	-0.0025
	Adopter	0.0086	0.0053	0.0176	0.0049
	Difference	0.0008	-0.0073	0.0061	-0.0074
		(0.14)	(-1.29)	(0.47)	(-1.57)
	Nadpt Obs.	96	98	93	94
	Adpt Obs.	99	100	107	107
Non-ESI	Non-Adopter	-0.0003	0.0189	0.0117	0.0153
	Adopter	0.0098	0.0100	0.0142	0.0091
	Difference	-0.0100	0.0089	-0.0025	0.0062
		(-1.33)	(1.10)	(-0.21)	(0.75)
	Nadpt Obs.	25	26	27	27
	Adpt Obs.	65	65	62	62

CAR for Large versus Small firms

		Event Date			
		9-Dec-11	31-Aug-12	17-Jul-15	21-Dec-15
L	Non-Adopter	-0.0036	0.0001	0.0101	0.0037
	Adopter	0.0045	0.0047	0.0079	0.0066
	Difference	-0.0080	-0.0046	0.0022	-0.0028
		(-1.54)	(-0.84)	(0.20)	(-0.51)
	Nadpt Obs.	40	41	45	44
	Adpt Obs.	95	95	87	89
S	Non-Adopter	0.0127	0.0035	0.0275	0.0002
	Adopter	0.0153	0.0104	0.0253	0.0063
	Difference	-0.0026	-0.0069	0.0022	-0.0061
		(-0.37)	(-0.95)	(0.15)	(-1.00)
	Nadpt Obs.	81	83	75	77
	Adpt Obs.	69	70	82	80

CAR for China Related versus Non-China Related Stocks

		Event Date			
		9-Dec-11	31-Aug-12	17-Jul-15	21-Dec-15
China	Non-Adopter	-0.0026	0.0118	0.0092	0.0019
	Adopter	0.0056	-0.0002	0.0117	0.0162
	Difference	-0.0082	0.0120	-0.0025	-0.0144
		(-1.04)	(1.32)	(-0.16)	(-1.84)*
	Nadpt Obs.	38	40	37	37
	Adpt Obs.	42	42	46	46
Non-China	Non-Adopter	0.0119	-0.0021	0.0262	0.0013
	Adopter	0.0102	0.0096	0.0181	0.0027
	Difference	0.0017	-0.0117	0.0082	-0.0014
		(0.31)	(-2.24)**	(0.68)	(-0.30)
	Nadpt Obs.	83	84	83	84
	Adpt Obs.	122	123	123	123

Sub-sample Analysis on Non-Adopters

		Event Date			
		9-Dec-11	31-Aug-12	17-Jul-15	21-Dec-15
ESI vs. Non-ESI	Non-ESI	-0.0003	0.0189	0.0117	0.0153
	ESI	0.0093	-0.0020	0.0237	-0.0025
	Difference	-0.0096	0.0209	-0.0120	0.0178
		(-1.04)	(2.11)**	(-0.73)	(2.49)**
	Non-ESI Obs.	25	26	27	27
	ESI Obs.	96	98	93	94
Small vs. Large	Small	0.0127	0.0035	0.0275	0.0002
	Large	-0.0036	0.0001	0.0101	0.0037
	Difference	0.0163	0.0035	0.0175	-0.0036
		(2.08)**	(0.40)	(1.23)	(-0.56)
	Small Obs.	81	83	75	77
	Large Obs.	40	41	45	44
China vs. Non-China	China	0.0119	-0.0021	0.0262	0.0013
	Non-China	-0.0026	0.0118	0.0092	0.0019
	Difference	0.0145	-0.0140	0.0170	-0.0006
		(1.82)*	(-1.61)	(1.14)	(-0.08)
	China Obs.	83	84	83	84
	Non-CN Obs.	38	40	37	37

Analysis for the (non-) Result

- Cannot reject the null hypothesis that "*ESG reporting has no impact on shareholder's value*", but to prove this statement needs more evidence

✓Possible explanation 1: cost of compliance may not be significant for business. ➔ ESG "reporting" as opposed to real commitment.

✓Possible explanation 2: the compliance cost can be significant, however it is "offset" by the expected benefits to shareholders.

✓Possible explanation 3: the compliance cost can be significant, however the HKEx has done a good job to manage the market's expectation.

✓Possible explanation 4: results are coarse due to common challenges such as measurement error and selection bias.

➔ One should treat this empirical evidence with care.

Main Take-aways

- Fills a gap in the CSR legalization literature outside Europe and US.
- Discourse analysis finds support to the “national competitiveness view”, as opposed to the “societal governance view” or “political actor view” of CSR regulation. However, one should be careful to generalize this finding to other country context.
- Event study finds little negative impact on shareholders for ESG reporting requirement. More intensive research in this are is welcomed.

THANK YOU

Q&A

Dr. Haitian LU

Haitian.lu@polyu.edu.hk