

Motivating small and medium-sized listed companies for better Environmental, Social and Governance (ESG) reporting in Hong Kong

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Abstract

Purpose – It is a challenge for Small-Cap companies, i.e., Small and Medium-sized listed companies in Hong Kong (“SMEs”) in Environmental, Social and Governance (ESG) reporting as they may lack knowledge, skills and motivation. This paper investigates a spectrum of the drivers and barriers that these SMEs faced for better ESG reporting.

Design/methodology/approach – In this study, 22 persons responsible for ESG reporting in their SMEs were interviewed. The results were analysed by using grounded theory with the assistance of concept mapping.

Findings – Regulations and management support are the first two critical drivers, whereas lack of management support and lack of expertise are the first two significant barriers. To overcome the obstacles, various stakeholders including regulators, bankers, investors, customers, competitors, NGOs and employees have their roles to play. Stakeholder theory is most relevant in explaining the results as stakeholders can exert effective pulling forces by creating tangible benefits for SMEs, resulting in more substantial management support.

Originality/value – This is amongst the first comprehensive investigation on the motivational factors in SMEs’ ESG reporting. Policy makers should not only focus on the effort to upgrade the reporting standards but also contemplate more effective ways to balance the short-term and the long-term benefits of ESG reporting by mobilising various stakeholders to exert more influences.

Keywords ESG reporting, Small-Cap companies, SME, Sustainability, Motivation, Drivers, Barriers, Hong Kong

Paper type Research paper

Introduction

Sustainability has become the mainstream at different aspects of our lives; its presence and impact can be seen in a broader context of the environment and society. It is now embedded in specific areas like manufacturing, banking, retailing, catering, education, government and



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civil society. Hong Kong is an international financial centre with over 3,000 listed companies on the Hong Kong Stock Exchange (“HKEx”), providing a dynamic platform for companies to get financing for their business development. Since 2016, all listed companies in Hong Kong are required to disclose their sustainability performance by Environmental, Social and Governance (“ESG”) reporting (Yip and Yu, 2023).

This paper investigates the reporting quality of environmental Key Performance Indicators (“KPIs”) in ESG reports, which is the key aspect of the mandatory disclosure requirement. Most importantly, the drivers and barriers for better reporting were explored, especially for small and medium-sized enterprises (“SMEs”). In this research, SMEs refer to the listed companies in HKEx’s main board, which are not qualified as the constituent stocks at Hang Seng Composite Large-Cap Index and Hang Seng Composite Mid-Cap Index. In other words, only Small-Cap companies on the main board were under study.

ESG reporting in Hong Kong and the disclosure quality

ESG has become a prominent theme in the business world. The growth of responsible investment, with major institutional investors incorporating ESG into their investment strategies and valuations, serves as one of the crucial drivers for embedding ESG into business practices and reporting (Hong Kong Stock Exchange, 2011). Stock exchanges also play an essential role in facilitating ESG reporting. Around the globe, many stock exchanges have already implemented relevant requirements for their stock issuers (i.e., listed companies) to disclose ESG performance by reporting. For instance, in Asia, the stock exchanges of Hong Kong, Singapore, Shanghai, Shenzhen, Malaysia, and Australia have adopted various approaches to require issuers to report ESG issues, from voluntary to mandatory disclosure.

To further promote ESG reporting, starting in 2016, HKEx required all listed companies in Hong Kong to issue their ESG reports annually. The purpose of ESG reports is to inform stakeholders and the public of listed companies’ performance in ESG aspects. For large corporations, issuing ESG reports and reporting their KPIs are not a problem because they have been doing voluntarily for years. And yet, it is a challenge for SMEs to report appropriately because they may lack knowledge, skills, motivation, etc. Further to an earlier work of the authors, “The Quality of Environmental KPIs Disclosure in ESG Reporting for SMEs in Hong Kong” (Yip and Yu, 2023), this paper further explores the drivers and barriers for SMEs for better reporting practices. Yip and Yu (2023) adopted a scoring methodology to assess the relevance and completeness of the environmental KPIs, which are semi-mandatory to disclose. A stratified sampling method was used to proportionately selected 138 SMEs based on the eleven industry categories set by the Hang Seng Industry Classification System. It was found that the average disclosure quality score was a low 1.98 versus a score of 3 for a complete disclosure.

