

# DIAGNOSTIC STUDY FOR SME SUSTAINABILITY SURVEY

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永續坊  
POLICY FOR SUSTAINABILITY LAB  
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CENTRE FOR CIVIL SOCIETY AND GOVERNANCE



Partnership for Sustainability  
Leadership in Business  
商界永續發展領袖計劃

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# EXECUTIVE SUMMARY

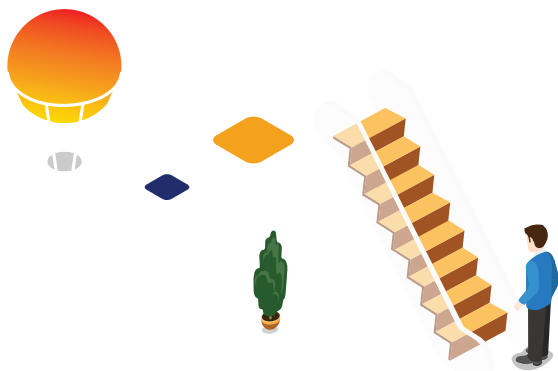
The business sustainability agenda has been steadily gaining traction. While the spotlight continues to shine on the role of listed companies, small and medium-sized enterprises (SMEs), which are the critical engine of economic progress, are still only sporadically recognised as players in the attainment of sustainability goals.

Although SMEs have made important contributions to social and environmental well-being, their unique challenges and constraints have not been widely studied. Therefore, it is important to gain a better understanding of the role and potential of SMEs in fostering positive social, environmental and economic changes for a more sustainable future. In this light, the Diagnostic Study aims to (i) gauge and examine SMEs' perceptions, practices and approaches to the attainment of Environmental, Social, and Governance (ESG) and sustainability goals within their business, (ii) identify factors affecting SMEs' incentives and abilities to become 'responsible businesses' and promote sustainability changes along the value chain.

Based primarily on the findings of a territory-wide SME Sustainability Survey, the key takeaways of this Diagnostic Study are:

## SME sustainability landscape -

- (i) SMEs in Hong Kong are focused more on short-term survival than on managing long-term social-ecological risks to business resilience.
- (ii) SMEs are in general content with what they have achieved in business sustainability. Usually, on average, SMEs (i) with a larger employment size, (ii) engaged in business/industry associations or sustainability oriented initiatives/schemes/programmes, or (iii) with a higher perceived level of effectiveness, adopted more sustainability practices.
- (iii) No particular industry sector has an impressive performance across the five dimensions: "Governance", "Workplace Culture", "Customer-supplier Relationships", "Resource Management" and "Innovation". Nevertheless, SMEs tend to perform better in resource management and relatively worse in innovation and corporate governance.
- (iv) With regard to the practices adopted by most SMEs across the five dimensions, the majority can be categorised as 'incremental' improvements that are relatively quick and easy fixes. It is noteworthy that achieving sustainability requires systemic changes in ways the companies manage ESG risks and opportunities as well as in their governance processes. Standard frameworks are needed so that the impact of a company's sustainability practices can be adequately gauged, and 'sustainability washing' or 'ESG washing' can be avoided.



#### **Bottlenecks for sustainability implementation -**

- (i) SMEs are yet to realize the growth opportunities and long-term benefits of embedding sustainability into the business core. It highlights the importance of developing a comprehensive business case for more concrete ESG and sustainability integration.
- (ii) Companies' sustainability progress is being held back by a lack of ESG mind sets. There is a strong need to nurture more ESG talents among the SME owner-managers for driving sustainability actions.
- (iii) Resource constraints (e.g. financial, time) and knowledge gaps are major barriers to advancing sustainability goals. While high upfront costs and investments in sustainability projects is a critical issue, SMEs generally lack a solid understanding of how and where to invest resources that will drive purposeful changes.
- (iv) The absence of standardized sustainability benchmarks to assess the viability of practices and performance is another hurdle. There have been repeated calls for setting industry-specific benchmarks and impact measurement tools to measure businesses' contributions to the environment and society.
- (v) Financial support and recognition are key to fostering sustainability practices in SMEs.

#### **Based on this sustainability landscape and these bottlenecks, the Diagnostic Study Report puts forth recommendations for enhancing the SME sector's capacity to implement sustainability measures:**

- (i) Building a knowledge and solutions platform, which brings together an array of reliable information and evidence-based resources to inspire business practitioners to engage in sustainability.
- (ii) Establishing an action-oriented sustainability coalition, which aims to foster a collaborative, innovative and creative ecosystem of multiple stakeholders for driving sustainable businesses and industry-specific, issue-based impact programmes.
- (iii) Revisiting assessment and benchmarking tools to look beyond inputs and outputs and to place greater emphasis on the true sustainability impact of a company.

# INTRODUCTION

## 1.1. Striving for Business Sustainability

Business sustainability has come a long way since the dawn of environmentalism in the 1970s. The environmental movement was initially focused on pollution problems and has since transitioned into the pursuit of corporate social responsibility (CSR) through philanthropic acts. Currently, the discussion around the term 'ESG'<sup>1</sup> suggests that instead of purely going green, or being a responsible steward, business sustainability involves three dimensions: (i) the environment performance (carbon emissions, resource efficiency, biodiversity conservation), (ii) social impact (workplace safety, employee engagement, diversity and inclusion, customer satisfaction, data and privacy), and (iii) good governance (business' leadership and structure, bribery and corruption prevention, corporate accountability, risk management).

Over the past two years, the COVID-19 pandemic has revealed vulnerabilities in global supply chains and public health systems. On a parallel path, businesses and society alike are facing increasingly complex transboundary challenges, including climate urgency, digital disruption, economic downturn and widening social injustices. All these have impacted the ways sustainability is understood and acted upon. The onus is on companies to reinvent their business in ways that minimize or internalize negative externalities associated with their products, services, and practices across their value chains

as well as to drive positive benefits for society and the environment.

Mainstreaming sustainability in business does not necessarily come at the expense of profitability. This is not a zero-sum game as ESG or sustainability practices can potentially open up new sources of revenue, attract employees and investors, retain customers and market shares, and gain access to new market opportunities<sup>2</sup>.

## 1.2. Impulse for Change: Key Sustainability Trends Driving Business Transformation

The World Economic Forum Global Risks Report 2022<sup>3</sup> revealed that climate action failure, extreme weather events, biodiversity loss and ecosystem collapse were considered the top three global risks, with potentially the most severe impacts, over the next decade. The Sustainability Institute by ERM published the Sustainability Trends Report, which detailed key sustainability business trends for 2022<sup>4</sup> and highlighted the most dynamic issues influencing corporate sustainability. As large corporates have gradually embraced business sustainability, SMEs are facing the challenges of getting on the bandwagon and positioning themselves in the drive for a sustainable value chain.

1 The Global Compact. (2004). Who Cares Wins The Global Compact Connecting Financial Markets to a Changing World. [https://www.unepfi.org/fileadmin/events/2004/stocks/who\\_cares\\_wins\\_global\\_compact\\_2004.pdf](https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf)

2 Centre for Civil Society and Governance, The University of Hong Kong. (2021). Sustainability Roadmap and Action Planning Guidebook, page 4-11. [https://ccsg.hku.hk/pslb/wp-content/uploads/2021/06/PSLB\\_Toolkit-2\\_Full-Version.pdf](https://ccsg.hku.hk/pslb/wp-content/uploads/2021/06/PSLB_Toolkit-2_Full-Version.pdf)

3 World Economic Forum. (2022). The Global Risks Report 2022 17th Edition – Insight Report. [https://www3.weforum.org/docs/WEF\\_The\\_Global\\_Risks\\_Report\\_2022.pdf](https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf)

4 ERM. (2022). What's Next for Sustainable Business? 2022 Trends Report. <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/2022/esi-sustainability-trends-report-2022-2.pdf>

- *Towards Stakeholder Capitalism and Sustainable Value Chains*—the rise of ‘stakeholder capitalism’<sup>5</sup> has driven a re-examination of the prevailing corporate-governance model. A paradigm shift towards a stakeholder-centric model has pushed business leaders to expand their missions to the creation of value not only for shareholders but also for customers, suppliers, employees, and the broader communities. The shift has emphasized the importance of internalizing ESG and sustainability considerations into (i) the company’s strategy (including resource allocation, risk management, performance evaluation, and reporting processes); and (ii) value chain management (including employee empowerment, supplier’s compliance and collaboration, and customer engagement).
- *Valuing Human Capital*—the social and economic challenges posed by the coronavirus pandemic have fundamentally changed the nature and characteristics of the way we work. Workplace and worktime flexibility, a shift to gig economy and digitalization, and business employment policies have all been attracting more attention and scrutiny. Businesses will need to develop

clear guidelines for remote and flexible working to prevent operational disruption. The provision of technical and mental health support has also emerged as a critical priority. These have highlighted the urgent need to recognise and mitigate the material ESG risks to which businesses are exposed.

- *Accelerating Transition to Net Zero*—following the release of the sixth climate assessment report by the Intergovernmental Panel on Climate Change (IPCC), and the UN Climate Change Conference in Glasgow (COP26), the stage is set for 2022 to be a critical year for urgent climate action. The business sector is facing pressure from investors, regulators and the broader public to act on climate change. Globally, over 3,000 businesses and financial institutions are working with the Science Based Targets initiative (SBTi) to reduce emissions across their value chains in line with climate science<sup>6</sup>.
- *Intensifying Scrutiny of Sustainability Credentials*—reporting and disclosure on ESG issues have gained strong momentum in the past decade. Nevertheless, unlike auditing financial statements, no standardized report formats and



<sup>5</sup> Grandori, A. (2005). Neither Stakeholder Nor Shareholder ‘Theories’: How Property Right and Contract Theory can Help in Getting Out of the Dilemma. *Journal of Management and Governance*, 9(1), 41-46.

<sup>6</sup> Science Based Targets Initiative. (2022). Companies taking action. <https://sciencebasedtargets.org/companies-taking-action>



structures exist for the presentation of ESG information. The proliferation of incomparable, or sometimes conflicting frameworks risks ESG reporting fatigue. Against this background, the Global Reporting Initiative (GRI) framework remains the most widely used tool, albeit being general in scope. In contrast, the more recently established Sustainability Accounting Standards Board (SASB) standards zoom into the financial materiality of ESG factors and provide industry-specific guidelines. Private agencies such as Morgan Stanley Capital International (MSCI) also offer benchmarking services for a broad range of company behaviours based on a list of ESG criteria. The market has been urging harmonization among these standards and assessment methodologies.

- *Sustainable Investing Boom*—the ESG movement has grown into a global investing norm with global ESG assets on track to exceed US\$53 trillion by 2025, representing more than a third of the \$140.5 trillion in projected total assets under management (AUM). As sustainable investing (e.g. ESG funds, impact investing) continues to grow both regionally and locally, a flourishing industry of ESG ratings and consultancies have sprung up to assist investors to better understand the sustainability levels of the companies they invest in. Nevertheless, increased investors' appetite for more transparent, consistent and comparable data has spurred companies to evolve their ESG reporting strategy and disclose information more deeply and consistently. There has been a significant demand for greater corporate disclosure based on a unified approach, coupled with verification mechanisms to avoid sustainability or ESG washing<sup>7</sup>.

### 1.3. Embracing ESG and Sustainability: Why it Matters for SMEs?

Given the fact that implementing ESG and sustainability practices delivers proven value, global corporate leaders have increasingly viewed these as a necessity rather than a feel-good exercise. Companies are moving from quick fixes or incremental enhancements towards bolder, systemic approaches that enable them to better manage the risks and opportunities.

With ESG rapidly becoming a dominant trend and considering the evolving demand from myriad stakeholders (see **Annex** for key ESG milestones in Hong Kong), both large corporations and the upstream and downstream SME business partners (e.g. manufacturers, suppliers, transporters, warehouses and retailers) have worked to guarantee a supply chain that conforms to ESG norms. The inability to demonstrate compliance with respective environmental and social standards, or failing to enhance visibility and transparency in operations could risk the SMEs losing business and investment opportunities. Thus, it is reasonable to expect that companies of all sizes and sectors, ranging from SMEs to family businesses and corporate giants, will accelerate their transformation by investing in proven climate and ESG solutions and technologies, as well as embedding sustainability into the corporate DNA.

<sup>7</sup> ABT Capital Markets Inc. (n.d.). Green, Blue, Pink and Social Corporate Washing  
<https://www.abtmarkets.com/abt-blog/green-blue-pink-and-social-corporate-washing>

## 1.4. About the Diagnostic Study

The business sustainability agenda has been steadily gaining traction. Yet, attention largely remains on corporate giants such as Multinational Corporations (MNCs) and publicly-traded companies. Despite the fact that SMEs are the engines of economic growth, their roles and contributions to the attainment of sustainability goals have only been sporadically recognised and are certainly under-researched. It is, therefore, important to gain a better understanding of the roles and potentials of SMEs in fostering positive social, environmental and economic changes for a more sustainable future.

