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American Business in Hong Kong from a CSR Perspective:  
Drivers and Barriers of Engagement

A University of Hong Kong / American Chamber of Commerce in  
Hong Kong Study

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**RESEARCH REPORT**



**THE UNIVERSITY OF HONG KONG**



## EXECUTIVE SUMMARY

In 2007, the University of Hong Kong partnered with the American Chamber of Commerce in Hong Kong (AmCham) to conduct a unique benchmark survey that would assess business professionals' attitudes toward and behaviours regarding Corporate Social Responsibility (CSR). AmCham collected the research data through a quantitative online survey, which gathered the views of a wide range of international business members based in Hong Kong. The findings serve to raise public awareness about the state of the local CSR environment and to provide guidance to businesses in their future CSR strategy planning. The research objectives of the study are:

- Defining the main drivers for CSR engagement
- Identifying the most influential stakeholder groups in stimulating CSR activity
- Revealing the main challenges businesses face when implementing CSR
- Determining the most popular CSR initiatives that are currently in place

The main findings of the Hong Kong research are summarized below.

1. **CSR efforts are mostly driven by a desire to enhance corporate reputation and image.**
2. **Companies are most influenced by customer and consumer demand to engage in CSR activity.**
3. **Employees are very influential in pushing the adoption of CSR practices, especially through management's feeling of social and ecological responsibility.**
4. **Global headquarters and the Board play an important role in their ability to remove the main obstacle of CSR engagement, which is a lack of resources.**
5. **Government does not provide sufficient incentives or clarity on expectations. This acts as a major deterrent to CSR practices.**
6. **Philanthropy and other social initiatives dominate over environmental involvement. Almost one-third of companies are not doing anything regarding the environment.**
7. **Larger companies are doing more than smaller companies in all areas of CSR.**

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## **BACKGROUND**

As business becomes increasingly globalised in the twenty-first century, the immense scale and reach of its operations are having considerable effects on international society, politics and the environment. Certain multinational corporations (MNCs) have greater economic power than some countries. Consequently, MNCs find themselves being held accountable by a wide spectrum of stakeholders. These include primary stakeholders such as customers and employees but also secondary stakeholder groups such as non-governmental organizations (NGOs) and the broader community.

Companies that choose to embrace their stakeholders' concerns and harness the power of their vast operations to improve society and the environment are practicing Corporate Social Responsibility (CSR). However, global companies' CSR strategies vary across their global operations. Each specific geographical location presents a unique set of factors that contribute to the CSR behaviour of companies.

The aim of this research is to define the CSR landscape of Hong Kong. This is done by identifying what drives corporate CSR behaviour; who are the most influential stakeholders in fostering CSR; and what are the major challenges faced along the way. Additionally, differences by country of origin, sector and company size are examined.

## SURVEY METHODOLOGY

The survey applied the following methodology:

- The sample was intended to represent the US business population in Hong Kong. The American Chamber's membership provides a close approximation of the actual composition of US businesses. The sample also included the Chamber's foreign membership in order to enable country comparisons of data.
- The survey utilized 13 mostly closed questions and was administered in the first half of May 2007.
- An invitation to complete the online survey was sent by the American Chamber to its corporate members via email.
- Surveys were completed by 139 respondents. The response rate was approximately 11%. Due to the sample size, the findings were largely descriptive, although several statistically significant trends did emerge.
- 57% of the total responses were received from American companies. The second largest group was comprised of Hong Kong companies, which make up almost one third of total respondents.
- Companies representing 22 industry sectors took part in the survey. Most responses were received from the following industry sectors: Financial Services (Banking, Securities and Insurance), Communications/Media and Entertainment, Professional Business Services/Consulting, Legal Services, IT/Telecommunications and Technology and Manufacturing respectively.
- The majority of respondents' companies were large multinational corporations (MNCs):
  - ◆ 34% of companies had more than US\$1 billion in annual revenues;
  - ◆ 50% had between US\$10 million and US\$1 billion in annual revenues;
  - ◆ Only 16% had annual revenues of less than US\$10 million.
- 82% of companies served as the regional headquarters for the Asia Pacific region. The second and third most popular locations of regional headquarters are Singapore (5%) and Shanghai (3%).

## SURVEY HIGHLIGHTS

### MAJOR MOTIVATING FACTORS OF LOCAL CSR ACTIVITY

On a scale of 1 to 5, to what extent do each of the following factors drive your company's adoption of environmental and social initiatives? (1 = Extremely, 5 = Not at all)