Aims

This paper aims to investigate what the drivers and the barriers for better reporting in the perspective of SMEs. Based on the legitimacy theory, the focuses are on the use of disclosure of non-financial information to meet stakeholder expectations and demonstrate allegiance to prevailing social norms (Van Zijl *et al.*, 2017). Burlea and Popa (2013) further extended its meaning to the role of explaining the behaviour of organizations in implementing voluntary ESG reporting, which is to fulfil their social contract. Size makes a difference because larger corporations are likely to act more socially responsible and report more ESG information as they are subject to closer scrutiny (Rahman and Alsayegh, 2021). Most importantly, this study also addresses how the SMEs can be motivated to enhance the quality of ESG

reporting. After collecting the primary data, these questions are rigorously and thoroughly interrogated based on the relevant theories.

Literature review

General challenges of ESG reporting

Many more companies are reporting their ESG activities in recent years. Corporate Register showed that the number of companies producing CSR-sustainability (or ESG) reports had grown from less than 2,000 in 2002 to nearly 20,000 in 2019, ten folds in seven years (Corporate Register, 2020, cited in [Yip and Yu, 2023](#)). ESG reporting is a form of commitment made by commercial enterprises towards corporate social responsibility, taking care of social and environmental aspects in addition to economic profit. However, many chief financial officers and other senior executives are lax about reporting ESG issues. In fact, sustainability reporting has not yet penetrated the corporate world widely and deeply ([Hoffelder, 2012](#)). Some companies may initiate ESG reporting to avoid being perceived as laggards in their sector ([MacLean and Rebernak, 2007](#)). Others may undertake reporting as a public-relations exercise or because their corporate customers have begun peppering them with questions about ESG performance – all these are defensive approaches ([Hoffelder, 2012](#)).

Though more and more companies report their ESG issues, the impact might be superficial and adequate to create the real change of business discourse and paradigm. Some people recognize the importance of ESG issues, but do not feel the urgency ([Amaeshi and Grayson, 2009](#)). The reason is related to the mindsets which are obstacles, creating a deep and structural challenge. The mindsets are heavily framed by the conventional education system that is overweighting economic benefit, i.e., shareholder orientation and short-termism.

In Hong Kong, the situation was similar. According to the Consultation Paper on ESG Reporting Guide issued by the [Hong Kong Stock Exchange \(2011\)](#), many Hong Kong listed companies were not yet ready to report ESG matters. Among the 106 responses to the Consultation Paper, only 20 respondents (19 percent) were from issuers. This represented approximately only 1.3 percent of Hong Kong issuers in HKEx.

Specific challenges for SMEs

ESG activities in SMEs have still received relatively little attention and it is a lack of know-how and experience to support the systematic integration of ESG practices in the management process ([Jonkute et al., 2011](#)). ESG issues are complex and uncertain in terms of their boundary, i.e., what is in and what is out, which makes them very difficult to articulate ([Amaeshi and Grayson, 2009](#)). In addition, as per the Consultation Conclusions on ESG Guide ([Hong Kong Stock Exchange, 2012](#)) issued by HKEx, some SMEs did not think that ESG issues are related to their core business and may be reluctant to report due to the added costs and administrative burden. ESG reporting is generally viewed as a longer-term issue, and its urgency is perceived as not immediate as getting a business deal done for yielding profit. This mentality would be more prominent for SMEs. The defensive approaches result in a problem of the perceived need to report not linking to core business strategy that may finally lead to “greenwashing” (pretend to be green for other purposes). [Kim and Lyon \(2015\)](#) commented that corporate greenwash has accelerated in recent years, and green claims are getting growing scepticism from stakeholders. The greenwashing problem for SMEs is merely for appearance’s sake or another form of marketing ([Khan et al., 2021](#)). One reason is that the data set may not be complete with SMEs, leading them prone to manipulate the disclosure. Another reason is the consequence of being discovered, which is comparatively less detrimental for SMEs in terms of the media coverage. To

conclude, SMEs are facing the similar problems of their counterparts of large listed companies; but the problems such as lack of expertise, cost concern, confidentiality and greenwashing, etc. may be more serious under the context of SMEs.

Reporting motivation

Why do firms report their ESG performance? It could be voluntary or solicited with many drivers behind. [Dobbs and Van Staden \(2016\)](#) investigated the corporate motivations for voluntarily reporting ESG issues in New Zealand and identified that community concerns and shareholder rights were the most important factors. [Ahmad et al. \(2003\)](#) examined the motivation of Malaysian listed companies to disclose ESG information voluntarily which found that the motivation is related to firms' financial leverage and the auditor type. Firms with lower financial leverage are more likely to disclose ESG information voluntarily, and firms whose accounts are audited by the big four accounting firms are more likely to voluntarily disclose ESG information.