### 1.4.1. Study Objectives

A recent business survey<sup>8</sup> involving the top management of SMEs in Hong Kong<sup>9</sup> has revealed that 94% of SMEs were not aware of or had insufficient knowledge about ESG. Currently, only 9% of the SMEs have put ESG into practice; 83% of the SMEs had not felt the pressure to implement ESG. What are the drivers and barriers influencing SMEs' decisions to adopt ESG practices? Does the way SME perceive sustainability affect their commitment to sustainability? What are the ESG and sustainability practices that SMEs in Hong Kong have adopted most? These are all important questions that have thus far been left unanswered.

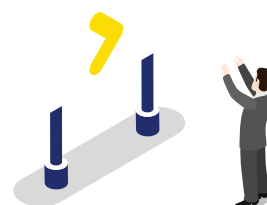
In an effort to fill this knowledge gap, the Diagnostic Study aims to (i) gauge and examine SMEs' perceptions, practices and approaches to the attainment of Environmental, Social, and Governance (ESG) and sustainability goals within

their businesses, (ii) identify factors affecting SMEs' incentives and abilities to become 'responsible businesses' and promote sustainability changes along the value chain. The findings of this study will provide a baseline for future research and market analysis on SMEs' sustainability efforts and achievements.

### 1.4.2. Methodology

The Diagnostic Study primarily draws upon the results and findings of a Territory-wide SME Sustainability Survey in Hong Kong (hereafter 'the Survey'). As part of the PSLB Programme initiated by the Centre for Civil Society and Governance (CCSG) at The University of Hong Kong (HKU), the Survey aims to solicit views from the owners/C-suites/senior management of a random sample of SMEs in Hong Kong on four aspects:

- (i) How SMEs' owner-managers perceive sustainability and the role that the business sector can play in achieving sustainable development;
- (ii) What are the sustainability policies, practices and initiatives that the SMEs have put in place;
- (iii) What are the drivers and barriers for SMEs to adopt and invest in sustainability practices and initiatives; and
- (iv) What incentives and support can help SMEs integrate sustainability into their operations, strategies and business models.



<sup>8</sup> Hong Kong Productivity Council. (2022). Standard Chartered Hong Kong SME Leading Business Index Quarter 1, 2022 Report. [https://www.hkpc.org/sites/default/files/2022-01/scb\\_sme\\_index\\_report\\_2022q1\\_en.pdf](https://www.hkpc.org/sites/default/files/2022-01/scb_sme_index_report_2022q1_en.pdf)

<sup>9</sup> Data are collected from 817 SMEs using publicly available SME directories and HKSAR Census database. The sample is stratified by the Hong Kong Standard Industrial Classification (HSIC) version 2.0, and based on the number of SME establishments in Hong Kong. The stratified sample covers eleven categories namely: 1) Manufacturing, 2) Construction, 3) Import / Export Trade and Wholesale, 4) Retail, 5) Transportation, Storage and Courier Services, 6) Accommodation and Food Services, 7) Information and Communications, 8) Financing and Insurance, 9) Professional and Business Services, 10) Real Estate, 11) Social and Personal Services

The target respondents of the Survey cover (i) enterprises that are not listed or affiliated to listed entities (e.g. subsidiaries, joint venture); and (ii) enterprises with number of employees between 11 and 500.

A two-stage stratified disproportionate sampling design was adopted. In the first stage, a list of Commercial and Industrial (C&I) buildings was randomly sampled by geographical area. In the second stage, a list of addresses was randomly sampled from the sampled buildings to form a list of sampled enterprises. Invitation letters with survey links were sent to the sampled SMEs. The respondents could either scan the QR code and self-administer the questionnaire through the survey platform or contact the hotline to arrange telephone or face-to-face interviews.

The Survey was conducted in the period from 8 November 2021 to 4 April 2022. A total of 498 buildings across 18 districts were randomly sampled. For each sampled building, 20 addresses were randomly sampled. After screening, 2,254 enterprises were deemed eligible for the Survey. A total of 1,400 SMEs were successfully enumerated, which gave a response rate of 62.1%.

In this study, the terms “sustainability” and “ESG” which refer to non-financial risks and/or opportunities arising from the environmental, social and governance aspects that may impact an entity are used interchangeably. The definition was adapted from ‘Enterprise Risk Management – Applying enterprise risk management to environmental, social and governance-related risks’ published by The Committee of Sponsoring Organizations of the

Treadway Commission (COSO) and World Business Council for Sustainable Development (WBCSD)<sup>10</sup>.

### 1.4.3. Organization of the Report

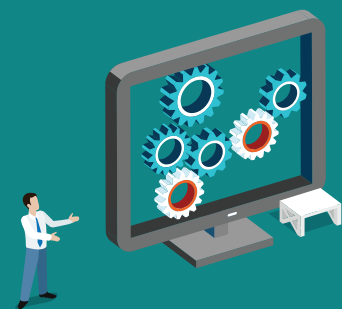
The Diagnostic Report has four chapters with details as follows:

Chapter 1 – ‘Introduction’ sets the stage and discusses how sustainability affects the business landscape.

Chapter 2 – ‘Landscape Analysis’ offers a glimpse of the current state of sustainability and ESG efforts in Hong Kong’s SME sector.

Chapter 3 – ‘The Bottlenecks’ discusses the drivers and barriers to the implementation of ESG and sustainability, as well as the incentives and support needed to help SMEs integrate sustainability into their operations, strategies and business models.

Chapter 4 recommends potential solutions and consider possible ways forward.



<sup>10</sup> COSO and WBCSD. (2018). Enterprise Risk Management – Applying enterprise risk management to environmental, social and governance-related risks. [https://docs.wbcsd.org/2018/10/COSO\\_WBCSD\\_ESGERM\\_Guidance.pdf](https://docs.wbcsd.org/2018/10/COSO_WBCSD_ESGERM_Guidance.pdf)

# LANDSCAPE ANALYSIS OF SME SUSTAINABILITY IN HONG KONG

SMEs are the backbone of Hong Kong's economy and a key driving force for the city's economic development. As of 2021, there were over 340,000 SMEs in Hong Kong, accounting for over 98% of the total business establishments and 45% of workforce in the private sector.

While SMEs take on substantial economic importance, they have long been missing from the sustainability discourse. Based primarily on the Survey conducted by HKU CCSG, this section sheds light on two areas: (i) Hong Kong's SMEs' perceptions of sustainability challenges and the priority action areas for driving sustainability in their businesses, and (ii) the current situation on the uptake of ESG and sustainability in Hong Kong's SMEs.

## 2.1. Background of SME Respondents

Of the 1,400 surveyed SMEs, most of them are in (i) the import/export, wholesale and retail trades sector (42.7%), followed by (ii) the finance, insurance real estate and business services sector (24.3%); and (iii) the community, social and personal services sector (13.2%). Over two-thirds (71.3%) of the SMEs had 11-20 employees, 21.1% had 21-50 employees and 7.6% had 51-500 employees.

### Industry Sector

| Industry Groups                            | Industry  | %     |
|--|---|-------|
| Agriculture and fishing                    | Agriculture, forestry and fishing                                   | 0.0%  |
| Mining and quarrying                       | Mining and quarrying  | 0.0%  |
| Manufacturing                              | Manufacturing   | 2.2%  |
| Electricity, gas and water                 | Electricity and gas supply  | 0.1%  |
|  | Water supply; sewerage, waste management and remediation activities | 0.0%  |
| Construction                               | Construction  | 6.6%  |
| Import/export, wholesale and retail trades |   | 42.7% |
| Accommodation and food service activities  |   | 4.5%  |
| Transportation, storage and communications | Transportation, storage, postal and courier services                | 2.6%  |
|  | Information and communications                                      | 3.9%  |

Responded no.: 1400  
Q no.: A1

| Industry Groups   | Industry  | %    |
|---|---|------|
| Financing, insurance, real estate and business services | Financial and insurance activities                      | 7.0% |
|   | Real estate activities                                  | 4.4% |
|   | Professional, scientific and technical activities       | 8.3% |
|   | Administrative and support service activities           | 4.6% |
| Community, social and personal services                 | Public administration                                   | 0.0% |
|   | Education   | 1.4% |
|   | Human health and social work activities                 | 2.2% |
|   | Arts, entertainment and recreation                      | 3.3% |
|   | Other service activities                                | 6.3% |
|   | Work activities within domestic households              | 0.0% |
|   | Activities of extraterritorial organisations and bodies | 0.0% |



SMEs' engagement in various sustainability-oriented activities or organizations has been minimal. Less than one-third (30.7%) of them indicated that they were involved in some sustainability activities or organizations; the remaining 69.3% had not had any engagement experience.

## Engagement in Various Activities



Ref: E3 / Base: 1400 SMEs

| %   | Currently Engaged        |                          | No Engagement       |            |             |
|---|--------------------------|--------------------------|---------------------|------------|-------------|
|   | Engaged more than a year | Engaged less than a year | Planning on joining | Interested | No interest |
| Member of a business association/ industry association or similar organisation                              | 21.3%                    |                          | 78.7%               |            |             |
|   | 15.4%                    | 5.9%                     | 30.8%               | 29.5%      | 18.4%       |
| Government-led sustainability-oriented initiatives/ schemes/ programmes                                     | 11.9%                    |                          | 88.1%               |            |             |
|   | 6.5%                     | 5.4%                     | 22.5%               | 45.6%      | 20.0%       |
| Voluntary sustainability oriented initiatives/ schemes/ programmes organised and run by other organisations | 9.8%                     |                          | 90.2%               |            |             |
|   | 3.8%                     | 6.0%                     | 23.0%               | 39.7%      | 27.5%       |
| Development of industry standards/ code of conduct/ regulations   | 11.3%                    |                          | 88.7%               |            |             |
|   | 4.2%                     | 7.1%                     | 26.4%               | 34.1%      | 28.2%       |
| Sustainability-oriented initiatives/ schemes/ programmes organised and run by your industry                 | 7.1%                     |                          | 92.9%               |            |             |
|   | 1.9%                     | 5.2%                     | 23.0%               | 39.2%      | 30.7%       |
| Participated as a mentee in a mentoring scheme  | 7.2%                     |                          | 92.8%               |            |             |
|   | 3.5%                     | 3.7%                     | 22.3%               | 40.4%      | 30.1%       |
| Collaborating and building networks with actors such as other SMEs, large corporations, NGOs etc.           | 7.0%                     |                          | 93.0%               |            |             |
|   | 3.3%                     | 3.7%                     | 22.5%               | 39.4%      | 31.1%       |
| Participate in a voluntary environmental / social programme   | 9.2%                     |                          | 90.8%               |            |             |
|   | 3.5%                     | 5.7%                     | 22.4%               | 37.1%      | 31.3%       |
| A member of an environmental / social group   | 7.6%                     |                          | 92.4%               |            |             |
|   | 4.0%                     | 3.6%                     | 20.6%               | 38.1%      | 33.7%       |

Ref: E3 / Base: 1400 SMEs

## 2.2. Perceptions on Sustainability Challenges and Priority Action Areas

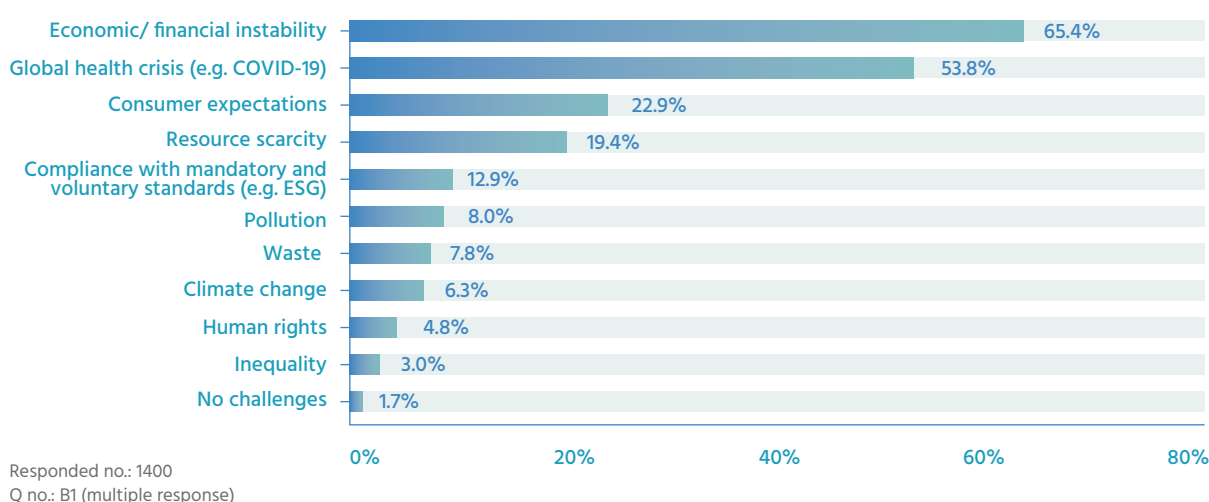
Summarised below are two key observations from the Survey findings on SMEs' perceptions of sustainability challenges and priority action areas.