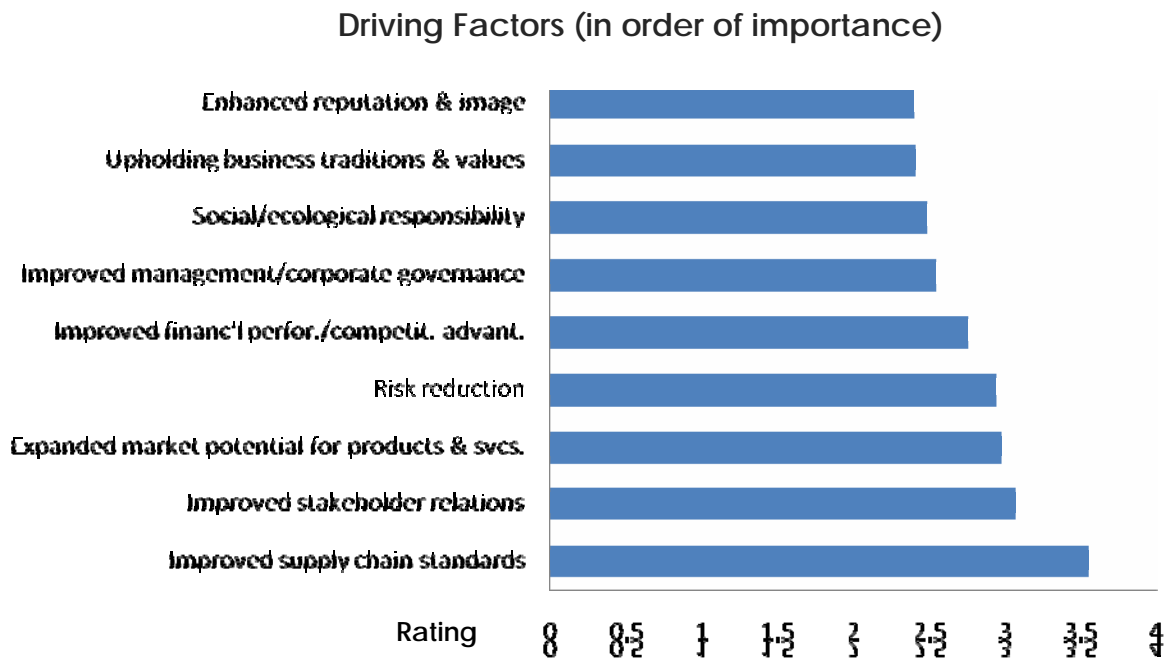


Figure 1: Ranking of driving factors by mean scores of ratings results

### KEY FINDINGS

#### IMPROVING CORPORATE REPUTATION AND IMAGE IS THE MAJOR DRIVER OF CSR

- Companies engage in CSR to enhance their reputation and image.
- Contributing to corporate reputation, upholding business traditions and values is the second most important motivating force.
- Management's feeling of social and ecological responsibility also plays an important role in a company's adoption of CSR practices. This highlights the role that employees play in fostering CSR practices in the region.
- The top seven factors are all deemed as important in driving CSR activity (*rating values of less than 3 (3 = somewhat important)*).

## MOST INFLUENTIAL STAKEHOLDERS

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On a scale of 1 to 5, how influential are the following in mobilizing your company to adopt new environmental and social initiatives in the region? (1 = Extremely, 5 = Not at all)

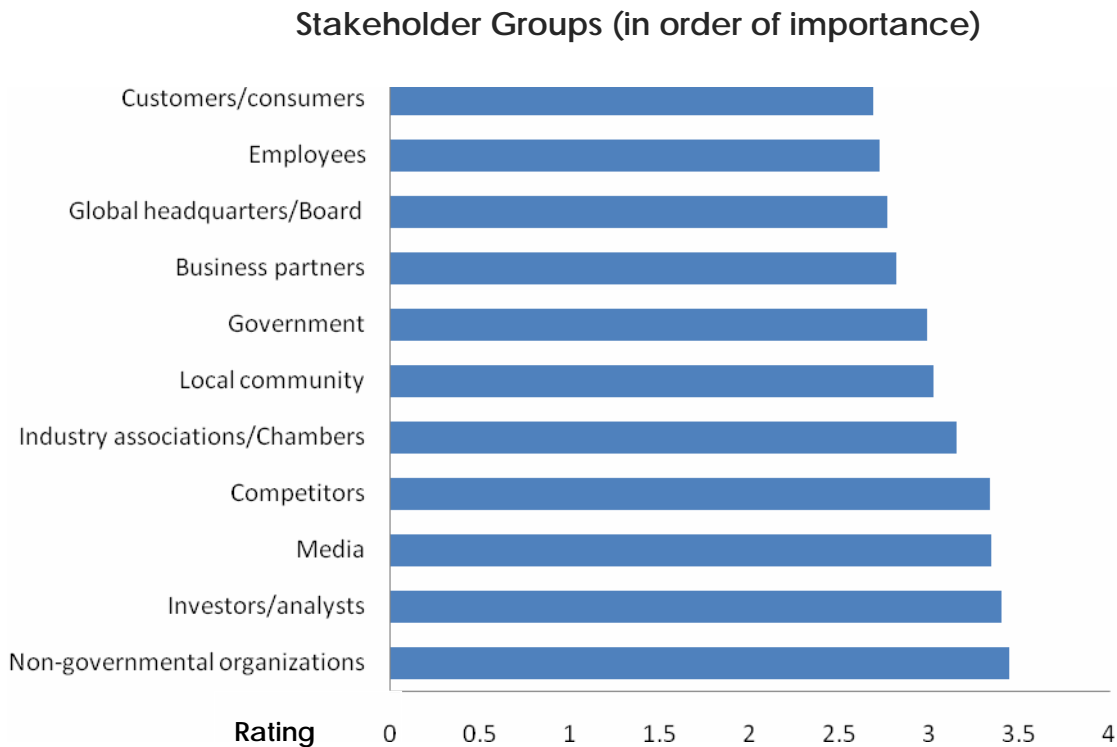


Figure 2: Rankings of stakeholder groups by mean scores of ratings results

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## KEY FINDINGS

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### FIVE STAKEHOLDER GROUPS STAND OUT FROM THE REST

- The customer and consumer is king/queen in influencing action on CSR.
- Employees are the second most influential group. This highlights their potential effectiveness as champions of CSR.
- Global headquarters and the Board have significant power over a company's CSR strategy.
- Government is ranked as only the fifth most influential stakeholder group, but is rated as very important in pressuring companies to adopt CSR practices (*rating values of less than 3*). This implies that local government has the potential to be a key influencer in CSR but is currently not a driving force for change.

- NGO'S are the least influential stakeholder group in promoting CSR activity in companies. This suggests that NGO's should improve their collaboration with business or better promote their value-add services.

## MAIN CHALLENGES FACED

*On a scale of 1 to 5, to what extent do the following limit your company's efforts in adopting new environmental and social initiatives? (1 = Extremely, 5 = Not at all)*