Through a mail survey, [Trevor and Geoffrey \(2000\)](#) interviewed chief financial officers of selected Australian companies on the factors perceived as necessary in the decision to voluntary disclosure. The results indicated that, the major factors are investors' right to information, legal obligations, due diligence requirements, and community concerns, whilst the first two are the most influencing determinants in disclosing information. In a nutshell, specific support of the reporting motivation is grounded in the management's response to the perceived importance of stakeholders, i.e., the greater the perceived importance of investors' information needs and community concerns, the higher the level of ESG disclosures observed in annual reports. A study of the companies listed in the UK FTSE 250 was carried out by [Haddock-Fraser and Fraser \(2008\)](#) to examine whether proximity to the market affects the extent and form of ESG reporting. They asserted that business-to-customer will correlate positively with proactive communication of ESG activities due to the closeness to market (i.e., customers).

[Dienes et al. \(2016\)](#) found that firm size is proven to be the driver for ESG reporting, and larger companies generally want to maintain their reputation for accessing the capital market. In addition, the reporting costs for large companies are comparatively lower than those for smaller companies ([Ho and Taylor, 2007](#)). For smaller companies, other than resource constraints such as expertise and time, the concern of leaking confidential information to competitors is prominent. Media visibility also has a positive relationship with ESG disclosure ([Dienes et al., 2016](#)). It is suggested that the media visibility will significantly be enhanced by more ESG disclosure ([Kent and Monem, 2008](#)). [Dienes et al. \(2016\)](#) explained that the affected companies face more considerable justificatory pressures and are more interested in informing their stakeholders to avoid adverse media reports and loss of reputation by preparing a comprehensive ESG report for preventive measures. This is particularly true for larger companies as they attract more attention from the media, if they perform well in ESG. Conversely, the media visibility pressure for SMEs is comparatively smaller, and the motivation for having comprehensive ESG reporting is less, especially when their ESG performance is unsatisfactory. Lastly, [Dienes et al. \(2016\)](#) indicated that ownership structure is a strong driver for ESG disclosure. Companies with more diverse ownership tend to disclose more sustainability information. For smaller companies, the ownership is more often concentrated in the hands of a smaller number of major shareholders, whose holding is usually more than 50 percent or a controlling stake. Moreover, [Said et al. \(2009\)](#) found that government ownership could push for more ESG disclosure for stakeholders due to the public nature that requires more accountability to the public.

Research gap and research questions

Many drivers are already explored from extant literature, but the research mainly focused on large companies. The drivers for SMEs to report ESG issues are not clear as little research has been conducted specifically for those listed on stock exchanges. In Hong Kong, the ESG reporting requirement is relatively new since its progressive implementation in 2016. Afterwards, though HKEx conducted two review reports on the issuers' reporting performance, they were only carried out on a broad-base survey by randomly selecting 400 companies without pinpointing the SMEs. In addition, the review reports did not address and analyse the reasons behind their findings for those selected companies. In order to extend the research agenda on the quality of ESG reporting, two research questions are set below.

Research question 1: What are the drivers and the barriers to ESG reporting?

Research question 2: How can SMEs overcome the barriers and be motivated to raise the disclosure quality of the environmental KPIs?

Research methodology

Qualitative method – semi-structured interviews

To understand the drivers and barriers issues in ESG reporting, telephone interviews with relevant personnel were conducted to collect their first-hand experience and comments. Telephone interviews were appropriate due to cost efficiency and time saving (Farooq and De Villiers, 2017). More importantly, most of the interviews were carried out in 2021 during Covid-19 where the respondents preferred not to have any forms of physical contact. Telephone interviews make the respondents feel more relaxed which serve the purpose of data collection without compromising the quality. The primary source of data collected is considered valuable and insightful as ESG reporting is relatively new in Hong Kong, and market practitioners are the most reliable source.

Grounded theory approach (Strauss and Corbin, 1998) was adopted for data analysis due to the lack of knowledge regarding the specific motivational factors and relationships that may enhance the disclosure quality by SMEs. Such approach facilitates the development of a theory utilising continuous data collection and analysis, which allows theoretical concepts to emerge from the data without being influenced by predefined frames of existing theories (Glasser, 2007). Moreover, qualitative research based on semi-structured interview questions will enable the acquisition of rich and detailed answers (Bryman and Bell, 2011), targeted at a deeper understanding of the drivers and barriers in ESG reporting.