### 2.2.1. Insensitivity to Long-term Social-ecological Risks

A majority of the SMEs (98.3%) indicated that they were facing some sort of sustainability challenge.

**Regardless of the industry sectors the SMEs belonged to, the two most concerning issues were economic and financial instability (65.4%) and global health crisis (e.g. COVID-19) (53.8%).** This result suggests that SMEs have been struggling to stay resilient and to recover from the global economic slowdown and the disruptions brought by the pandemic.

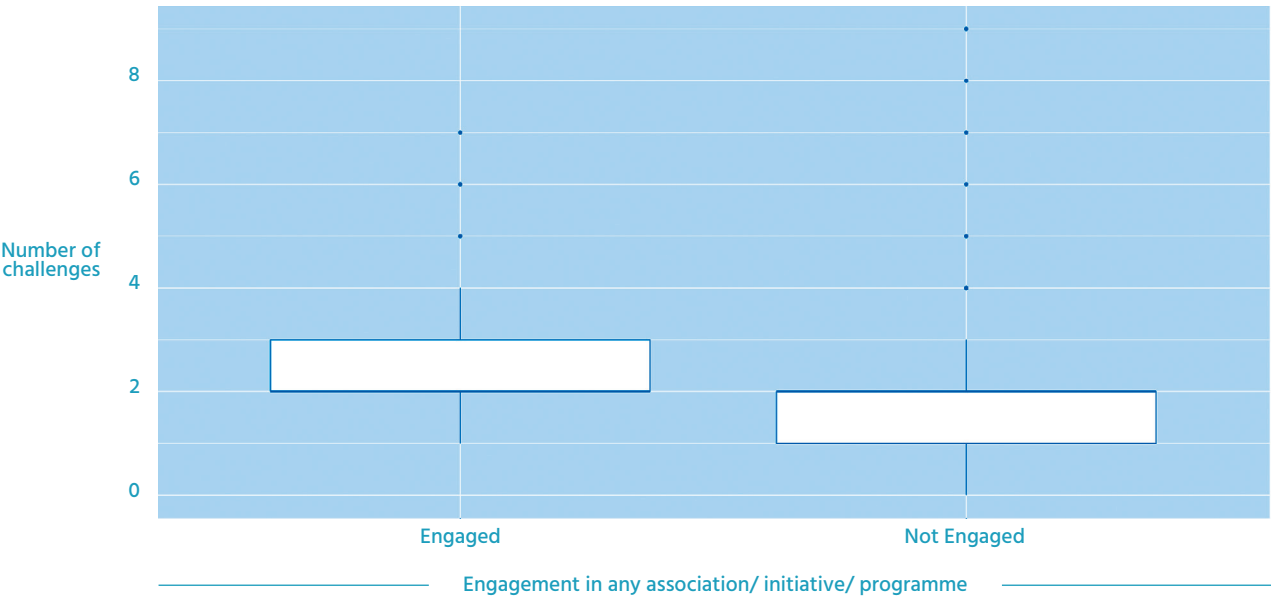
#### Perceived Sustainability Challenges



In contrast, **long-term social-ecological risks such as pollution, climate change, human rights and inequality received relatively little attention from the SMEs; less than 10% of them identified these risks as a sustainability challenge.** It suggests that SME owner-managers focused more on short-term survival than business resilience. For instance, they were less concerned about the potential physical risks induced by climate change, despite the fact that increased heatwaves, droughts and floods could bring disruptions to the global supply chain. By the same token, while social issues such as inequalities at workplace were not perceived to be a major challenge for SMEs; insensitivity to equalities could have adverse implications for their businesses in the long run, including damages to their company reputation, staff morale and productivity. **This finding suggests the need to educate SMEs about the importance of integrating ESG concerns into their risk management practices so that they can be alert to potential risks early on and able to take mitigation measures.**

The boxplot below helps unpack the relationship between perceived sustainability challenges faced by the SMEs and engagement in any business/industry associations or sustainability-oriented initiatives/schemes/programmes. It is evident that **the SMEs that have engaged in these organizations or activities tend to be able to identify more sustainability challenges, showing a more comprehensive understanding of sustainability-related risks and opportunities.**

Relationship between Perceived Sustainability Challenges and Engagement in Business/Industry Associations or Sustainability-oriented Programmes

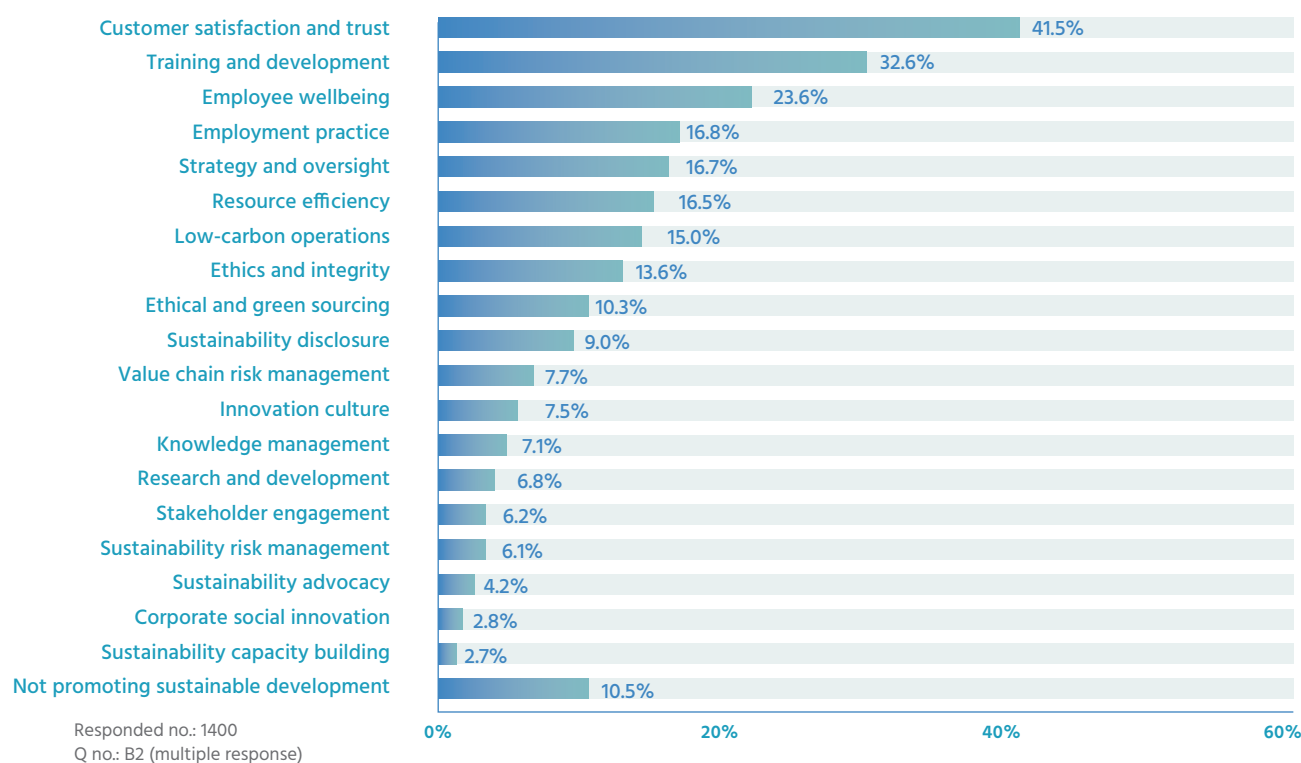


2.2.2. The ‘S’ in ESG is on the Rise

With regard to the key action areas for driving sustainability in business, the top three choices are ‘customer satisfaction and trust’ (41.5%), ‘training and development’ (32.6%) and ‘employee wellbeing’ (23.6%). The findings suggest that the SMEs were keen to align their operations with what their customers care for, and to invest in their employees through continued education, skills development, and better management of employees’ physical and mental health. All these areas fall within the ‘S’ of ESG and are now among the most pressing issues, which SMEs cannot ignore.



## Priority Areas for Driving Sustainability in Business



## 2.3. Current Situation on the Uptake of ESG and Sustainability in the SME Sector

Sustainability issues are rapidly changing the business landscape. This section takes a deeper dive into the current ESG and sustainability practices adopted by the SMEs in Hong Kong.

### 2.3.1 SMEs Tend to Perceive Themselves as Effective at Advancing Sustainability Goals

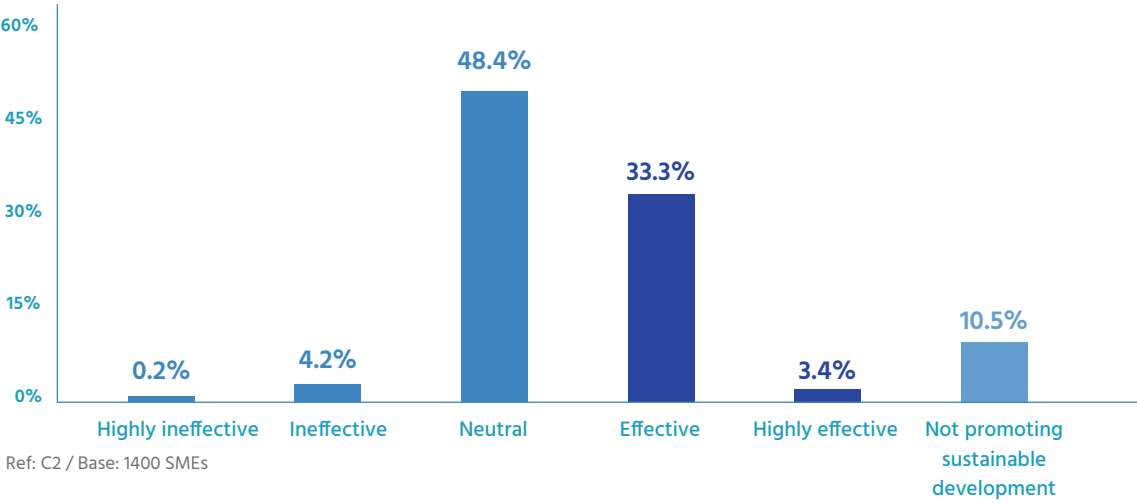
Earlier studies have suggested that the adoption of sustainability initiatives is positively associated with financial performance and the size of the customer base. However, due to a lack of uniform reporting and disclosure standards, it is not uncommon that some companies have made unsubstantiated or exaggerated claims of 'green', 'ethical' and 'risk management' practices.