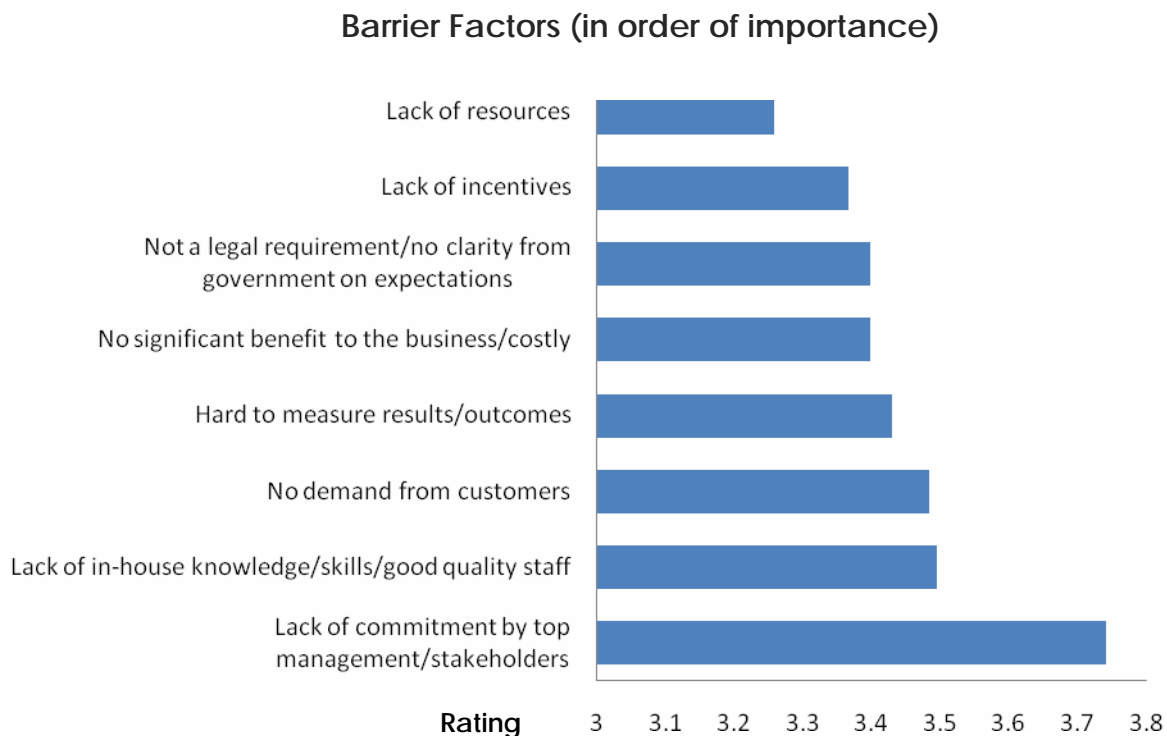


Figure 3: Ranking of barrier factors by mean scores of ratings results

## KEY FINDINGS

### THE MAIN OBSTACLES HIGHLIGHT THREE STAKEHOLDER GROUPS

- Companies cite a lack of resources as the prime deterrent to CSR activities. Considering that most respondents are large multinational corporations, this may indicate an under-allocation of resources by global headquarters/Board.
- The lack of incentives and legal requirements highlights government's role in hindering companies' CSR engagement. This signals an opportunity for government to foster CSR in Hong Kong by setting social and environmental

standards and by applying sticks and carrots. Failing to provide incentives or clarity on expectations significantly hinders the adoption of CSR practices.

- The difficulty with measuring the results and outcomes of CSR initiatives presents a challenge when seeking resource allocation from the global headquarters/Board. This also reveals the potential for CSR consulting companies or CSR-focused NGO's to provide tangible services to companies.

### **MOST POPULAR ENVIRONMENTAL INITIATIVES**

*Is your company currently involved in any of the following environmental initiatives in Hong Kong or Mainland China? (Tick all that apply)*

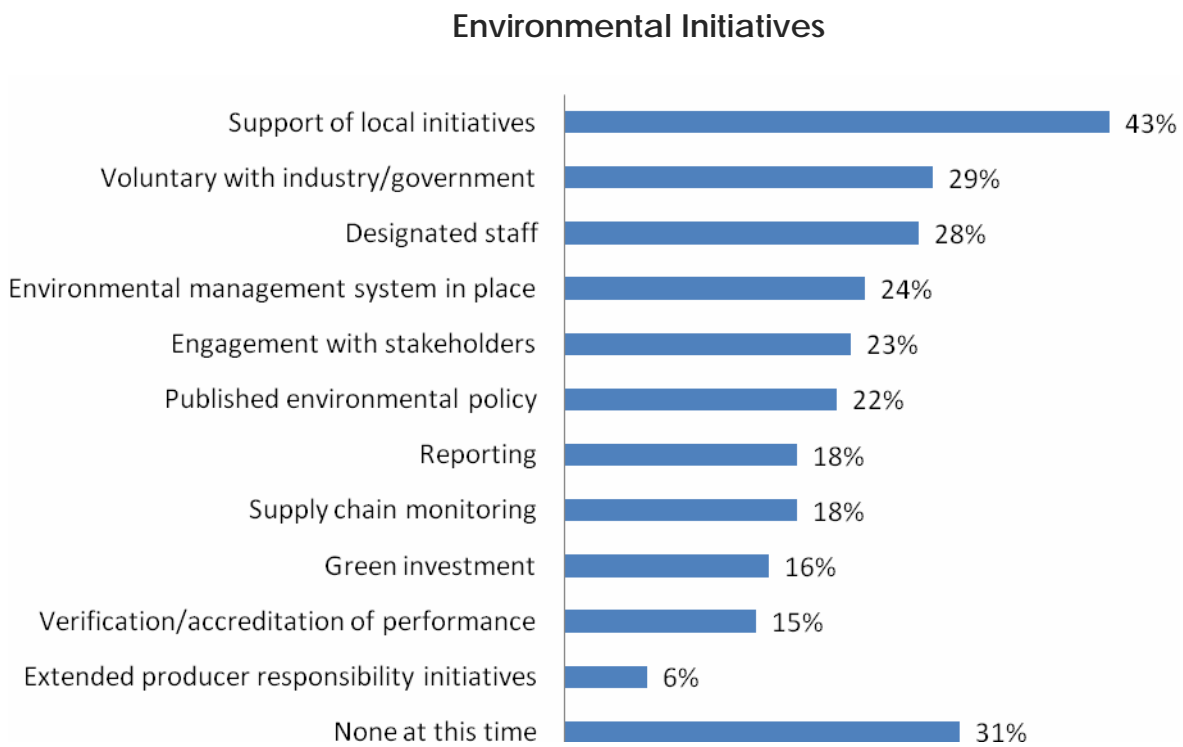


Figure 4: Involvement in local environmental initiatives

### **KEY FINDINGS**

#### **HIGH LEVEL OF INACTION**

- Overall, there is a low level of engagement with environmental initiatives. Almost one-third of companies are not engaged in environmental initiatives at this time. This is surprising considering the severe environmental challenges being faced by

Hong Kong. Once again, this highlights the opportunity for regulation and other governmental policy in promoting a higher level of environmental involvement.

- Of the eleven initiatives only 'Support of local initiatives' is pursued to a significant level. The low business involvement with the remaining initiatives indicates that this is only a starting point. There is much room for improvement in developing a variety of environmental programs.