Sampling method

To gather information-rich cases, purposeful sampling methods are most appropriate (Patton, 1990), of which criterion sampling method whereas choosing interviewees that meet some pre-specified criteria was adopted. In this study, Small-Cap companies in Hong Kong are the criterion; the exclusion criteria are the Mid-Cap and Large-Cap companies. The convenience sampling was subsequently adopted by virtue of accessibility (Bryman and Bell, 2011). Though convenience sampling may run the risk of not being able to generalise the findings, in the field of business and management, convenience samples are prevalent and more prominent than samples based on probability sampling (Bryman and Bell, 2011). Finally, the listed companies being interviewed were mainly from the authors' personal contacts and their referrals. The interviewees include 22 chief financial officers, company secretaries, sustainability managers, and etc. who were the actual persons responsible for the ESG reporting, as summarised in Table 1.

Respondent Number	Industry Category/ Business nature	No. of employees as of 2019/Turnover in HK\$	Job Title	Time Spent (approximate)
R1	Services/Online music	84/54 million	Company Secretary	30 min
R2	Services/Environmental Consultancy	36/56 million	CFO	30 min
R3	Services/Education	274/22 million	Human Resources Manager	35 min
R4	Services/Corporate services	173/339 million	CFO	45 min
R5	Services/Healthcare	476/678 million	Executive Director	30 min
R6	Consumer goods/Chinese restaurants	704/354 million	CFO	25 min
R7	Consumer goods/ Cosmetics	448/629 million	Senior Manager, Human Resources	40 min
R8	Consumer goods/SIM cards	46/183 million	Finance Director	30 min
R9	Consumer goods/Fashion	499/950 million	Public Relations Manager	45 min
R10	Financials/Securities	14/6 million	Finance Manager	40 min
R11	Financials/Securities	58/98 million	CFO	30 min
R12	Financials/Credit	510/1,002 million	CFO	30 min
R13	Industrial goods/Toll- road machineries	489/562 million	Finance Director	25 min
R14	Industrial goods/ electronics	338/603 million	Executive Director	35 min
R15	Industrial goods/Medical devices	1,250/688 million	CFO	30 min
R16	Energy/Coal	1,110/1,446 million	Public Relations Manager	30 min
R17	Energy/Renewables	3,960/12,660 million	CFO	45 min
R18	Properties & Constructions/Mainland property development	450/683 million	Company Secretary	30 min
R19	Properties & Constructions/Mainland property development	9,700/44,700 million	Public Relations Manager	40 min
R20	Materials/Copper	593/872 million	CFO	30 min
R21	Materials/Raw metals	296/361 million	Company Secretary	35 min
R22	Information Technology/ Software design	113/82 million	Director, Human Resources	45 min

Table 1.
Details of the telephone
interviewees

Source: By authors

Data analysis

Open coding is the first analytic tool in grounded theory (Creswell *et al.*, 2007) which enables the categorisation of concepts (sub-categorisation) that emerged from the interview scripts by segmenting information under its context. Open coding was adopted to continue scanning the range and variety of data on a continuum of possibilities until no new and separate meanings emerged. The next step is to use the axial coding to identify the high-level categories among the sub-categories of concepts, and then selective coding was adopted to identify the themes

which forms the basis for theory building and formation. During the data analysis, a constant comparison of all data elements for similarities and differences was performed. [Creswell et al. \(2007\)](#) asserted that comparative method of data analysis, the process of discerning information from the collected data and comparing it to emerging categories, is one of the primary tools of grounded theory data analysis. Finally, the coding results are analysed with the respondents' comments on the motivation issues to depict the full picture of solutions. The following steps summarise the process of the coding exercise and analysis:

- First step:** Open coding to find the basic drivers and barriers
- Second step:** Axial coding to find the thematic drivers and barriers
- Third step:** Selective coding to find the themes for new theory or model
- Fourth step:** Analysis of the final coding results with the respondents' views on motivation issues

Data collection

The respondents were guided by a semi-structured questionnaire designed to collect information for the two research questions ([Appendix](#)). The opening factual question: "Could you briefly describe the ESG reporting process in your company?" asks about the process of ESG reporting, aiming to collect the background information to contextualise the subsequent answers collected. The questionnaire was divided into two parts, mainly about the normative standards and values influencing ESG reporting. The first part asked the interviewees about the drivers and barriers for their existing ESG reporting and the reasons behind them, whereas the second part focused on the ways of overcoming and motivating their companies to have better ESG disclosure. More open-ended follow-up questions were asked to delve into the reasons and other motivational issues. The open-ended questions are unstructured enough to encourage the discovery of new ideas and themes ([Creswell and Poth, 2018](#)).