Taking a closer look at the SME sector, the Survey reveals that, while nearly half of the SMEs (48.4%) were neutral regarding their overall effectiveness at advancing sustainability goals, **a substantial proportion of the SMEs were satisfied with their sustainability performances. Over one-third of the SMEs (36.7%) rated themselves as effective, as compared to 4.4% as ineffective.**

In addition, when analyzed by employment size, **the overall perceived effectiveness of sustainability performances was higher in larger companies. No significant differences in perceived effectiveness of sustainability performances between industries were found.**

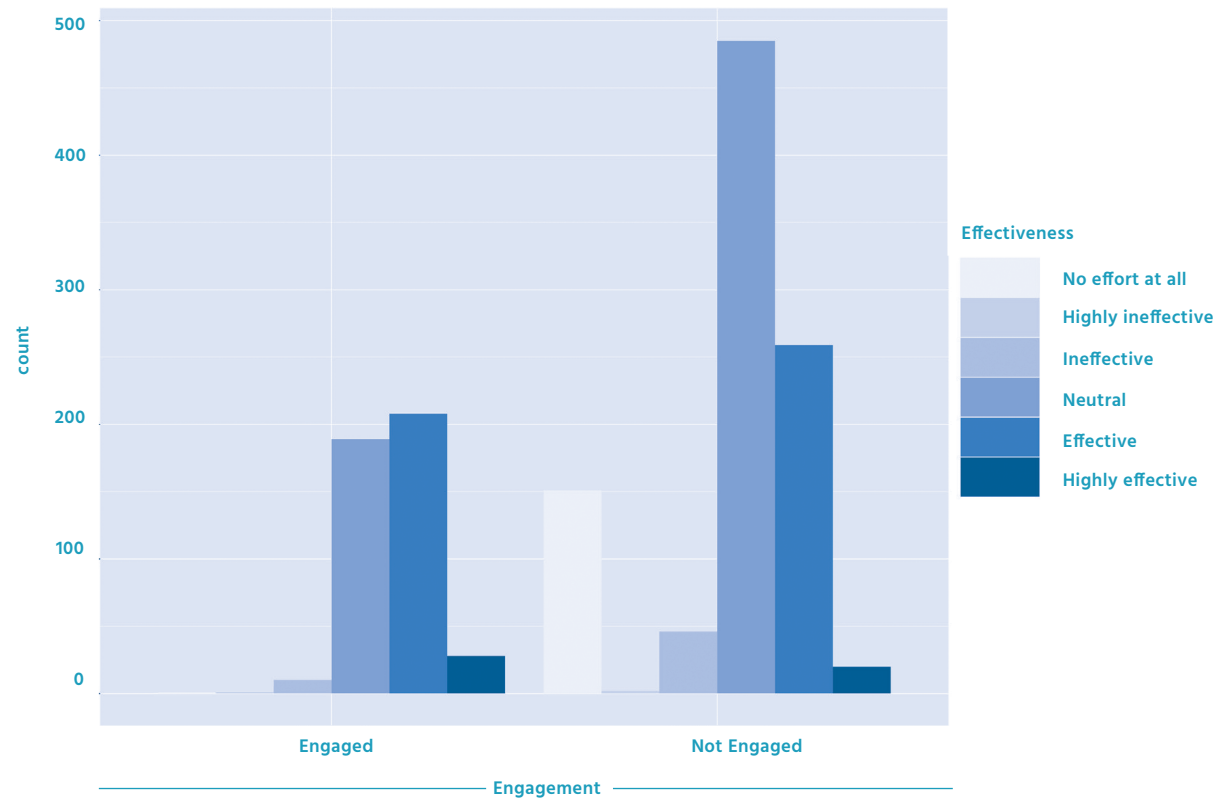


Perceived Effectiveness at Advancing Sustainability Goals



With reference to the dodge bar graph below, **SMEs that were engaged in business/industry associations or sustainability-oriented initiatives/schemes/programmes have a higher level of perceived effectiveness for advancing sustainability goals than those that did not participate in any associations or activities.**

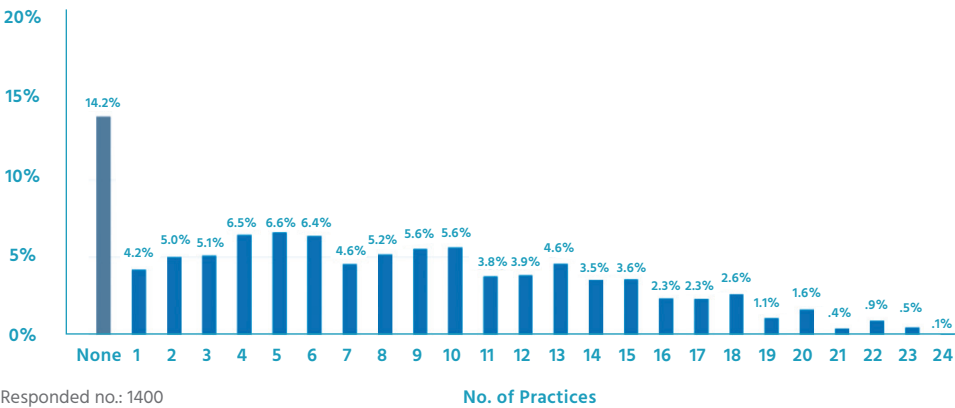
Relationship between Perceived Effectiveness and Engagement in Business/Industry Associations or Sustainability-oriented Programmes



2.3.2. SMEs Tend to Perform Better in Resource Management and the Larger the Company Size, the More Sustainability Practices Adopted

Regarding sustainability practices that the SMEs have put in place, of the 24 practices across the five dimensions (“Governance”, “Workplace Culture”, “Customer-supplier Relationships”, “Resource Management” and “Innovation”), 14.2% of the SMEs had not applied any of the practices and 27.4% of them had adopted only 1-5 practices. The average number of sustainability practices adopted was 7.7 across all industries.

Total Number of Sustainability Practices Adopted



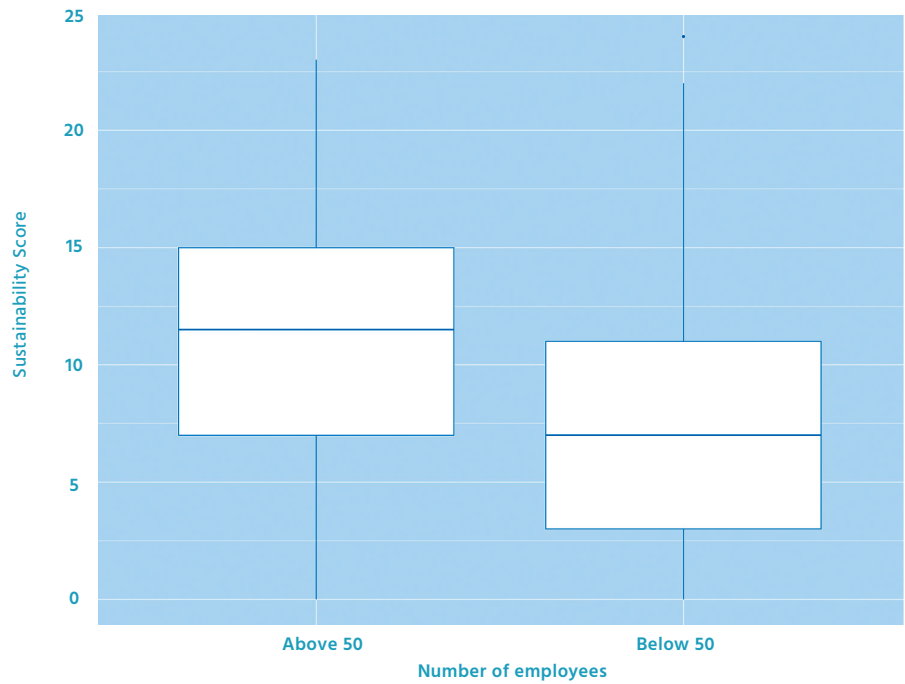
With reference to the heatmap below, no specific industry sector attained a particularly impressive performance across all five dimensions. Overall, the SMEs tended to perform better in resource management and worse in innovation and corporate governance.

Relationship between Sustainability Score and Industry Sector

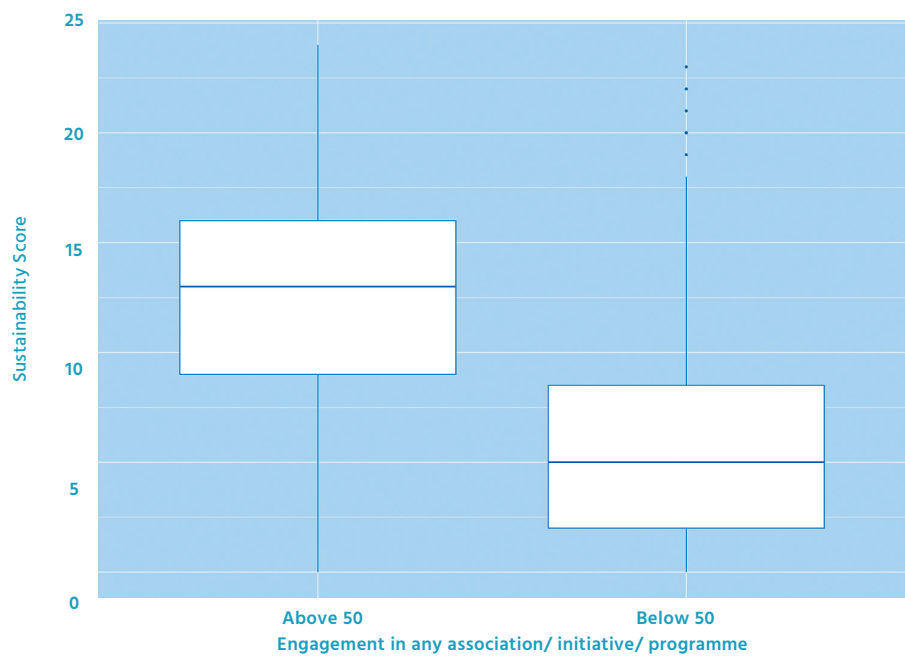


It is also noteworthy that **SMEs (i) with a larger employment size, (ii) engaged in business/industry associations or sustainability oriented initiatives/schemes/programmes, or (iii) with a higher perceived level of effectiveness, on average tended to adopt more sustainability practices and hence performed better in the sustainability score.**

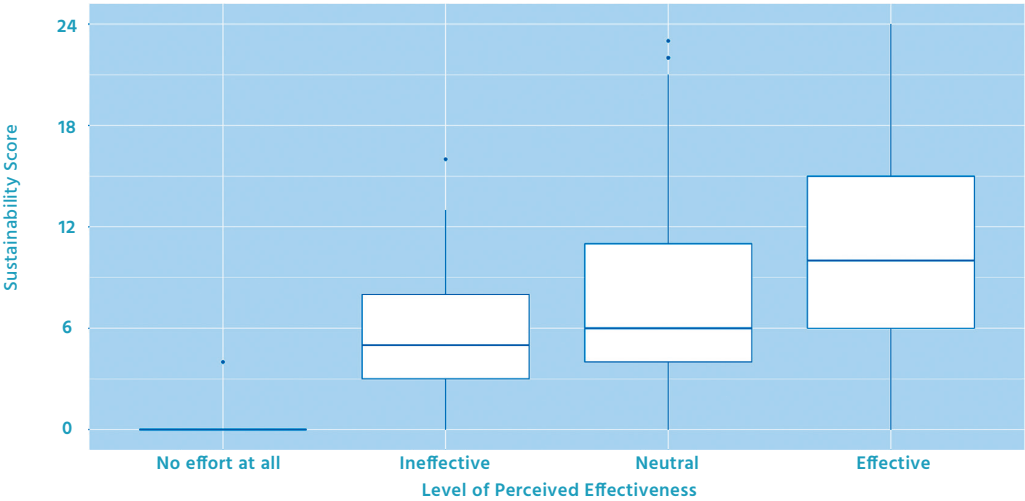
**Relationship between Sustainability Score and Company Size**



**Relationship between Sustainability Score and Engagement in Business/Industry Associations or Sustainability-oriented Programmes**

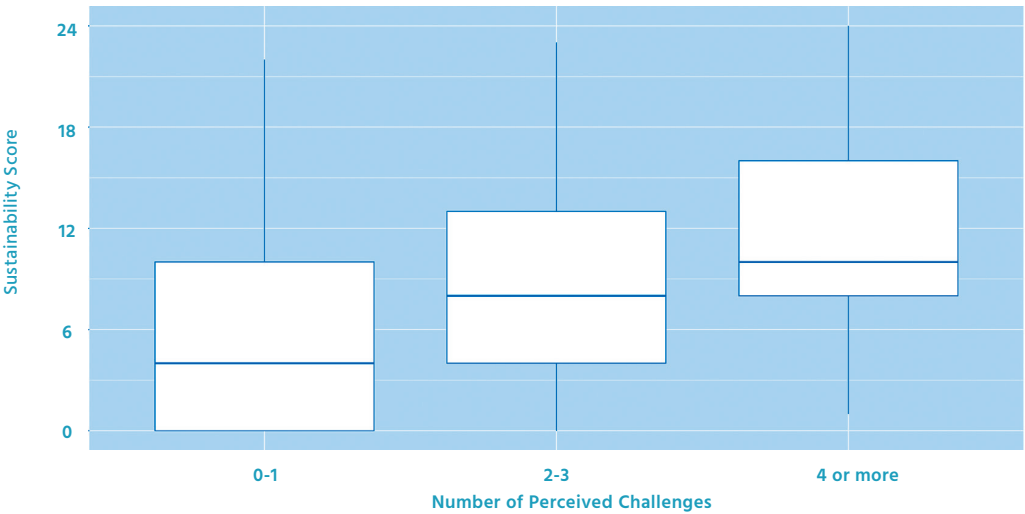


Relationship between Sustainability Score and Perceived Sustainability Effectiveness



Last but not least, as reflected by the boxplot and correlation coefficient below, there is a moderate positive relationship between the number of perceived sustainability challenges and the sustainability score (calculated by the total number of sustainability practices adopted).

