

Research Assessment Exercise 2020

Impact Case Study

University: City University of Hong Kong |
Unit of Assessment (UoA): 20-Accountancy

Title of case study: How the research on governance and ownership structure at CityU has enhanced the sustainability of social enterprises in Hong Kong |

(1) Summary of the impact

Many social enterprises (SEs) with a social mission in Hong Kong have failed after a few years or are struggling to survive. Our research on the effects of corporate governance and ownership structure on the decisions and performance of SEs has enhanced the competitiveness and sustainability of the social enterprise sector in Hong Kong. CityU research has prompted SEs to adopt sustainable dual investment objectives, embrace stringent financial planning and management protocols, and establish advisory committees to provide expert advice and guidance. Our research has also prompted the government to review the existing government funding and support schemes for SEs in Hong Kong. |

(2) Underpinning research

Following the Asian financial crisis (1997-1998), CityU instituted a series of research projects on the roles of corporate governance and ownership structure and their effects on corporate decisions and firm performance. Gul and Leung (2004, reference 3.1) show that firms with separate CEOs and board chairpersons and with a higher proportion of expert outside directors make more voluntary disclosures (i.e., greater transparency). The importance of board independence and family control in monitoring managers is also evidenced in Jaggi, Leung and Gul (2009, reference 3.2). They document that the independent corporate boards of Hong Kong firms provide effective monitoring of earnings management and that this monitoring is less effective in family-controlled firms.

In another CityU study on governance, Leung, Richardson and Jaggi (2009, reference 3.3) provide direct evidence of the effect of independent corporate boards and board committees on firm performance, and how ownership control affects this relationship. Their findings show that board independence is positively associated with firm performance in non-family-controlled firms, but no such association is observed in family-controlled firms. In addition, they show that there is a significantly lower proportion of independent directors on the corporate boards of family-controlled firms than on the boards of non-family-controlled firms. Other studies have shown that corporate governance also mattered for the stock price performance of firms during the Asian financial crisis (Leung and Horwitz, 2010; reference 3.4), and that giving minority shareholders increased control over corporate decisions helps to reduce value-decreasing actions in weak investor protection countries (Chen, Ke and Yang, 2013; reference 3.5).

The Hong Kong SAR Government and the local social service sector have been actively promoting the use of entrepreneurial thinking and innovative approaches in the development of SEs to enable the socially disadvantaged to become self-reliant through employment and to meet the needs of various community groups. The SE sector in Hong Kong has grown rapidly over the past 10 years. By capitalizing on our research expertise in corporate governance and the control of stakeholders, CityU has extended its research on corporate governance to the SEs

in Hong Kong and examined how the investment objectives, major funding sources, and governance structure of the SEs in Hong Kong affect their competitiveness and sustainability.

Leung et al. (2019, reference 3.6) show that (1) SEs with dual investment objectives for their social mission and financial returns are more sustainable and competitive than SEs for which social impact is the sole objective; (2) SEs funded by non-governmental organizations are more profitable and better managed than government- or private-funded SEs; (3) non-owner-managed SEs perform better in terms of profitability than owner-managed SEs, with non-owner-managed SEs also producing more detailed budgets and being more sophisticated in their financial planning and management; and (4) SEs with an overseeing/advisory committee are more competitive and use better management practices than SEs without an overseeing/advisory committee. These findings have policy implications for SEs, the government, funding bodies, and non-profit organizations in terms of enhancing and promoting the development of the social enterprise sector. |

(3) References to the research

- 3.1 Gul, F. and Leung, S. (2004) “Board leadership, outside directors’ expertise and voluntary corporate disclosures”, *Journal of Accounting and Public Policy*, 23, 351-379. **(2018 ABS 3*)**
- 3.2 Jaggi, B., Leung, S. and Gul, F. (2009) “Family control, board independence and earnings management: Evidence based on Hong Kong firms”, *Journal of Accounting and Public Policy*, 28, 281-300. **(2018 ABS 3*)**
- 3.3 Leung, S., Richardson, G. and Jaggi, B. (2014) “Corporate board and board committee independence, firm performance, and family ownership concentration: An analysis based on Hong Kong firms”, *Journal of Contemporary Accounting & Economics*, 10, 16-31. **(2018 ABS 2*)**
- 3.4 Leung, S. and Horwitz, B. (2010) “Corporate governance and firm value during a financial crisis”, *Review of Quantitative Finance and Accounting*, 34, 459-481. **(2018 ABS 3*)**
- 3.5 Chen, Z., Ke, B. and Yang, Z. (2013) “Minority shareholders’ control rights and the quality of corporate decisions in weak investor protection countries: A natural experiment from China” *The Accounting Review*, 88(4), 1211-1238. **(2018 ABS 4**)**
- 3.6 Leung, S. Mo, P, Ling, H., Chandra, Y. and Ho, S. (2019) “Enhancing the competitiveness and sustainability of social enterprises in Hong Kong: A three-dimensional analysis” expected to be published in *China Journal of Accounting Research*, 12, 157-176. **(2018 ABS 2*)**

(4) Details of the impact

The Fullness Social Enterprises Society Report (2015) showed that only 19% of the SEs in Hong Kong were able to achieve break-even or profit by the end of their second year in operation and that 23% of the SEs ceased operations within five years, with the non-survival rate increasing to 55% within 10 years. SEs need to remain competitive to achieve greater and more sustainable social impacts.