Findings

Most important drivers

By using the forced ranking method, "Regulations" and "Management Support" are mostly ranked by the respondents as the number-one driver. 12 out of 22 respondents named "HKEx's ESG requirement" as the most important driver for them to issue a better ESG report. ("HKEx's ESG requirement" is one of the two components under the thematic driver: "Regulations"). "Management Support" was the second mostly voted by eight out of 22 respondents. Only one respondent ranked "Banker's Interest" and "Investor's Interest" as the most important driver respectively. [Table 2](#) summarises the ranking results.

This conclusion is further supported in the axial coding, as the respondents mostly cited these two thematic drivers (i.e., "Regulations" and "Management Support") with totally 22

Open-coded driver ranked as the most important driver	Number of respondents
HKEx's ESG requirement	12
Management support	8
Banker's interest	1
Investor's interest	1
Total:	22

Source: By authors

Table 2.
Votes of the most
important open-coded
drivers

mentions and 18 mentions respectively, which are the two highest numbers of the total mentions in all the interviews.

By using selective coding in the grounded theorising process facilitated by concept mapping, an overview of the interactions among open-coded drivers, the thematic drivers, and the main-theme drivers are seen. Figure 1 shows the interactive relationships of these drivers and how they interact with each other and finally converged into the two main-theme drivers: “Regulations” and “Management Support”.

“Regulations” as the most important driver

The reason is relatively straightforward as violation of regulations may result in penalties, which will most seriously affect the listing status, i.e., the possibility of being delisted from HKEx. In this case, deterrence theory and the concept of avoidance explain the responses of the SMEs. The most influential driver, “Regulations” (including HKEx’s ESG requirement) has the direct and severe consequence for non-compliance that it is a “pushing force” rather than a “pulling force” for SMEs to improve the disclosure quality of their ESG reports. Some respondents expressed that if there is no regulation, they may even otherwise not to issue the reports, and this may lead to SMEs’ perfunctory approach to merely complying with the basic ESG reporting requirements. The perfunctory approach can also be explained by the concept of avoidance, which articulates the mentality of using the minimum cost to avoid being detected for non-compliance. From the perspective of SMEs, the cost of avoidance is minimised by just enough to escape from the potential liabilities. Therefore, in general, many SMEs tend to use the “tick-box” approach as a minimum cost to write ESG reports without the intention to do better.

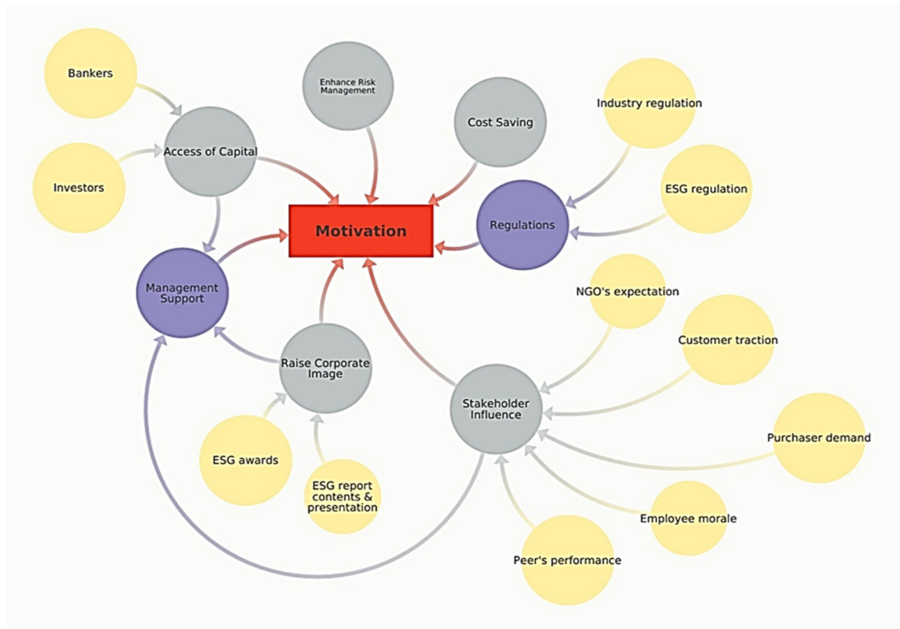


Figure 1. Overview of the drivers’ interactions for motivating SMEs to better ESG reporting

