

Research Assessment Exercise 2020
Impact Case Study

University:	Hong Kong Baptist University
Unit of Assessment (UoA):	20 – Accountancy
Title of Case Study:	Promoting and Improving Corporate Social Responsibility Practices in Hong Kong and Mainland China
(1) Summary of the impact	
<p>Research at HKBU by Wang and Zhou into corporate social responsibility (CSR) highlights the importance of managerial incentives in fostering CSR performance and the benefits from good CSR practices in both product and capital markets. The research has (a) informed and facilitated financial companies to incorporate CSR practices into credit quality evaluation and improve decision making; (b) motivated exporting firms in the Greater Bay Area to invest in CSR practices and increase competitiveness; (c) provided a valuable resource for business sustainability; and (d) spread CSR knowledge among practitioners and promoted CSR practices.</p>	
(2) Underpinning research	
<p>The portfolio of research underpinning the impact described in this case study has been carried out by the research team involving Wenming Wang (Assistant Professor, employed by HKBU since 2013), and Gaoguang Zhou (Assistant Professor, employed by HKBU since 2015). In response to rapidly increasing awareness of CSR issues worldwide, the underpinning research has focused on four interrelated areas.</p> <p>The first area focuses on the importance of good CSR practices to the internationalization of firms in emerging economies. Using China as an example, the research finds that the internationalized firms commit more efforts in CSR domains to address concerns from their customers in developed economies (1). The findings in this area motivate firm managers in emerging markets to develop CSR strategies to help expand business with customers in developed countries.</p> <p>The second area aims at identifying the importance of (informal) institutional environments in determining the economic consequences of a firm’s CSR investment, particularly in debt markets. This research, led by Wang, reveals that CSR investment tends to generate greater benefits in terms of favourable loan terms for the firms that are located in a more CSR-friendly environment (2). The findings guide corporate management to adopt CSR strategies that best fit the local environment, which benefits corporate value creation. The findings also suggest that governments should aim to nurture a CSR-friendly environment in their territories so as to promote CSR engagement.</p> <p>The third area explores the importance of CSR disclosure in debt markets. The research provides empirical evidence indicating that better CSR disclosure improves a firm’s access to public bond market and enables a firm to issue bonds on favourable terms (3). The findings in this area inform corporate management about the benefits derived from transparent CSR</p>	

disclosure.

The third area revolves around the incentives for top managers to engage in the CSR agenda. The research, co-authored by Zhou, provided empirical evidence that CEOs in their later tenure, non-CEO senior executives under greater competitive pressure for promotion to CEO, and CEOs without proper internal governance are reluctant to undertake long-term CSR investment (4) (5). These findings suggest that market participants should embed managerial incentives in their evaluation of corporate CSR practices and highlight the necessity for board of directors to introduce mechanisms to mitigate the reluctance of CEOs in their later tenure and senior executives under greater tournament pressures to invest in CSR initiatives.

The fourth area of the research examines the development of CSR in Asia. The research outcomes obtained by Zhou are covered by the book 'Business Sustainability in Asia: Compliance, Performance and Integrated Reporting and Assurance' co-authored with other renowned scholars. The book investigates different aspects of CSR and highlights CSR drivers, initiatives, reporting and assurance practices in 12 Asian economies (6). This book provides valuable implications for both practitioners and regulatory bodies in determining CSR related issues. This book has been recommended by several professional bodies and business leaders as providing guidelines for CSR practice.

(3) References to the research

- (1) Cheung, Y., Kong, D., Tan, W., and **Wang, W.** (2015). Being good when being international in an emerging economy: The case of China, *Journal of Business Ethics*, 130, 805-817.
- (2) Cheung, Y., Tan, W., and **Wang, W.** (2018). National stakeholder orientation, corporate social responsibility, and bank loan cost, *Journal of Business Ethics*, 150, 505-524.
- (3) Tan, W., Tsang, A., **Wang, W.**, and Zhang, W. (2019). Corporate social responsibility (CSR) disclosure and the choice between bank debt and public debt, *Accepted at Accounting Horizons*.
- (4) Chen, W., **Zhou, G.**, and Zhu, X. (2019). CEO tenure and corporate social responsibility performance, *Journal of Business Research*, 95, 292-302.
- (5) Rezaee, Z., Zhao, X, and **Zhou, G.** (2018). *Do executives' tournament incentives affect corporate social responsibility performance.* (Working Paper)
- (6) Rezaee, Z., Tsui, J., Cheng, P., and **Zhou, G.** (2019). *Business Sustainability in Asia: Compliance, Performance and Integrated Reporting and Assurance.* New York, U.S: John Wiley & Sons Inc.