## ENVIRONMENTAL INVOLVEMENT BY INDUSTRY SECTOR

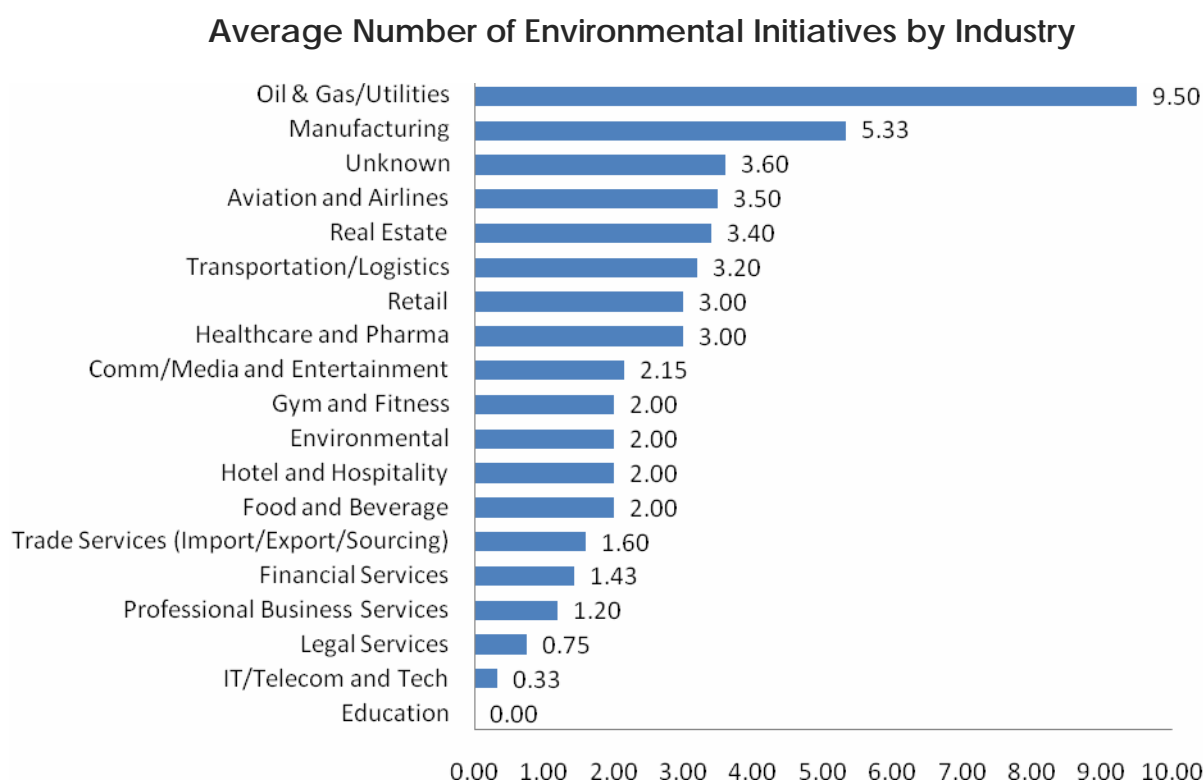


Figure 5: Distribution of environmental initiatives by industry sector

## KEY FINDINGS

### HIGH-IMPACT SECTORS ARE MOST INVOLVED

- On average, the Oil & Gas industry sector is involved with the largest amount of initiatives and also has the broadest range of initiatives. Manufacturing, Aviation and Airlines, Real Estate (including construction) and Transportation/Logistics are among the most involved industry sectors. The comparatively heightened

environmental involvement of this group can be explained by its higher propensity for contributing to local pollution. Such high-impact sectors are expected to exert more effort in their environmental performance than other, less-polluting industry sectors. However, the threat of environmental pollution - especially air pollution - to the long-term competitiveness of Hong Kong, should warrant a wider breadth of industry sector involvement.

## ENVIRONMENTAL INVOLVEMENT BY COUNTRY OF ORIGIN

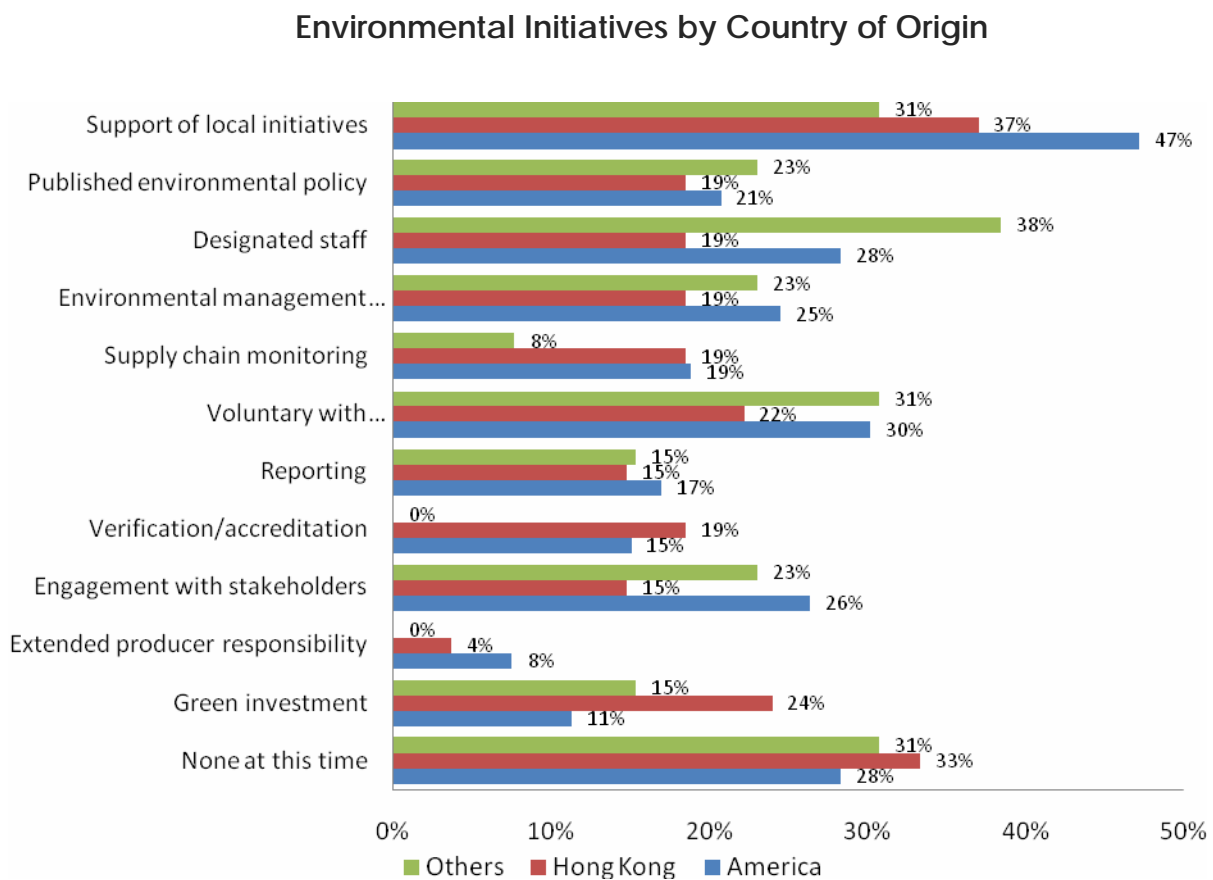


Figure 6: Distribution of environmental involvement by country origin

## KEY FINDINGS

### AMERICAN COMPANIES ARE DOING MORE

- Overall, US companies are more active across a larger number of environmental initiative categories than Hong Kong companies. This may be explained by the exposure of US companies to stringent environmental regulations back home.