Relationship between Sustainability Score and the Number of Perceived Sustainability Challenges



Correlation coefficient between the two variables (both as numeric variables) = 0.29

2.3.3. Governance – One in Five SMEs Had Incorporated Sustainability into its Mission Statement and/or Governance Structure

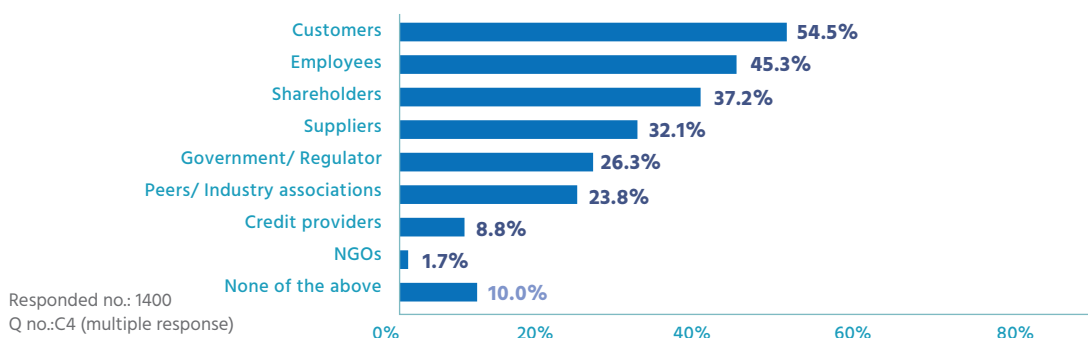
With respect to the sustainability practices adopted under ‘Governance’, **over one-fifth of the SMEs indicated that they had a vision and mission statement addressing business-related sustainability issue(s) (20.8%) or had established a governance structure in the form of board of directors, advisory committee or the like for planning and oversight of the company (22.6%). Fewer SMEs (16.8%) indicated that they had some sort of sustainability disclosures through company website, standalone report or by other means.**



Surprisingly, **of those SMEs with no such practice, over 40% had no plans for implementation despite** increasing demands from investors, clients, customers and other stakeholders for greater transparency in ESG performance and climate risks faced by companies along their value chain.

The Survey also suggests that decision-making of SMEs is mostly based on customers' demand (54.5%) and employees' opinions (45.3%), which is in a sharp contrast to the shareholder- or investor-driven mode of decision-making often observed in large corporates. Adopting a customer-centric mind set is critical, as consumers are increasingly concerned about the impact of their consumption on the environment. Employee-focused corporate culture also ascends to new levels of internal influence as "purpose-driven" employees are motivated not just by remuneration packages but also their company's commitment to sustainability concerns. It is expected that SMEs that hold themselves accountable to these stakeholders by embracing ESG will be more viable and resilient in the long term.

### Considerations on Stakeholders' Opinions when Making Decisions



#### 2.3.4. Workplace Culture – SMEs Have Been Sluggish in Building a People-centred and Collaborative Workplace

As an essential component of the movement towards sustainable development, a robust workplace culture built upon trust, equity and diversity, can improve teamwork, increase productivity and foster talent retention.

With respect to the sustainability practices on employee recruitment and promotion, the Survey reveals that **about half of the SMEs claimed that they had taken steps to ensure equal treatment for all**—regardless of an applicant or employee's sex, age, religion, ethnicity or disabilities; over one-fourth of the SMEs did not review the effectiveness of recruitment and promotion practices periodically.

When it comes to building a people-centred and collaborative workplace, **only 37.6% of the SMEs had invested resources or developed policies and practices to create a family-friendly environment** (e.g. flexible working hours, childcare leave, lactation room); these measures are deemed essential to employee well-being, especially during the COVID pandemic.

The Survey also reveals that **about 60% of the SMEs did not provide any vocational training or performance review to support employee career advancement (60.9%); close to 70% of them had not set up a cross-functional team to cultivate collaboration and enable employees to gain wider exposure to various job roles.** The lack of capacity building for their workforce may impose systemic ESG risks to SMEs.

### Degree of Adoption on Workplace Culture

| Workplace Culture  | Adopted                             |   | Not adopted                          |                  | Not sure |
|--|-------------------------------------|---|--------------------------------------|------------------|----------|
|  | Effectiveness reviewed periodically | Effectiveness not reviewed periodically | Considering or planning to implement | No plan to do so |          |
| Recruit individuals based on their ability, experience and performance, regardless of their sex, age, religion, ethnicity or disabilities                      | 45.3%                               |   | 52.1%                                |                  | 2.6%     |
|  | 19.2%                               | 26.1%                                   | 33.4%                                | 18.7%            |          |
| Promote individuals based on their ability, experience and performance, regardless of their sex, age, religion, ethnicity or disabilities                      | 46.6%                               |   | 51.2%                                |                  | 2.2%     |
|  | 19.2%                               | 27.4%                                   | 26.7%                                | 24.5%            |          |
| Develop a programme(s) or provide resource(s) to create a family-friendly work environment (e.g. flexible working hours, childcare leave, lactation room etc.) | 37.6%                               |   | 55.5%                                |                  | 6.9%     |
|  | 13.6%                               | 24.0%                                   | 24.5%                                | 31.1%            |          |
| Provide training, performance review or appraisal to employees that prepare them for future assignments and career development                                 | 35.2%                               |   | 60.9%                                |                  | 3.9%     |
|  | 12.4%                               | 22.8%                                   | 31.2%                                | 29.7%            |          |
| Use cross-functional team to enhance employee's collaboration and exposure   | 27.2%                               |   | 67.4%                                |                  | 5.4%     |
|  | 10.0%                               | 17.2%                                   | 31.7%                                | 35.7%            |          |

Responded no.: 1400  
Q no.: C5

### 2.3.5. Customer-Supplier Relationships – One in Four SMEs Had Required Their Suppliers to Report on Social and Environmental Practices

Companies have a growing responsibility not just to improve their bottom line but also to promote sustainable production and consumption behaviours that contribute to a healthier and liveable world. As large corporates are increasingly setting science-based targets for its Scope 1-3 emissions and making explicit commitment to respecting human and labour rights, **their supply chains have become a natural target for reducing emissions and incorporating more socially responsible practices.** Large corporates are under increasing pressure to drive sustainability practices among their SME business partners, such as through the Supplier Code of Conduct—a set of common rules, practices and principles with respect to ethics, social responsibility (e.g. safe working conditions, fair and respectful treatment of employees) and protection of the environment. SMEs are encouraged to have their own Supplier Code of Conduct in place, to ensure that they conduct business in accordance with the highest ethical, social and environmental standards and require the same compliance throughout their entire supply chain. The Survey shows that **about a quarter of the SMEs have required their suppliers to acknowledge the company's Code of Conduct (24.4%); and to disclose information and data about their environmental and social performances (e.g. carbon emission levels, employee health and safety measures)(25.5%).**

Consumer engagement is vital to business sustainability success. As we probed deeper into the importance of shaping consumer habits, **more than half of the SMEs (53.3%) indicated that they had put in place mechanisms and procedures to handle complaints,** which helped to manage customer trust, satisfaction and loyalty. It has been increasingly accepted that knowledge on product care and repair helps increase product lifespans and reduce waste, and that the use of sustainable packaging (e.g. recyclable/ compostable/ biodegradable) can contribute to the slowdown of natural resource depletion.

However, less than a quarter of the SMEs (22.5%) had rolled out consumer-targeting promotion and education programmes that aim to build consumer awareness of business-related sustainability issues.

### Degree of Adoption on Customer-supplier Relationships

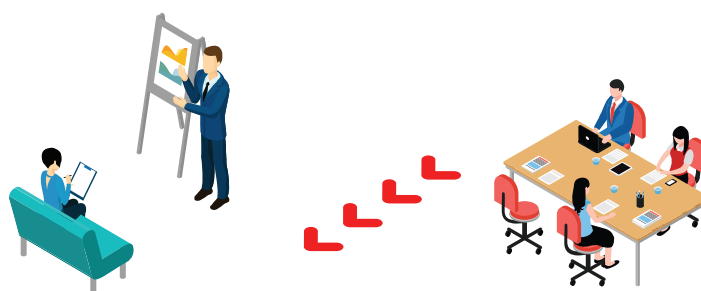
| Customer-supplier Relationships  | Adopted                             |   | Not adopted                          |                  | Not sure |
|--|-------------------------------------|---|--------------------------------------|------------------|----------|
|  | Effectiveness reviewed periodically | Effectiveness not reviewed periodically | Considering or planning to implement | No plan to do so |          |
| Have customer complaint handling procedures  | 53.3%                               |   | 44.5%                                |                  | 2.2%     |
|  | 26.0%                               | 27.3%                                   | 30.7%                                | 13.8%            |          |
| Promote customers' understanding of business-related sustainability issue(s) through promotional or educational activities   | 22.5%                               |   | 72.7%                                |                  | 4.8%     |
|  | 5.7%                                | 16.8%                                   | 37.2%                                | 35.5%            |          |
| Require all suppliers to acknowledge the company's ethical code of conduct (i.e. a guide of principles setting out the expected ethical behaviour at work and when conducting business activities) | 24.4%                               |   | 68.3%                                |                  | 7.3%     |
|  | 5.9%                                | 18.5%                                   | 32.7%                                | 35.6%            |          |
| Require suppliers to provide comprehensive information and data about their societal and environmental practices (e.g. carbon emissions, health and safety)  | 25.5%                               |   | 66.8%                                |                  | 7.7%     |
|  | 5.8%                                | 19.7%                                   | 32.9%                                | 33.9%            |          |

Responded no.: 1400  
Q no.: C7

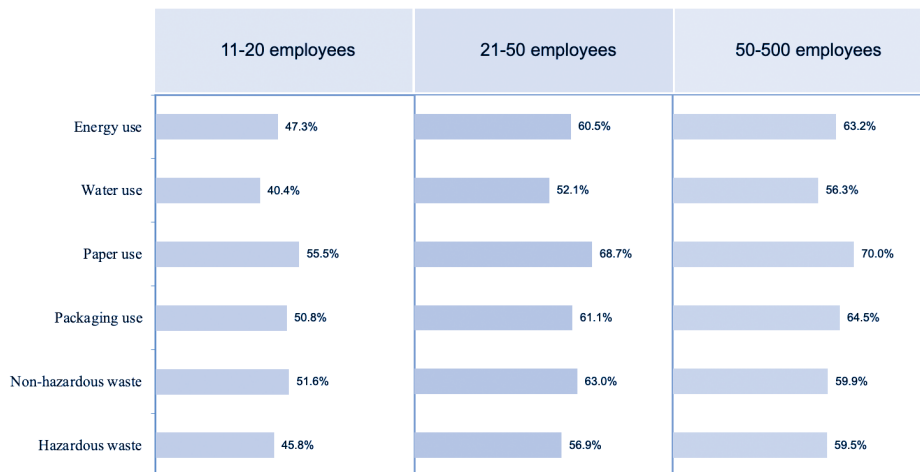
### 2.3.6. Resource Management – Larger SMEs Were More Likely to have Adopted Sustainability Practices in Monitoring Resource Consumption and Waste Generation

The Survey results have shown that **SMEs with a larger company size (51-500 employees) were more likely to have adopted sustainability practices in monitoring resource consumption and waste generation.** Over half of the SMEs indicated that they had monitored the use of paper (59.4%), packaging (54%) and energy (51.3%), while 44.1% of them had monitored the use of water. **Among the SMEs with a monitoring mechanism in place, only 20-30% of them had reduced the consumption of these resources; an even smaller proportion of the SMEs had both reduced consumption and adopted renewable or recycled resources (i.e. in paper use (9.8%), packaging use (6.5%), energy use (3.2%) and water use (2.9%)).**

Similar patterns can be found in non-hazardous waste (e.g. plastic, food waste) and hazardous waste (e.g. toner cartridge, electronic waste, chemical waste). While about half of the SMEs had monitored the generation of these wastes, **little effort was made to reduce waste disposal to landfill or to avoid generation at source.** It seems that monitoring did not lead to waste reduction attempts.



## Adoption Rate on Resource Management by Company Size



Responded no.: 1400  
Q no.: C8 and C9

### 2.3.7. Innovation – Slow Uptake in Sustainability Innovations in SMEs

New thinking on achieving long-term business growth while creating environmental and social benefits is essential for companies to become truly sustainable. In light of the sustainability challenges the world is facing, companies, both large and small, have to develop innovative solutions that are economically, environmentally and socially viable.

The Survey suggests that a **majority of the SMEs did not undertake any sustainability initiatives for innovation in their company**. Improving work processes, such as through digitalization is by far the most common practice (25%), followed by donating resources (e.g. money or materials) to non-profits (16.5%). **Only about one-tenth of the SMEs (11.4%) expressed that they had made the first move in developing or implementing sustainability innovations**, be it a new product, service, technology or production method. **Only a very small number of the SMEs (2.6%) indicated that they had a product, service or project addressing specific social or environmental issue(s)**. Moreover, among the SMEs who had not adopted these two practices, about 40% of them did not have plan to do so.