The CityU research generated impacts on enhancing the competitiveness and sustainability of the SEs in Hong Kong. These impacts can be categorized under the following three themes.

Impact on social enterprises

CityU's research on the governance, profitability, and business management of SEs has generated insights that can help current and potential SEs to improve their business operations. We produced brief and full research reports that provided recommendations for SEs to enhance their competitiveness and sustainability (source 5.1). We disseminated the key findings and recommendations of the research to the SEs registered in the Hong Kong Social Enterprise Directory and provided a web link for the SEs to download the research report. The report was first made available for download in January 2019, and up to 15 September 2019, the download counter showed a total of 507 downloads of reports (source 5.2).

We have also proactively reached out to SEs and conducted presentations in seminars and workshops to increase the impact of our research findings and recommendations. To collect evidence of our research impact, at the end of the seminars/workshops, we asked the SE participants to provide feedback on our key research findings and recommendations (source 5.3). SEs indicated that sustainable practices identified in the CityU research such as embracing dual investment objectives, establishing advisory committees, and profiling customers and competitors, would likely be adopted to enhance their competitiveness and profitability.

The Social Enterprise Business Centre (SEBC), The Hong Kong Council of Social Service conveyed their appreciation of our research work, in particular that since the dissemination of SE research findings and recommendations to the social enterprise sector, increasing numbers of SEs have expressed interest and asked SEBC to help them establish advisory committees (source 5.4).

Policy influence

Our research highlights the important role that advisory committees can play in providing advice and guidance to SEs. Given that SEs can have difficulty finding suitable advisors to serve on their committees, we recommended that the government expand its existing efforts to consolidate a pool of experts as potential advisors/consultants and make them available not only to government funded SEs, but to all SEs in Hong Kong. Based on our research findings, we also recommended that the government review its funding schemes and the panel for assessing funding proposals. CityU researchers met and discussed with some senior government officials in charge of the administration of the major government funding schemes for SEs. We were informed by the Chief Consultant of the Social Enterprise Business Center that our research had a positive influence in strengthening the role of the consultant/advisor of the Macau Social Enterprise Scheme and that the Scheme will be allocating MOP500,000 for each social enterprise project to hire a professional consultant to help with implementation and operations (source 5.6). The Hong Kong Council of Social Service, an intermediary of the Social Innovation and Entrepreneurship Development Fund (SIE fund), is also considering adopting some of our recommendations in evaluating future applications for the SIE fund (source 5.7).

Engaging in partnerships to support social enterprises

The UoA understands the important roles that collaboration and partnership play in maximizing the impact of our research and benefitting the social enterprise sector. We took the initiative to engage with the Social Enterprise Business Centre and Research Centre for Sustainable Hong Kong, KPMG, and Davis Polk Wardwell in disseminating our research findings and recommendations in seminars and workshops, (source 5.8). Ms. Helen Liu, Head of Business Development and Learning at ACCA Hong Kong stated that *“The study serves as great start to understand the challenges faced by many social enterprises striving to achieve sustainable social impact, building a better society as a whole. A remark made at the recommendation to leverage the strengths of all sectors - nonprofit, for-profit and government is the way to go”* (source 5.9). |

(5) Sources to corroborate the impact

- 5.1. Research report titled “Enhancing the competitiveness of social enterprises in Hong Kong: A three-dimensional analysis,” December 2018
(<https://www.cb.cityu.edu.hk/ac/research/knowledgetransfer>).
- 5.2. The report of download counts.
- 5.3. The analysis of seminar/workshop participants’ returned feedback forms.
- 5.4. The thank-you letter from Social Enterprise Business Centre.
- 5.5. The appreciation email from The Secretariat of the Enhancing Self-Reliance through District Partnership Program, Home Affairs Department.
- 5.6. The appreciation letter from Chief Consultant, Social Enterprise Business Centre.
- 5.7. The appreciation email from Project Manager, The Hong Kong Council of Social Services.
- 5.8. Workshop flyer on “Corporate governance versus financial competitiveness”.
- 5.9. The correspondence from Head of Business and Learning, ACCA Hong Kong.