However, Hong Kong companies are by far more active in green investment (24% of respondents) when compared with US companies (11% of respondents). This may be due to a lack of local green investment opportunities for foreign companies.

## ENVIRONMENTAL INVOLVEMENT BY COMPANY TURNOVER

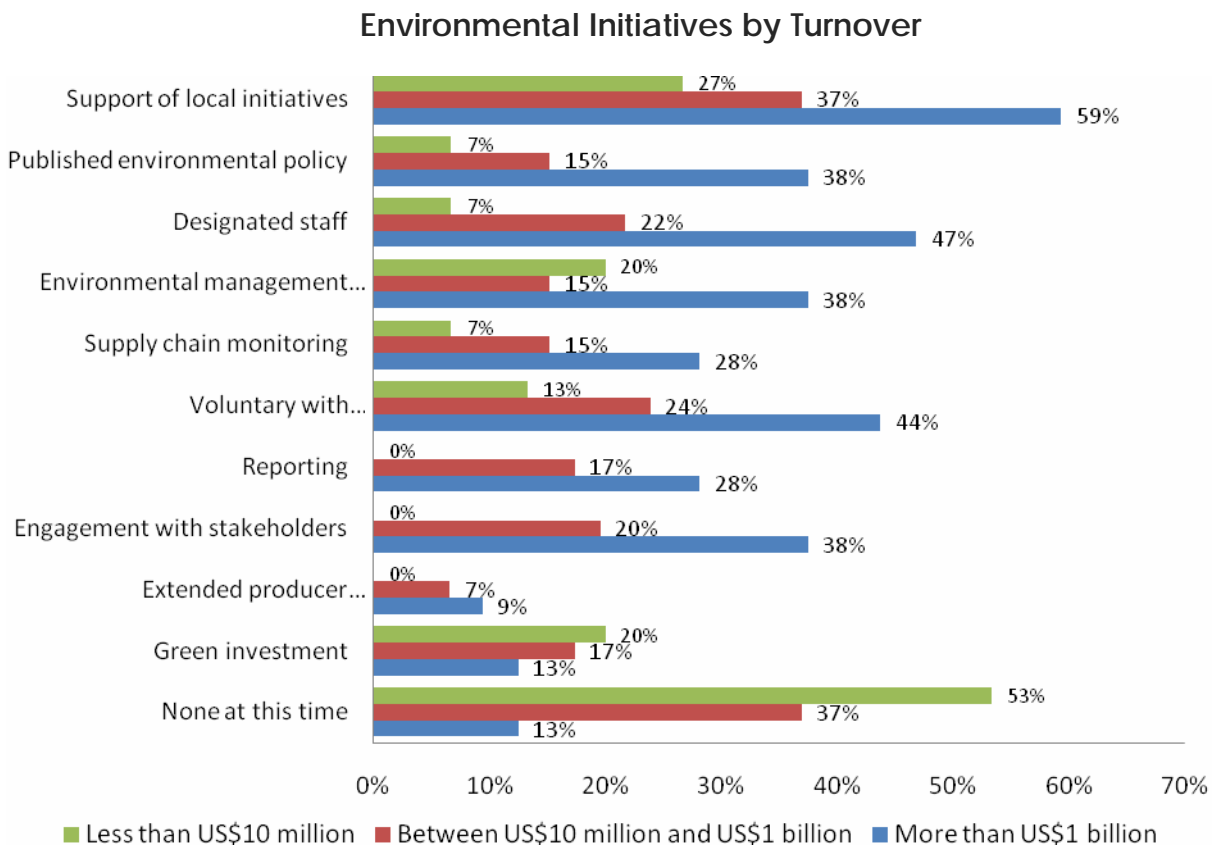


Figure 7: Distribution of environmental involvement by revenue

## KEY FINDINGS

### LARGER COMPANIES ARE DOING MORE

- The largest companies with annual revenues exceeding US\$1 billion on average had the highest number of initiatives for most categories, followed by companies with annual revenues of between US\$10 million and US\$1 billion.
- In contrast, more than half of companies with less than US\$10 million in annual revenues were not involved in any environmental initiatives at the time of the

survey. This emphasizes the pivotal role that resource capacity plays in CSR involvement.

## **MOST POPULAR SOCIAL INITIATIVES**

*Is your company currently involved in any of the following social/community initiatives in Hong Kong or Mainland China? (Tick all that apply)*