Source: By authors

“Management Support” as the second important driver

“Management Support” is found as the convergent and the overarching theme, which comprises “Access of Capital”, “Stakeholder Influence”, and “Raising Corporate Image”. Among these, “Stakeholder Influence” is further attributed to five more drivers: “Peer’s Performance”, “NGO’s Expectation”, “Purchaser Demand”, “Customer Traction” and “Employee Morale”. Therefore, stakeholder theory is the most appropriate theory to explain these findings. Stakeholder theory views information as a major element that an organisation could use to manage the stakeholders to gain their support or distract their opposition (Gray *et al.*, 1996). “Management Support” is raised by a higher degree of “Stakeholder Influence”, “Raised Corporate Image” and Ease of “Access to Capital”. This is natural as the senior management can directly benefit from more customers, higher staff morale, more fundings, less resistance from NGOs and less pressure from the peer group and society.

Most important barriers

Similar to the process of identifying the main-theme drivers, selective coding in the grounded theorising process facilitated by concept mapping is adopted to identify, articulate, and induce the main themes that are the most crucial barriers in ESG reporting by SMEs. By logical induction, the barriers finally converged into two main themes: “Lack of Management Support” and “Lack of Expertise”. Figure 2 shows the interactive relationships of the open-coded barriers and the thematic barriers and how they interact with each other and converge into a central theme.

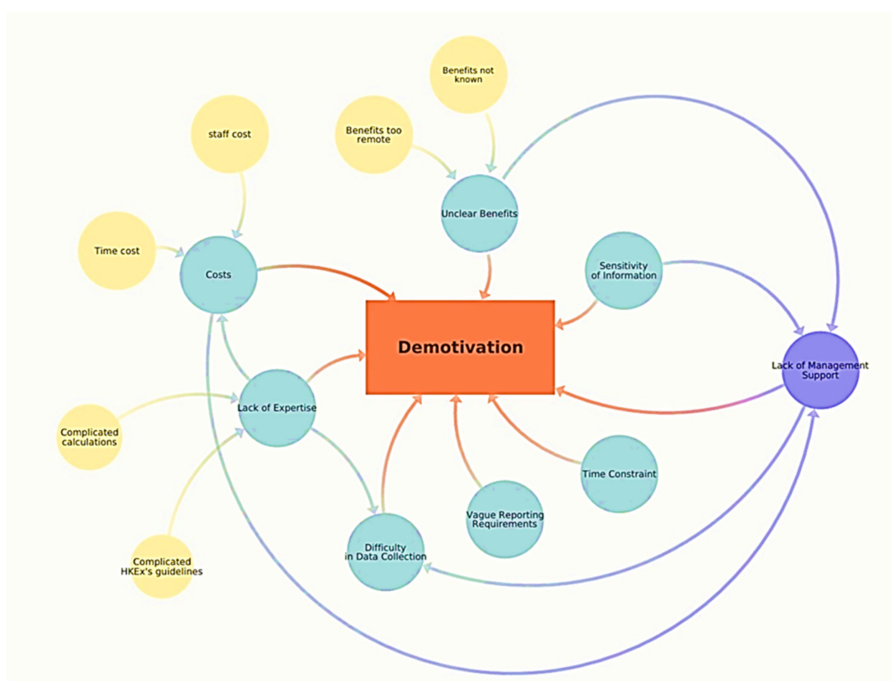


Figure 2.
Overview of the
barriers' interactions
for demotivating SMEs
to better ESG reporting

Source: By authors

“Lack of Management Support” is both the open-coded and the thematic barriers, which was also mostly cited, with a total of 13 mentions in the 22 interviews. In addition, when asking the respondents’ opinions on which barrier should be ranked as the number-one barrier, 11 out of the 22 respondents named “Lack of Management Support”. While 9 respondents ranked “Lack of Expertise” and 2 respondents ranked “Staff Cost” as the most important barrier. For other open-coded and thematic drivers, no respondent thought they were the most important ones. [Table 3](#) summarises the ranking results.