### Degree of Adoption on Innovation

| Resource Management   | Adopted                             |   | Not adopted                          |                  | Not sure |
|---|-------------------------------------|---|--------------------------------------|------------------|----------|
|   | Effectiveness reviewed periodically | Effectiveness not reviewed periodically | Considering or planning to implement | No plan to do so |          |
| Improve work processes with experimentation and innovation (e.g. digitalisation)  | 25.0%                               |   | 68.0%                                |                  | 7.0%     |
|   | 5.7%                                | 19.3%                                   | 35.6%                                | 32.4%            |          |
| Budget for employees to attend courses or training on a sustainability issue(s)   | 15.7%                               |   | 74.9%                                |                  | 9.4%     |
|   | 5.0%                                | 10.5%                                   | 29.0%                                | 45.9%            |          |
| Donate resources (e.g. money or materials) to NGOs  | 16.5%                               |   | 75.9%                                |                  | 10.6%    |
|   | 5.3%                                | 11.2%                                   | 25.6%                                | 47.3%            |          |
| Take part in volunteer work   | 12.4%                               |   | 76.6%                                |                  | 10.9%    |
|   | 4.0%                                | 8.4%                                    | 28.4%                                | 48.3%            |          |
| Have a product(s), service(s) or project(s) to specific social or environmental issue(s)  | 2.6%                                |   | 77.9%                                |                  | 19.6%    |
|   | 1.1%                                | 1.5%                                    | 31.30.9%                             | 46.6%            |          |
| Make the first move when developing or implementing sustainability innovations (new products and services, new techniques and technologies, production methods, etc.) | 11.4%                               |   | 79.1%                                |                  | 9.5%     |
|   | 1.6%                                | 9.8%                                    | 42.9%                                | 36.2%            |          |

Responded no.: 1400  
Q no.: C10

### 2.3.8. Summary of Analysis Results

The findings of the Survey suggest that SMEs in Hong Kong are focused more on short-term survival than in managing long-term ecological-social risks to business resilience. In general, they are content with what they have achieved in business sustainability. SMEs (i) with a larger employment size, (ii) engaged in business/industry associations or sustainability oriented initiatives/schemes/programmes, or (iii) with a higher perceived level of effectiveness, on average, usually adopted more sustainability practices.

No particular industry sector has an impressive performance across the five dimensions: “Governance”, “Workplace Culture”, “Customer-supplier Relationships”, “Resource Management” and “Innovation”. Nevertheless, SMEs tend to perform better in resource management and relatively worse in corporate governance.

With regard to the practices adopted by most SMEs across the five dimensions, the majority of them can be categorized as ‘incremental’ improvements, which are relatively quick and easy fixes. It is noteworthy that achieving sustainability requires systemic changes in ways the companies manage ESG risks and opportunities as well as governance processes. Standard frameworks are needed so that the impact of a company’s sustainability practices can be adequately gauged, and ‘sustainability washing’ or ‘ESG washing’ be avoided.



# THE BOTTLENECKS

Following the discussion on the landscape of SMEs sustainability, this chapter identifies the drivers and barriers to the adoption and implementation of ESG and sustainability. It also examines the incentives and support needed for SMEs to integrate sustainability into their operations, strategies and business models. The discussion in this chapter is based on the findings of the Survey conducted by HKU CCSG, and key takeaways gathered from the SVC Commitment and SME Sustainability Recognition Schemes under the PSLB Programme.

## 3.1. Drivers and Barriers to the Adoption and Implementation of Sustainability Standards and Practices

The two key questions are:

- (i) What has been holding SMEs back from making progress in adopting sustainability standards and practices?
- (ii) What can drive SMEs to move faster along the sustainability journey?

### 3.1.1. Insight 1: SMEs are Yet to Realize the Growth Opportunities and Long-term Benefits of Embedding Sustainability into their Business Core

A noteworthy finding from the Survey is that **nearly one-third of the SMEs (32.1%) disagreed with the statement that implementing sustainability measures would increase business competitiveness.** The doubts about whether sustainability can bring real benefits could be a factor limiting the adoption and implementation of sustainability in the SME sector. **SMEs are yet to realize the growth opportunities and long-term benefits brought by the practice of embedding sustainability in business strategy and operations despite the growing evidence listed below:**

- (i) Upstream/downstream SME suppliers meeting specific ESG requirements will be more favourable to international or local buyers, and eligible to obtain green loans or sustainability-linked loans;
- (ii) More resilient and agile supply chains will reduce the company's risks of disruption from extreme weather events, labour disputes, and COVID-19 lockdown measures; and
- (iii) Outstanding environmental strategies, social responsibility, and governance policies help companies differentiate their business, which can help attract like-minded customers, talents, partners and funds targeting sustainable opportunities.

In the absence of perceived business value, **whether sustainability practitioners within companies are able to develop a comprehensive business case for more concrete ESG and sustainability integration is of major importance. Best practice cases are particularly useful to justify how sustainability benefits the bottom line and as drivers for actions.** Nonetheless, without clear government signals, companies may have difficulty making the business case for advancing the sustainability agenda. Therefore, the Government plays a pivotal role in creating a framework and establishing a level playing field to encourage and facilitate actions from businesses for system-wide change. Designing effective incentive structures (e.g. performance-based incentives) is deemed essential for scaling business sustainability effort.

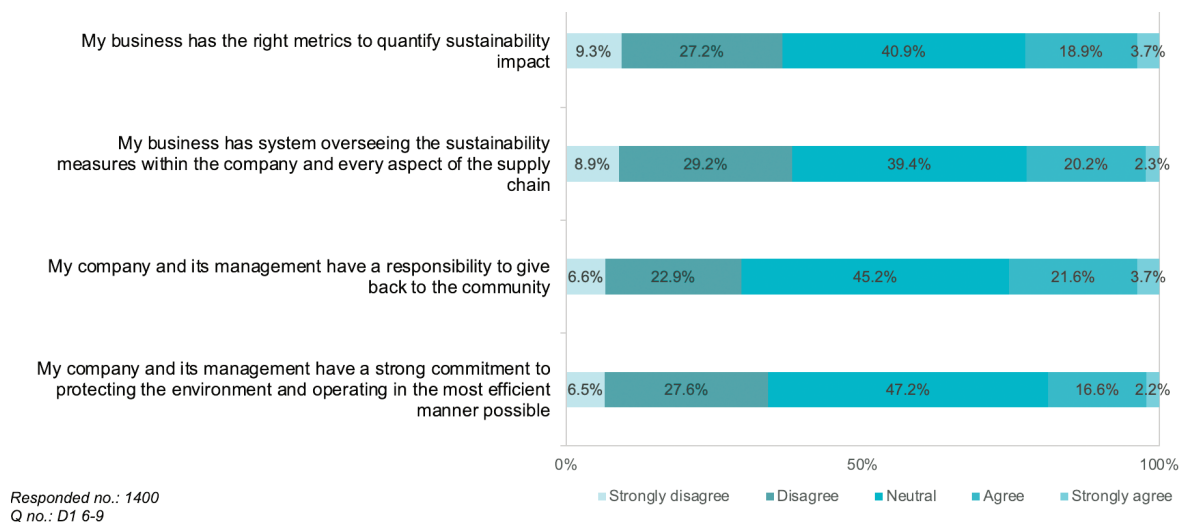
### 3.1.2. Insight 2: Company's Sustainability Progress is Being Held Back by the Lack of ESG Mindset

Putting ESG and sustainability into action requires attention and long-term support from the leadership of the company. This is particularly relevant for small businesses as their owner-manager usually plays an essential part in determining the company's long-term development. In other words, the leaders' values (i.e. personal goals of the business owner/ senior management) play an important role in guiding business decisions and shaping the work environment.

Interestingly, the Survey found that while Corporate Social Responsibility (CSR) has been around for decades, **a considerable proportion of SMEs thought that CSR is not necessary**; close to 30% of the surveyed SMEs disagreed that their company and the management have a responsibility to give back to the community. Moreover, nearly 35% of the SMEs disagreed that their company and the management have a strong commitment to protecting the environment and operating in the most efficient manner possible. Worse still, **over 35% of the SMEs disagreed that their company's leadership sees sustainability implementation as an important priority**. Taken together, the above survey findings point to the need to nurture more ESG talents in the SME sector for driving sustainability actions.

**A considerable proportion of the SMEs (32.8%) indicated that they would implement/upscale sustainability initiatives or attain sustainability standards and certifications in accordance with the industry requirements or demands by business partners (e.g. listed/ large companies).** This further implies that stakeholder pressure has a positive direct effect on companies' willingness to embrace sustainable business practices.

#### Company's Situation and Perception

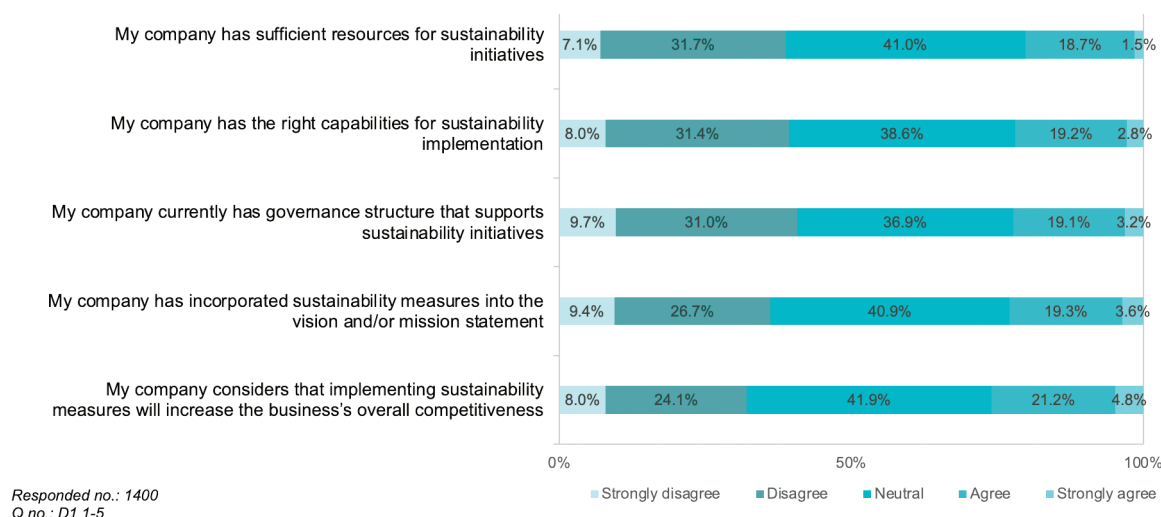




### 3.1.3. Insight 3: Resource Constraints and Knowledge Gap Are Major Barriers to Advancing Sustainability Goals

From the Survey, a **significant proportion of the SMEs (38.8%) disagreed that their company had sufficient resources for sustainability initiatives, or the right capabilities for sustainability implementation (39.4%)**

#### Company's Situation and Perception (Continued)



Opinions gathered from the SMEs participating in the SVC Commitment and SME Sustainability Recognition Schemes echoed the Survey results. **While SMEs and entrepreneurs have been hit hard by social distancing measures implemented during the COVID pandemic, they are also frequently limited by a lack of resources (financial, time, knowledge and expertise) for adopting sustainability practices, and are unsure about how they can adopt such practices in a cost-efficient manner.**

#### (i) Financial

- Upfront costs and investments in a sustainability project, or research and development (R&D) for sustainability innovations are massive and sometimes unaffordable for SMEs.
- In addition, banks prefer large business customers who are considered to be more lucrative and less risky, hence, there have been repeated calls for instruments to improve SMEs' access to financing for projects or activities with positive environmental and social impacts.

#### (ii) Time

- When focusing on survival, SMEs are often unable to set aside time for R&D.
- It takes a long time to get a Return on Investment (ROI) for sustainability innovations (i.e. developing new products, services, or processes).

#### (iii) Knowledge and Expertise

- SMEs do not have a thorough understanding of how and where to invest resources that will drive purposeful change. Which sustainability actions to take and where to focus attention (i.e. ESG priorities) are the questions challenging many SMEs.
- Different industries and markets play by different sustainability standards and regulations.