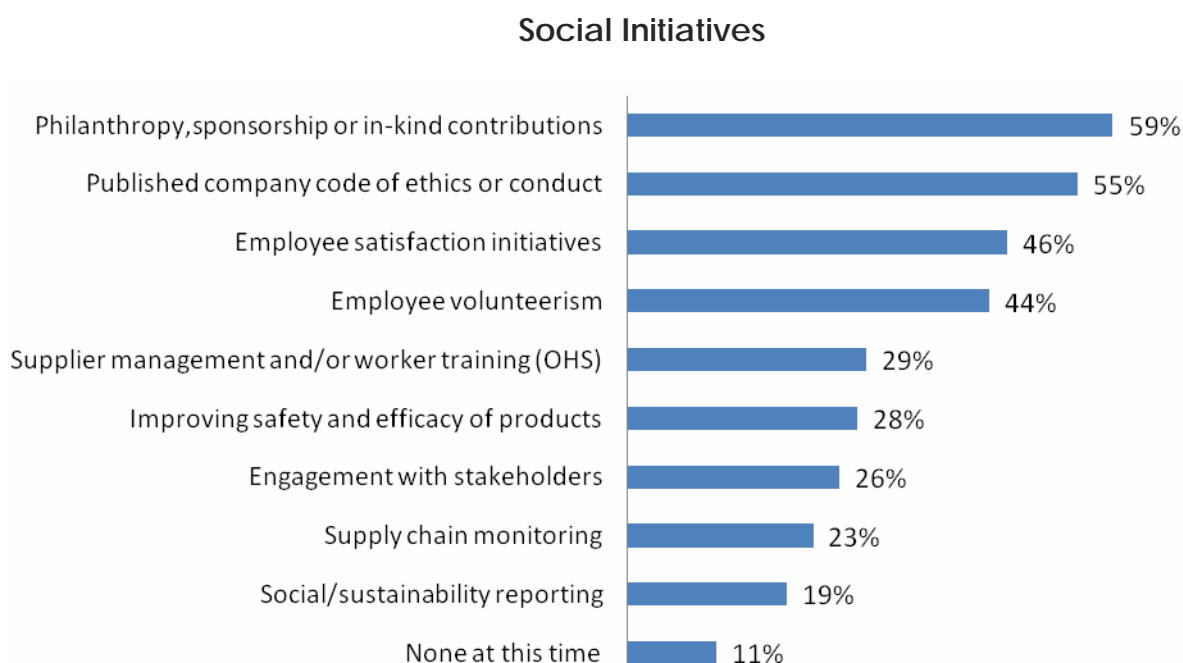


Figure 8: Involvement in local social initiatives

## **KEY FINDINGS**

### **PHILANTHROPY DOMINATES BUT CODES ARE ALSO IMPORTANT**

- Mirroring trends in the US, philanthropy is the most popular social initiative. However, philanthropy is being seen more and more as an add-on to CSR strategy.
- The high level of company code publishing can be explained by Hong Kong’s role as a sourcing hub for Western markets, which have higher consumer expectations and legal standards for product quality. However, there is a lack of implementation follow-through illustrated by the low level of supplier management and/or worker training (OHS), supply chain monitoring and social/sustainability reporting.

- It is interesting to compare the level of involvement in philanthropy and other social initiatives to environmental involvement. In an area like Hong Kong, environmental action can be expected to dominate social action and not vice-versa.

## SOCIAL INVOLVEMENT BY INDUSTRY SECTOR

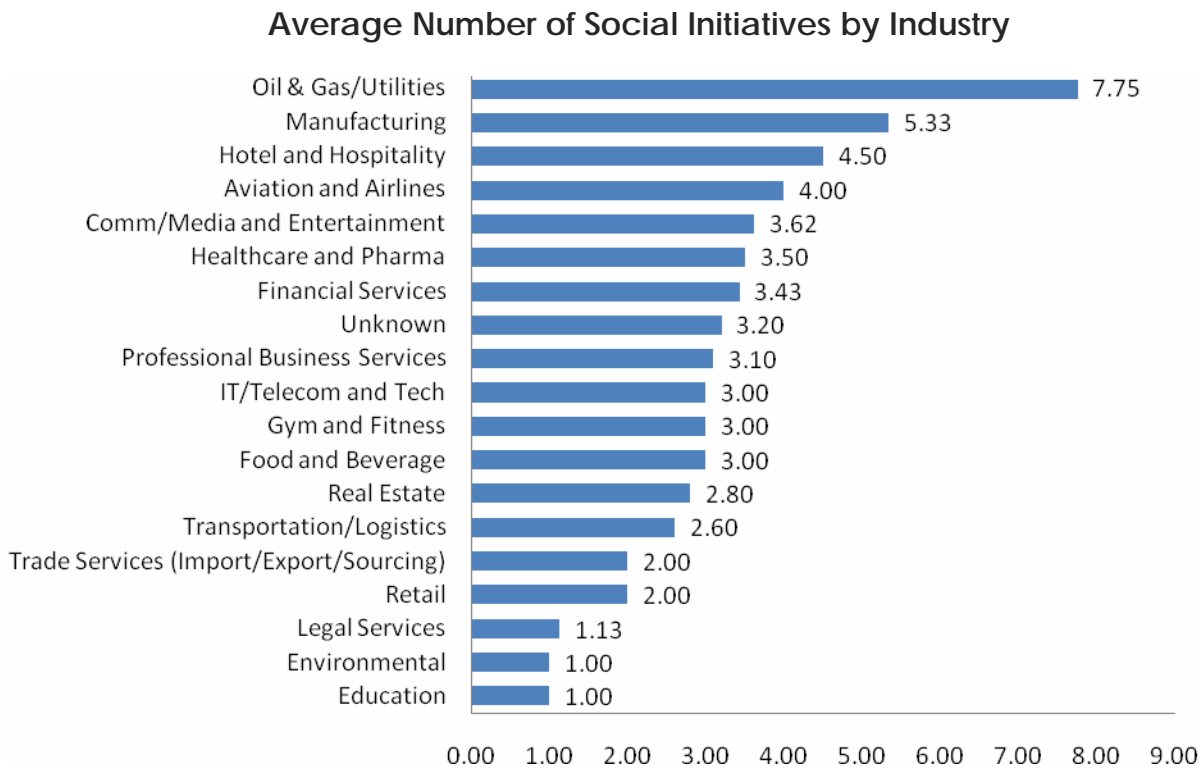


Figure 9: Distribution of social involvement by industry sector

## KEY FINDINGS

### HIGH-IMPACT SECTORS ARE MOST INVOLVED

- Similarly as above, the Oil & Gas and Manufacturing industry sectors are the most involved. These sectors face heightened exposure to reputational risk from inaction on social issues. Other highly involved sectors can be expected to have a significant impact on social issues through their operations.