Methods to overcome the barriers

[Consultancy.uk \(2021\)](#) concluded that ESG is a complex and evolving issue, and with more regulation requirements and growing stakeholder expectations, activity needs to be led from the top. It is important that business leaders are supportive in developing a deeper understanding of their responsibility and the practical actions that need to be taken to embed ESG into their overall business strategy. The respondents’ views for overcoming “Lack of Management Support” and “Lack of Expertise” are echoing the above analysis, with suggestions summarised as follows.

- (a) Enhance the senior management’s knowledge of ESG reporting:

The general view is that their senior management has little knowledge of ESG and ESG reporting. Traditionally, the senior management focuses more on financial performance, such as revenue and profit. They think ESG is a kind of charity and expense. Therefore, senior management needs to be educated on ESG and ESG reporting. In the past, HKEx has organized some training on ESG reporting, teaching listed companies about the background, development and writing skills for ESG reports. Although many training sessions were recorded and can be accessed online, some respondents commented that they could not concentrate on the training sessions conducted via online mode. Therefore, more frequent training sessions, especially with physical attendance, are recommended. [Russell \(2022\)](#) commented that becoming proficient in ESG can unlock financial and reputational gains for a company, according to the newly published study by NTT surveyed over 500 corporations on their sustainability initiatives.

- (b) Short-term benefits should be seen:

Senior management often recognises short-term costs but overlooks long-term benefits, making it challenging to justify short-term sacrifices when long-term gains are uncertain. For raising corporate image, some respondents suggested that HKEx should give commendations and awards to the listed companies having met the ESG reporting requirements. Some respondents thought that if the techniques of reducing energy and fuel consumption could be provided, they would enjoy immediate savings on utility bills and have more ESG content for their report writing. For example, airlines focus on increasing fuel efficiency through new engine technologies, flying more direct routes, adjusting take-off and landing trajectories, optimizing cruise

Open-coded barrier ranked as the most important one	Number of respondents
Lack of management support	11
Lack of expertise	9
Staff cost	2
Total:	22
Source: By authors	

Table 3.
Votes of the most
important open-coded
barriers

altitude and reducing weight; these strategies reduce emissions as well as save millions of dollars in operating costs.

(c) Relax ESG reporting requirements for SMEs:

In the interviews, some respondents suggested that HKEx should relax the ESG reporting requirements for SMEs. Two versions of ESG reporting requirements were recommended: a simplified version for SMEs and a full version for other larger listed companies. Some respondents suggested setting variations for specific industries. For example, a more straightforward and basic emission disclosure standard should be designed for the service industry as the companies have a business model with fewer emissions. The rationale is “one size does not fit all”. According to [Branquart \(2023\)](#), the Corporate Sustainability Reporting Directive (CSRD) in Europe also recognises that large undertakings and the SMEs may not have the same resources or capabilities to comply with these requirements. To make ESG reporting an accessible goal, the European Financial Reporting Advisory Group introduced a simplified version for SMEs. These standards are designed to be proportionate to the size and complexity of SMEs, and to take into account their specific needs and circumstances.

(d) More support and training for ESG report writing:

Some respondents suggested that HKEx should provide ESG consultancy service hotlines for listed companies to ask questions about writing ESG reports. In general, the respondents tended to have more trust on the answers given by HKEx. The general comments from the respondents confirmed that the training is significantly needed for SMEs to enhance the reporting quality. Although HKEx and other professional firms, such as the big four accounting firms, continue to provide training, the respondents commented that it was insufficient for the calculations, which is the most challenging part of the entire ESG report.

(e) More resources for ESG report writing:

The respondents demanded more resources and materials to assist them with their reporting. In fact, HKEx has already opened a dedicated webpage on its website, which is regularly updated with new materials, including a step-by-step guide to ESG reporting: “How to Prepare an ESG Report?” consisting of a Toolkit and a Reporting Guidance on Environmental KPIs. That dedicated webpage also includes a series of FAQs and links to other valuable resources, such as internationally recognised standards and guidelines for ESG, the GRI Standards, TCFD Recommendations, ISO 26000, CDP’s Water Security Questionnaire and Climate Change Questionnaire, and Corporate Sustainability Assessment for inclusion in the Dow Jones Sustainability Index. Some respondents suggested HKEx to use more examples to illustrate the required content or at least give some templates on the basic reporting format. This provision can shorten the learning curve of SMEs as their resources are very limited for tackling such reporting requirement.