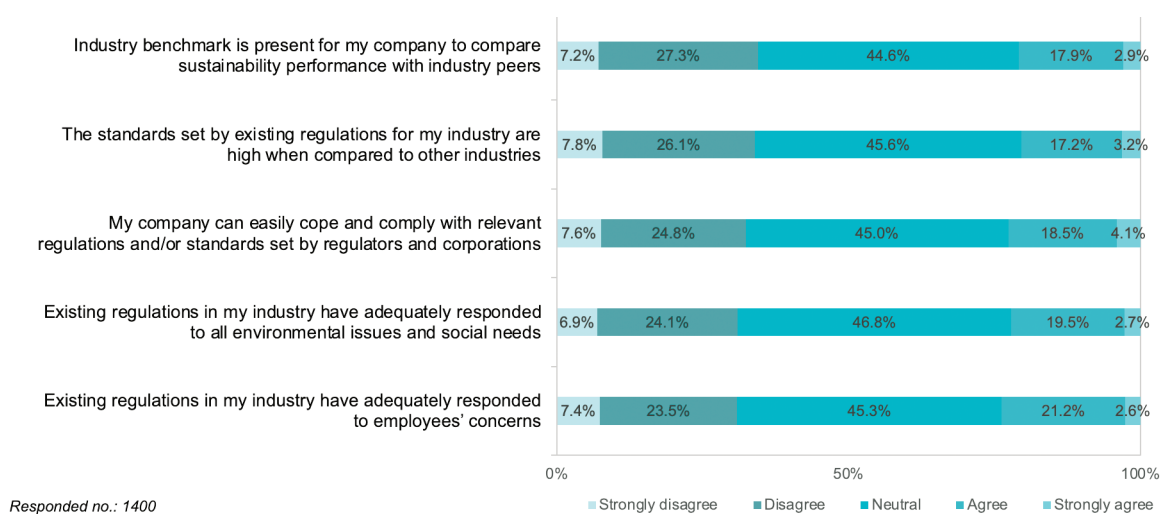
- Many SMEs lack skilled labour resources and relevant skillsets (understaffed, increased reliance on freelancers) to implement ESG and sustainability practices. Industry-specific guidance and human resource training are the most needed support.
- The lack of a one-stop shop for sustainability resources, such as platforms for sharing sustainability knowledge between large corporates and SMEs, address books of best partners and suppliers with similar sustainability goals, and a library of material alternatives that are sustainable.

### 3.1.4. Insight 4: The Absence of Standardized Sustainability Benchmarks to Assess Practices and Performances

The absence of suitable benchmarks and reliable metrics for performance measurements is commonly recognised as a major barrier to the adoption and implementation of sustainability standards and practices.

This is echoed by the survey results. **Over one-third of the SMEs disagreed with the statements that they had the right metrics to quantify the sustainability impact of their business (36.5%), and that industry benchmarks were present for companies to compare their sustainability performances with their industry peers (34.5%).**

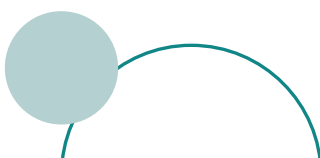
#### Industry Benchmark and Regulation



Similar views were put forward by the SMEs participating in the SVC Commitment and SME Sustainability Recognition Schemes. Summarised below are the questions on benchmarking and impact measurement that were raised by most of the SME entrepreneurs:

- (i) How well are the ESG or sustainability initiative carried out by the company in response to the sustainability challenges?
- (ii) How can a company assess and compare the impact of its ESG or sustainability initiatives (such as inclusive workplace programme, clean energy project, ethical sourcing policy)?  
At the company level, to what extent are the overall business strategy and sustainability efforts being made, via product, service and process innovations, contributing to the 17 United Nations Sustainable Development Goals (UNSDGs)?
- (iii) Is there a consistent framework for evaluating the accumulated impact of all ESG and sustainability initiatives undertaken by the company and the net positive impact of the company on the overall environment and society?
- (iv) While there are more standardized and consolidated strategies and tools for measuring the impact of companies in their environment (yet largely in terms of output rather than outcomes/ impact), the methodologies for measuring social impact are still in the early stages of development. In the absence of a blueprint definition of 'social sustainability', and a lack of comparable measurement indicators, it is difficult if not impossible for companies to assess the social performance of their ESG initiatives and value their contributions to the society at large.

What gets measured gets managed. For a company to thrive an effective sustainability assessment to examine its core business and different counterparts along the value chain is a must. Assessment helps a SME identify and capitalize on its internal strengths and external opportunities—technical advantages, supply chain management system, industry networks—that are crucial for long-term business growth and sustainability attainment. **As a crucial and decisive first step, benchmarking helps establish baselines, define industry best practices, and drive impactful projects and operations that are in line with sustainability principles. Hence, there have been repeated calls for industry-specific benchmarks and impact measurement tools to value business contributions to the environment and society at large.**



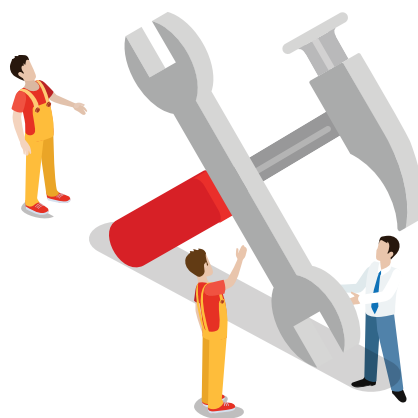
### 3.2. Incentives and Support for SMEs to Integrate Sustainability into their Operation, Strategy and Business Model

This section focuses primarily on the incentives and types of support for SMEs.

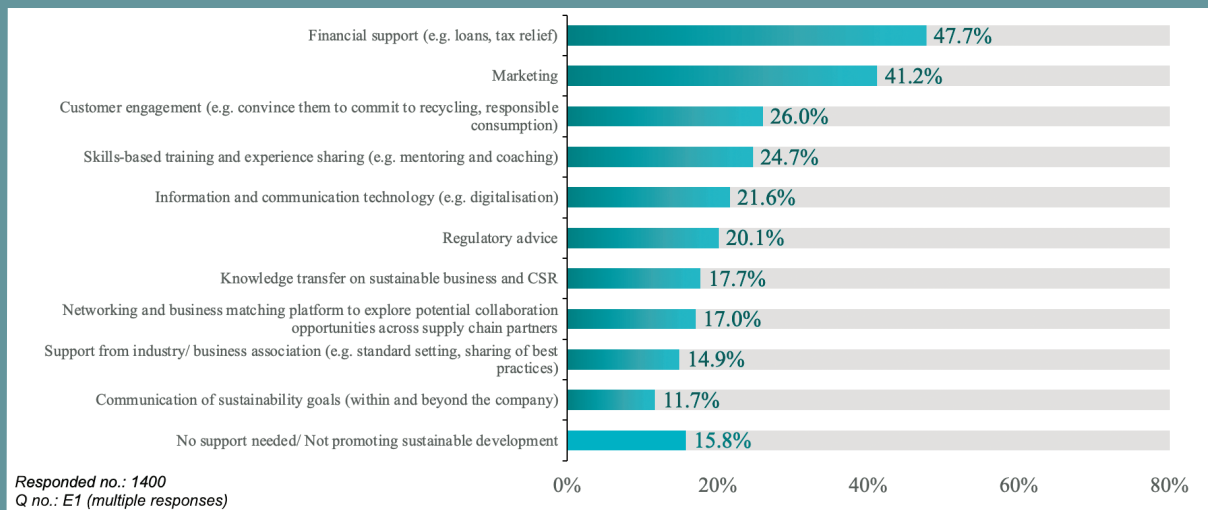
#### 3.2.1. Insight 5: Financial Support and Recognition are Key to Fostering Sustainability Practices

In line with the discussion on resource constraints for sustainability implementation, **nearly half of the surveyed SMEs (47.7%) expressed that they needed financial support (e.g. loans, tax relief)** for integrating sustainability into their operation, strategy and business model. **A significant proportion of the SMEs (41.2%) needed marketing support for promoting environmental and socially responsible products, practices and brand values.** Other support measures included customer engagement such as educating end-consumers about recycling and responsible consumption (26%) and more intensive guidance through skills-based training and experience sharing, such as mentoring and coaching programmes (24.7%).

As to which organization should provide the support, **close to 70% of the SMEs suggested that the Government should play an active role, followed by business associations (30.8%), banks and financial institutions (30.8%), professional organizations (22.4%) and large corporates or organizations (21.3%).** This implies that the more effective way to encourage SMEs to integrate sustainability into their business is to offer financial incentives. The Government is urged to accelerate the development of Green and Sustainable finance and offer an actionable timeline and policy framework for the financial institutions and business organizations to follow.



## Needs for Support on Integrating Sustainability into the Business Operations, Strategies and Business Model



While financing is a key prerequisite to optimise their business model and to drive sustainability innovations, **another contributory factor influencing SMEs to scale up sustainability actions is whether their efforts are being recognised**. Pinpointed by the SMEs participating in the SVC Commitment and SME Sustainability Recognition Schemes, a lack of recognition is a major challenge faced by smaller businesses in entrepreneurial ecosystems. Making sustainability efforts visible usually requires additional efforts from SMEs.

- (i) Addressing the visibility issue calls for channelling additional resources and investments in corporate branding and sustainability communication within and beyond the company.
- (ii) This also calls for a seal of approval or certification system to align the standards of business sustainability practices. In addition, such recognition would provide the platform for companies to showcase the company's contributions to sustainable development through such prisms as SDGs and ESG.

# POTENTIAL SOLUTIONS AND MEASURES

Based on the bottlenecks discussed in the previous chapter, this chapter outlines the potential solutions and measures to enhance the SME sector's capacities in implementing sustainability.

## 4.1. New Approaches to Knowledge Building for Enhancing Business Resilience of SMEs

Accelerating business momentum towards sustainable development requires **knowledge and solutions platforms, which can bring together trusted information and evidence-based resources to inspire business practitioners to engage with sustainability.** The knowledge and solutions platforms shall include the following functions and elements:

- (i) Providing self-guided toolkits for companies, particularly SMEs, to conduct sustainability assessment and planning that adhere to sector or industry-specific requirements and standards;
- (ii) Collating and analyzing policy-related and/or sector- or industry-specific ESG or sustainability data to produce actionable insights;
- (iii) Promoting best practices and innovative solutions that are proven effective through robust research and evaluation;

(iv) Nurturing ESG talents through cross-disciplinary sustainability education and training programmes; and

(v) Creating synergies between companies and other stakeholders along the value chains via knowledge exchange, coaching and networking sessions to drive impactful consortia, innovative initiatives and systemic reforms that align with sustainability agenda priorities.

## 4.2. Ecosystem Building for Impactful Sustainability Collaboration

Achieving sustainability goals, such as transitions towards the circular economy model and a sustainable, resilient and net-zero future, calls for partnerships of diverse stakeholders along value chains. Collective efforts can deliver far greater impact than any company acting alone.

**Thinking beyond the supply chain is key, and companies should opt for building a broad array of partnerships outside standard modes of operation.** Put simply, the new wave of value

chain collaboration for sustainability shall embrace the following principles:

- (i) Sustainability collaboration shall not be confined to vertical buyer-supplier relationships (i.e. upstream/ downstream suppliers and contractors).
- (ii) Horizontal collaboration with competitors (business-to-business), non-profits, and government can create the synergy needed for more effective change that benefits the whole industry.
- (iii) Diagonal collaboration that facilitates the cross fertilization of ideas is on the rise. Companies and organizations from multiple industries and sectors should pool together resources (financial, human, technology) with the aim of driving systemic change and accelerate sustainability innovations.

To promote sustainability among SMEs, **an action-oriented sustainability coalition that aims to foster a collaborative ecosystem of multiple stakeholders is instrumental.** The coalition can connect SME entrepreneurs (e.g. conventional SMEs, start-ups and social enterprises), large corporates, business associations, regulators and impact investors to work together in **driving sustainable businesses and industry-specific, issue-based impact programmes.** The coalition can serve as a **thought leadership platform that offers unique insights and impactful project ideas on various sustainability-related issues.**

#### 4.3. Revisiting Impact Measurement and Benchmarking Approaches

Due to a lack of standardization, business performance in areas of ESG and sustainability remain hard to examine and compare. There is also a dire need for assessment and benchmarking tools to look beyond inputs and outputs and place greater focus on the true sustainability impact of a company.