Social Initiatives by Country of Origin

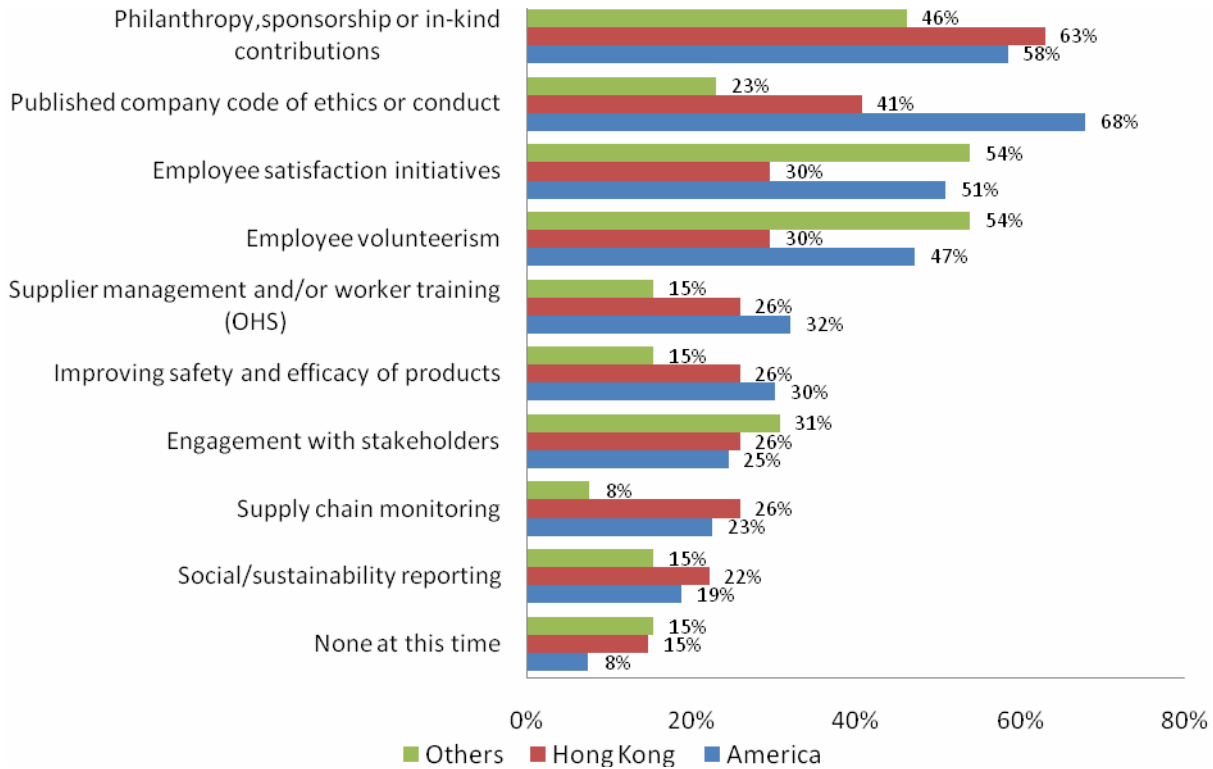


Figure 10: Distribution of social involvement by country of origin

KEY FINDINGS

AMERICAN COMPANIES UTILIZE CODES MORE

- 68% of US companies publish a code of ethics or conduct compared with only 41% of Hong Kong companies and 23% of Other companies.
- Despite the high frequency of company code publishing, a relatively small amount of US firms (23%) and Hong Kong firms (26%) actually monitor their supply chain. However, 32% of US companies perform supplier training, which may indicate a shift from the traditional approach of ensuring compliance with company standards through auditing. Auditing in itself is seen more and more as an ineffective approach in improving supply chain standards.

Social Initiatives by Turnover

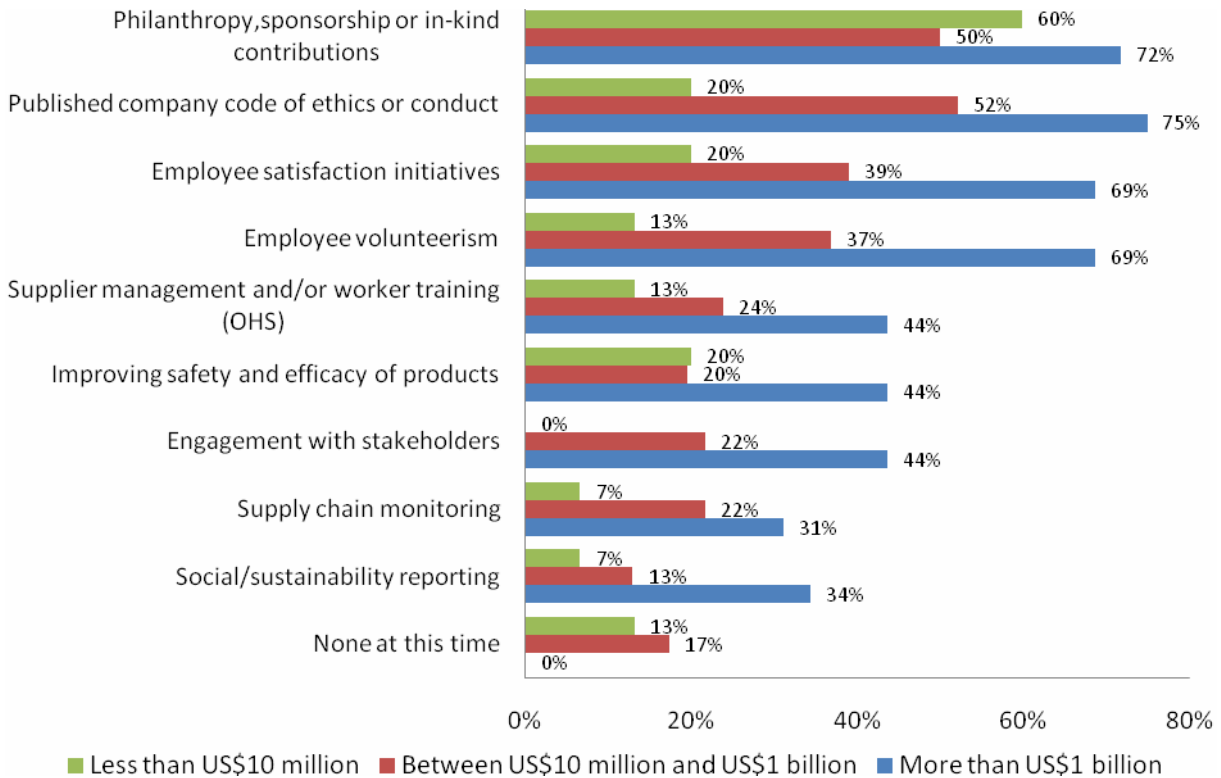


Figure 11: Distribution of social involvement by revenues

KEY FINDINGS

LARGER COMPANIES ARE DOING MORE

- Once again, the largest companies with revenues exceeding US\$1 billion implement the highest amount of initiatives for each category. Companies with revenues of between US\$10 million and US\$1 billion were the second most involved groups in seven out of nine categories.
- When looking at both environmental and social involvement, larger companies are consistently outperforming smaller companies in all areas of CSR.