Conclusions and recommendations

Regarding the analytical frameworks and theories for motivating SMEs to raise the disclosure quality of ESG reporting, deterrence theory and concept of avoid seem to best articulate the mandatory reporting requirement implemented in Hong Kong. This is confirmed by the findings that “Regulations” is the most important driver in this research. As the reporting requirement is part of the listing rules, any non-disclosure without legitimate reasons may result in delisting, which is fatal to listed companies. Regulation is an effective pushing force for reporting but not a pulling force for raising the reporting quality.

Some SMEs may adopt a “tick-box” approach to barely fulfil the minimum reporting requirements or even perfunctorily disclose only parts of the required information. This perfunctory performance can be explained by the concept of avoidance, where offenders expend resources on activities to decrease both the chance of detection and any anticipated punishment by reducing the probability of that punishment (Nussim and Tabbach, 2009).

To tackle the problem of unsatisfactory reporting quality by “pulling” SMEs to proactively improve the disclosure quality, this research found another important driver “Management Support”, that may best drive SMEs to enhance the ESG reporting. The reason for stronger management support can be explained by stakeholder theory, which states that senior management is motivated by different stakeholders’ needs and preferences. Many stakeholder factors are attributed to management support, including customer traction, supplier demand, NGO expectations, employee morale, peer performance, and bankers’ and investors’ interest. All these stakeholders’ interests are finally congruent with the SMEs’ final core tangible benefits, namely revenue growth, cost savings, and risk mitigation.

The insights of driving SMEs to raise the ESG disclosure quality cannot be done by one single driver or stakeholder. The results of this research suggest that the stakeholder approach is the most appropriate method for driving better reporting by combining the influences of all the relevant stakeholders. The mandatory disclosure by regulations is a powerful pushing force, but it may lead to perfunctory performance, e.g., a “box-ticking” approach. Therefore, policy makers should carefully leverage the stakeholders’ influence to encourage the SMEs instead of pressing them for compliance. For instance, the increased demand for Scope 3 carbon disclosure in supply chain can drive the outsourcing vendors (SMEs) to have more accurate reporting. In addition, the increased use of ESG reports in credit assessment by banks and investors can also incentivise SMEs to have a higher level of disclosure.

For the sake of preserving confidentiality and respecting the concern of sensitivity issue, no questions in the interviews were directly asked for the respondents’ own companies’ particular ESG disclosure issues. Instead, the respondents were asked for their general opinions on the drivers, the barriers and the motivation issues for better ESG reporting. This limitation has largely been mitigated by the thorough literature review of the drivers, the barriers relevant to ESG reporting, and the authors’ practical experience in ESG reporting.

This research is hoped to inspire future research related to ESG reporting, especially in the agenda in ESG reporting research. A larger scale qualitative research could be conducted for more accurate and statistically significant results. The confidentiality of respondents could be further protected by using more innovative and trustworthy technological devices and procedures to effectively mask the identity of the respondents. This can increase the success rate for inviting appropriate interviewees. Future research agenda on ESG reporting can be expanded from SMEs to large corporations by using the same methodology. To conclude, if stakeholders find ESG reports useful and valuable, SMEs will be motivated to report better. Mandatory disclosure is only a short-term measure for SMEs.

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Appendix

Questionnaire on the Drivers, Barriers and Motivation for Better ESG Reporting

Date:

Time:

Name of interviewee:

Department/Position:

Company name:

Category of industry:

Could you briefly describe the ESG reporting process in your company?

PART ONE

Drivers

Drivers for better ESG reporting (especially the Environmental KPIs in terms of qualitative and quantitative aspects, i.e., Material, Consistency, Quantitative, Balanced, etc.)

1.1 What are the drivers for reporting ESG issues? Why?

1.2 Could you elaborate the drivers you mentioned by referring to the environmental KPIs?

1.3 Which one is the most important driver, if possible, any the second most important and the third most important ones? And why?

1.4 Any other comments?

Barriers

Barriers for better ESG reporting (especially the Environmental KPIs in terms of qualitative and quantitative aspects, i.e., Material, Consistency, Quantitative, Balanced, etc.)

1.5 What are the barriers for reporting ESG issues? Why?

1.6 Could you elaborate the barriers you mentioned by referring to the environmental KPIs?

1.7 Which one is the most important barrier, if possible, any the second most important and the third most important ones?

1.8 Any other comments?

PART TWO

1. How to overcome the barriers?

2. How to motivate companies to do better in ESG reporting?

Source: by authors

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