(4) Details of the impact

4.1 Facilitating financial institutions' incorporation of CSR practices into credit quality evaluation

The research on the effect of CSR performance in the debt market informs financial institutions about the necessity of incorporating the firm's CSR practices into the assessment of its credit quality. As an example, it helped banking financial institutions like XinAn Factoring Company Limited reduce the occurrence of non-performing loans and improve

profitability. Researchers were invited to review the company's credit assessment practices since 2016. The new model with borrower's CSR practices incorporated produces more accurate evaluation of the borrower's credit risk. In the following two years with the improved model in place, *"the ratio of non-performing loans declined from the average 1% before the adjustment to 0.3%"*. The company's profitability and sustainability were thus significantly increased. [1]

Researchers were also invited in 2017 by Golden Credit Rating International, one of the largest credit rating agencies in China, to help evaluate the potential impact of CSR performance on the default risk of firms in Mainland China. Based on the research findings on the importance of CSR engagement conditional on local (formal and informal) institutional environments, a thorough review of the evidence documented in the literature on the relation between CSR practices and credit quality was conducted. This provided useful guidance for Golden Credit to incorporate CSR practices into its ESG evaluation framework and helped improve the accuracy of its overall credit ratings. The findings also provide supporting evidence for Golden Credit rating teams to communicate the importance of good CSR practices with its clients and *"effectively motivate them to improve CSR commitment"*. [2]

4.2 Motivating exporting firms to improve CSR practices

The Greater Bay Area has grown as a global hub of various manufacturing industries. Many firms rely on exports to expand their business but face challenges to meet the higher requirements for CSR practice from foreign importers, especially those in developed economies. The research findings provide motivation and guidance for export-oriented firms to increase their CSR engagement, enabling them to maintain good relationships with foreign importers and promote foreign sales. For example, motivated by the research on internationalization, one firm that produces and exports tourism products significantly increased its CSR investment and in turn passed the SMETA audit on Labor Standards, Health & Safety, Environment and Business Ethics advocated by the world's largest supply chain collaborative platform. Superior CSR performance enabled the firm to attract more foreign customers and increase exports. The firm anticipates sales growth of about 40% this year (2019) even under the current turbulent foreign trade situation.[3]

4.3 Providing valuable resource for business sustainability

The research on business sustainability has been widely acknowledged as providing a valuable resource for business sustainability worldwide. For example, the chairman of Hong Kong's Financial Reporting Council commented that it *"offers guidance to organizations worldwide... provides guidelines for complete and accurate measurement"* and is highly recommended as *"a valuable resource in advancing business sustainability worldwide"*. [4] The Head of Policy of Hong Kong of ACCA also commented that it *"has provided guidance... to integrate ESG to their sustainability policies and reporting"* and is recommended as *"good reference"* for achieving business sustainability. [5]

4.4 Spreading CSR knowledge and promoting CSR practices

The Department of Accountancy and Law, HKBU, hosted a forum for Wang and Zhou to share their research findings in March 2019 with around one hundred participants from various sectors. Many of the participants' companies have no policies or guidelines to ensure CSR

practices. Our sharing enabled the participants to better understand the importance of CSR and motivates them to take actions to improve CSR practices in their companies.

For example, the Executive Director and COO of Giordano International Limited, planned to integrate our research findings about CSR disclosure into “*employee training materials and share with other executives to inspire their awareness about the importance of CSR disclosure.*” [6] The founder and chairman of Nelson CPA Limited and Nelson Consulting Limited also commented that the research has made them to “*consider assign more resources to expand CSR-related business*” and probably would “*help to inform [their] client firms the importance of good CSR practices and thus facilitates [their] talk with clients on CSR issues*”. His firm would also integrate “*findings regarding CSR disclosure into [their] marketing materials*” which is “*helpful... to market [their] assurance services*”. [7] He also believed that our research serves as “*a good reference... when making relevant decisions in future*”. [8]

(5) Sources to corroborate the impact

- [1] Testimonial from CEO of XinAn Factoring Company limited
- [2] Testimonial from Associate Director of Credit Rating, Golden Credit Rating International
- [3] Testimonial from Board Chairman of Dongguan Hongying Tourism Products Company limited
- [4] Foreword by Chairman of Hong Kong’s Financial Reporting Council (in Rezaee, Z., Tsui, J., Cheng, P., and Zhou, G. (2019). *Business Sustainability in Asia: Compliance, Performance and Integrated Reporting and Assurance*. New York, U.S: John Wiley & Sons Inc.)
- [5] Testimonial from Head of Policy of Hong Kong, ACCA Hong Kong
- [6] Testimonial from Executive Director and Chief Operating Officer, Giordano International Limited
- [7] Testimonial A from Founder and Chairman, Nelson CPA Limited and Nelson Consulting Limited
- [8] Testimonial B from Founder and Chairman, Nelson CPA Limited and Nelson Consulting Limited