INTEGRATION OF CSR

*If your company is involved in social and environmental initiatives, are they integrated with your company's financial and strategic targets?*

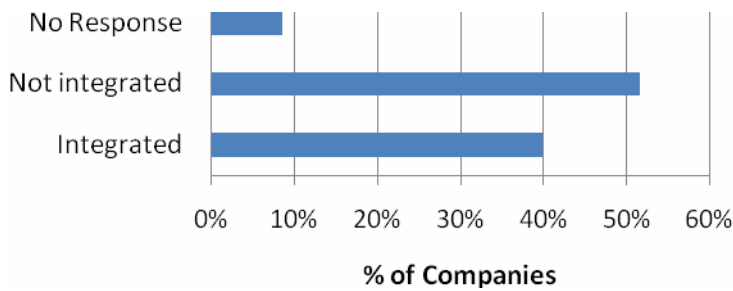


Figure 12: CSR activity integration with financial and strategic targets

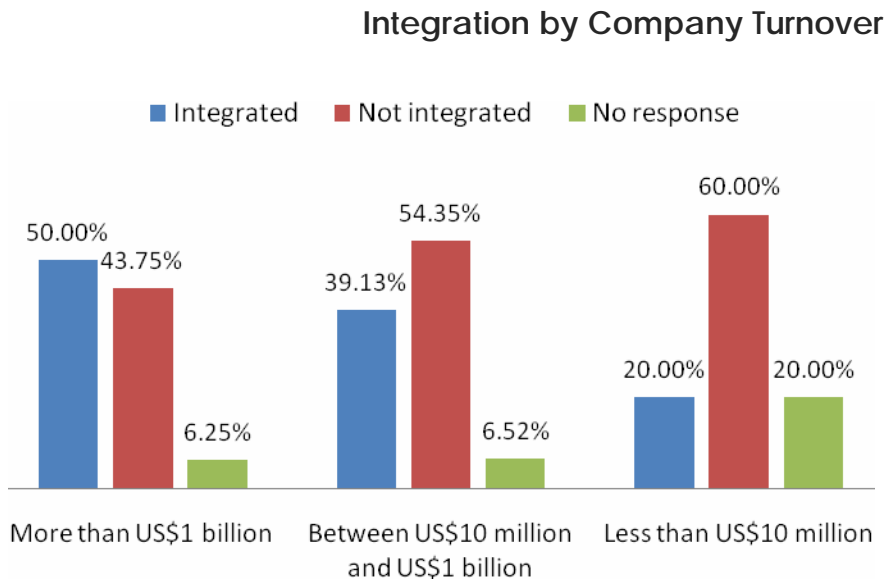


Figure 13: CSR activity integration with financial and strategic targets by turnover

## KEY FINDINGS

### COMMITMENT TO CSR IS LOW BUT COMPANY SIZE PLAYS A ROLE

- More than 50% of companies are not integrating their CSR strategy with their overall business strategy. With such a low level of commitment to CSR, companies may be vulnerable to accusations of “Green-washing”, or engaging in CSR for PR benefit.
- Larger companies have better integration. Half of companies making more than US\$1 billion integrate their CSR activity with their financial and strategic targets. Once again, this supports the importance of adequate resources in engaging effectively in CSR.

## EMERGING CSR ISSUES

What do you think will be the single most important social issue for your company to address in the region next year?

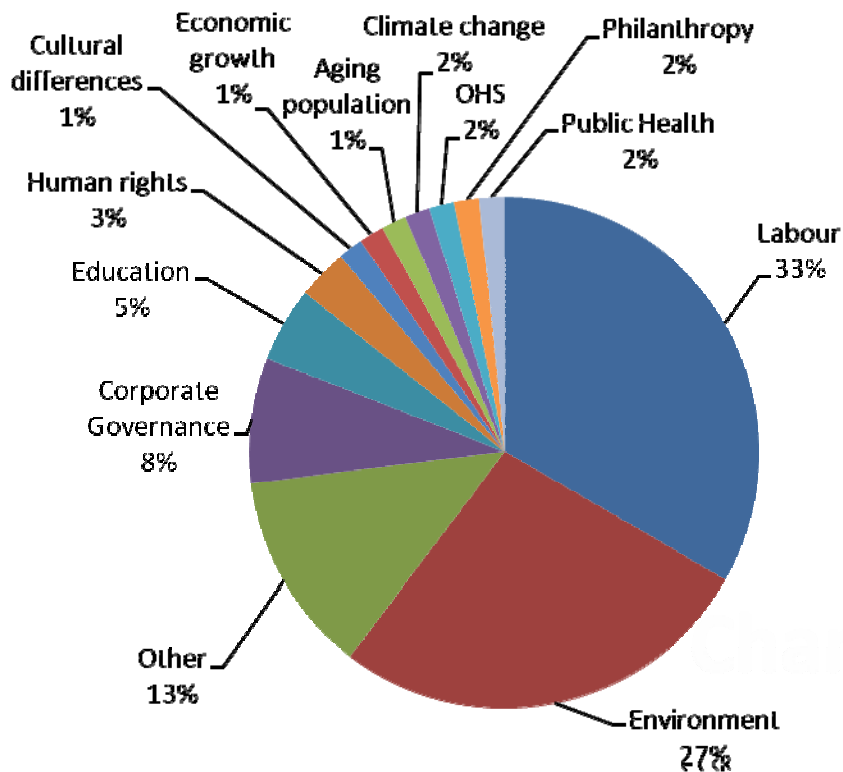


Figure 14: CSR concerns for next year

## KEY FINDINGS

### LABOUR CONCERNS OUTWEIGH ENVIRONMENTAL CONCERNS

- The majority of respondents chose labour as next year's largest concern, with 33% citing a range of related issues. These included a lack of skilled human resources, employee satisfaction, employee training and retention and supply chain standards. Environmental quality was the second largest concern, chosen by 27% of respondents.

## CONCLUSIONS

Based on the findings of this study, the following factors can be improved upon to support business' CSR efforts in Hong Kong. (*Ranking does not indicate importance*)

1. Increased local consumer and customer pressure
2. Governmental leadership and guidance via regulations and policy instruments
3. Raised awareness of global headquarter/Board
4. Stronger action by company staff, especially management
5. Improved value-add from local NGOs

### **POSSIBLE MANAGERIAL AND RESEARCH IMPLICATIONS**

The quantitative approach that was employed in this research has a number of limitations. Firstly, the bias nature of CSR studies tends to gather data from those companies already active in CSR. Secondly, producing statistically significant results in this type of study requires a large sample size, which is challenging when investigating a topic that is not yet dominant among business professionals.

Despite, these limitations, this research may have interesting implications for managers and researchers:

Firstly, by demonstrating the CSR behavior of MNCs, this study can provide guidance to managers' future CSR strategy planning.

Secondly, it reveals the local stakeholder groups with whom companies can engage for improved effectiveness of their CSR approach.

Thirdly, companies should not expect the Hong Kong government to take the lead on CSR and should therefore consider the potential reputational benefits as an incentive to show leadership.

Finally, the study considers the fit between the attributes of companies and the nature of their CSR activity, highlighting role-model performers, which can be useful for bench-marking.

Given these implications, more work needs to be done. The findings in this paper should be examined through more rigorous survey methods. Unique trends associated with Hong Kong's CSR environment have been highlighted. Further research can be conducted to suggest valid explanations for these patterns.