It would be extremely useful if **an index is formulated that can analyze the extent to which the assessed companies' sustainability 'activities' and 'outputs' are in line with advancing sustainable development agenda, while depicting potential sustainability 'outcomes' and 'impacts' of their business practices on the environment and society. In the longer term, the index shall fit into the sustainable finance ecosystem.**





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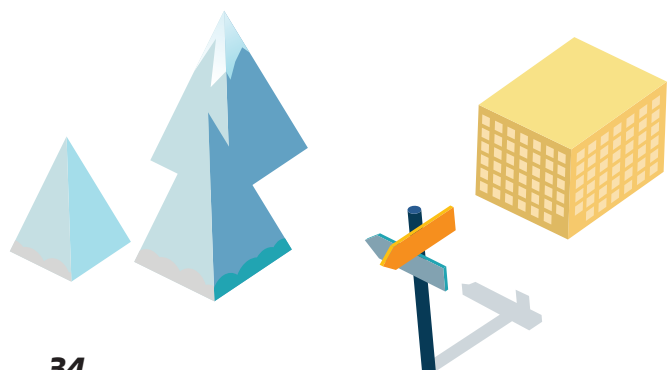
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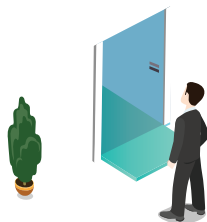
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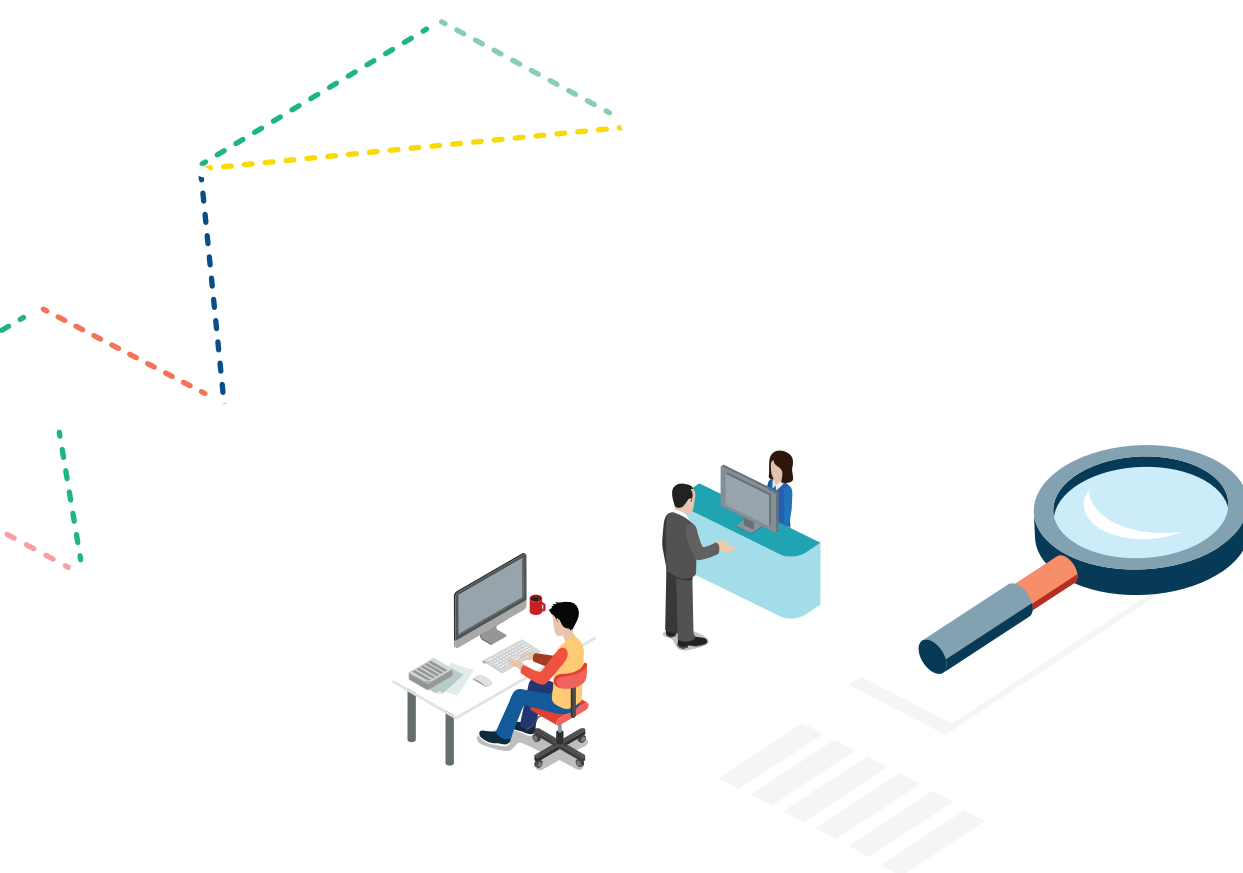
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# ANNEX

## Key Milestones of ESG Development in Hong Kong

| Month | Year | Key Milestones   | Initiator   |
|-------|------|--|-------------|
| Jul   | 2010 | Hang Seng Corporate Sustainability Index Series launched   | HSI, HKQAA  |
| Dec   | 2011 | Consultation on Environmental, Social and Governance Reporting Guide for companies listed in Hong Kong commenced   | HKEX        |
| Feb   | 2012 | Hong Kong SME Business Sustainability Index launched   | PolyU, HKPC |
| Aug   | 2012 | Consultation Conclusions on Environmental, Social and Governance Reporting Guide published as recommended practice, and introduced in 2013   | HKEX        |
| Mar   | 2014 | The new Companies Ordinance (Cap. 622) came into operation with ESG-related performance disclosure requirement for companies incorporated in Hong Kong in Directors' Report: Business Review (i.e. Schedule 5)                           | FSTB, CR    |
| Dec   | 2014 | Carbon Footprint Repository for Listed Companies in Hong Kong launched   | ENB         |
| Jul   | 2015 | Consultation on Review of the Environmental, Social and Governance Reporting Guide commenced   | HKEX        |
| Dec   | 2015 | Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide published, with the "comply or explain" provisions effective to General Disclosures and environmental KPIs in 2017 and 2018, respectively | HKEX        |
| May   | 2016 | Hong Kong as a Regional Green Finance Hub published  | FSCD        |
| May   | 2018 | Pilot Bond Grant Scheme covering fees to Hong Kong-based external green reviewers for green bond issuance announced  | HKMA        |
| May   | 2018 | Analysis of Environmental, Social and Governance Practice Disclosure in 2016/2017 published  | HKEX        |
| Sep   | 2018 | Strategic Framework for Green Finance published  | SFC         |
| Sep   | 2018 | Hong Kong Green Finance Association founded  | HKGFA       |
| Nov   | 2018 | Environmental, Social and Governance (ESG) Strategy for Hong Kong published  | FSCD        |
| Mar   | 2019 | Survey on Integrating Environmental, Social and Governance Factors and Climate Risks, in Asset Management commenced  | SFC         |

| Month | Year | Key Milestones  | Initiator                            |
|-------|------|---|--------------------------------------|
| Apr   | 2019 | Circular to management companies of SFC-authorized unit trusts and mutual funds – Green or ESG funds issued   | SFC                                  |
| May   | 2019 | Consultation on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules commenced  | HKEX                                 |
| May   | 2019 | Inaugural green bond of HKSAR Government issued   | HKMA                                 |
| Nov   | 2019 | SME Sustainability Society established  | SMESS                                |
| Dec   | 2019 | Consultation Conclusions on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules published, with the implementation of the new requirements in 2021 | HKEX                                 |
| Dec   | 2019 | Analysis of Environmental, Social and Governance Practice Disclosure in 2018 published  | HKEX                                 |
| Dec   | 2019 | Results of the Survey on Integrating Environmental, Social and Governance Factors and Climate Risks in Asset Management released  | SFC                                  |
| Mar   | 2020 | Partnership for Sustainability Leadership in Business commenced   | HKU                                  |
| May   | 2020 | Green and Sustainable Finance Cross-Agency Steering Group established   | HKMA, SFC, ENB, FSTB, HKEX, IA, MPFA |
| May   | 2020 | Common framework developed to assess the “Greenness Baseline” of selected authorized institutions   | HKMA                                 |
| Jun   | 2020 | White Paper on Green and Sustainable Banking published  | HKMA                                 |
| Jul   | 2020 | Hong Kong – Developing into the Global ESG Investment Hub of Asia published   | FSCD                                 |
| Oct   | 2020 | Consultation on the Management and Disclosure of Climate-related Risks by Fund Managers commenced   | SFC                                  |
| Nov   | 2020 | Policy Address 2020 with the goal of achieving carbon neutrality before 2050 announced  | HKSAR Government                     |



| Month | Year | Key Milestones  | Initiator                            |
|-------|------|---|--------------------------------------|
| Dec   | 2020 | Sustainable and Green Exchange (STAGE) launched   | HKEX                                 |
| Dec   | 2020 | Announcement about TCFD-aligned climate-related disclosures to be mandatory across relevant sectors no later than 2025 made                   | HKMA, SFC, ENB, FSTB, HKEX, IA, MPFA |
| Jan   | 2021 | Pilot climate risk stress test conducted with participating banks   | HKMA                                 |
| May   | 2021 | Green and Sustainable Finance Grant Scheme commenced  | HKMA                                 |
| Jun   | 2021 | Circular to management companies of SFC-authorized unit trusts and mutual funds – ESG funds revised   | SFC                                  |
| Jul   | 2021 | Consultation on Drafted Supervisory Policy Manual GS-1 on climate risk management   | HKMA                                 |
| Jul   | 2021 | Centre for Green and Sustainable Finance launched   | HKMA, SFC, ENB, FSTB, HKEX, IA, MPFA |
| Aug   | 2021 | Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers published, in effect in August 2022       | SFC                                  |
| Sep   | 2021 | Hong Kong's first undergraduate programme in sustainable and green finance announced  | HKUST                                |
| Oct   | 2021 | Hong Kong's Climate Action Plan 2050 released   | HKSAR Gov                            |
| Nov   | 2021 | Principles for Adopting Sustainable Investing in the Investment and Risk Management Processes of MPF Funds issued, effective in November 2022 | MPFA                                 |
| Dec   | 2021 | Results of the pilot climate risk stress test released  | HKMA                                 |
| Dec   | 2021 | Supervisory Policy Manual GS-1 on climate risk management published   | HKMA                                 |
| Mar   | 2022 | Carbon Market Opportunities for Hong Kong – Preliminary Feasibility Assessment published  | SFC, HKEX, ENB, FSTB, HKMA           |

| Month | Year | Key Milestones   | Initiator                            |
|-------|------|--|--------------------------------------|
| May   | 2022 | Inaugural retail green bond issued   | HKMA                                 |
| Jun   | 2022 | Green and Sustainable Finance (GSF) Training Repository, Internship Opportunities Repository and Data Source Repository launched | HKMA, SFC, ENB, FSTB, HKEX, IA, MPFA |

Abbreviation:

CR – Companies Registry

ENB – Environment Bureau

FSCD – Financial Services Development Council

FSTB – Financial Services and the Treasury Bureau

HKEx – Hong Kong Exchanges and Clearing Limited

HKMA – Hong Kong Monetary Authority

HKPC – Hong Kong Productivity Council

HKQAA – Hong Kong Quality Assurance Agency

HKSAR Gov – The Government of the Hong Kong Special Administrative Region Government

HKU – The University of Hong Kong

HKUST – The Hong Kong University of Science and Technology

HSI – Hang Seng Indexes Company Limited

IA – Insurance Authority

MPFA – Mandatory Provident Fund Schemes Authority

PolyU – The Hong Kong Polytechnic University

SFC – Securities and Futures Commission



# ADDITIONAL INFORMATION

## About the “Partnership for Sustainability Leadership in Business” Programme:

The “Partnership for Sustainability Leadership in Business” (PSLB) is a four-year (2020~2023) action research programme initiated by the Centre for Civil Society and Governance, HKU, and supported by The Hongkong Bank Foundation. The Project is led by Professor Wai-Fung Lam together with a group of sustainability experts. It is aimed at fostering sustainability leadership and collaboration in the business sector of Hong Kong through knowledge transfer, capacity building, and network development. In particular, the Project strives to foster strong partnerships between big corporations and small and medium-sized enterprises (SMEs) in pursuit of sustainability. The Project aspires to build a collaborative ecosystem that will enhance the capacity and role of SMEs in Hong Kong and the Greater Bay Area in attaining sustainable development. More information about the Project can be found on: <https://ccsg.hku.hk/pslb/>.

## About the SVC Commitment and SME Sustainability Recognition Schemes:

In the greater pursuit of sustainability, HKU CCSG launched the Sustainable Value Chains Commitment and SMEs Sustainability Leadership Recognition Scheme in June 2021. These initiatives connect large corporates and SMEs for closer collaboration to resolve sustainability challenges, and provide capacity building resources to co-create Sustainable Value Chains (SVC) in Hong Kong and the region.

Throughout the half-year sustainability journey, SMEs participating in the Scheme are expected to: (i) complete an online Sustainability Self-check Tool to diagnose their performance against successful business practices of SVC Management; (ii) attend at least one

Practical Workshop to develop a sustainability roadmap and action plan; and (iii) participate in a 1-on-1 Coaching Session with a large corporate to explore collaboration opportunities.

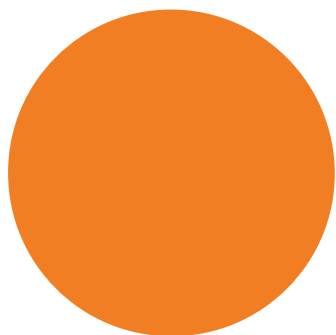
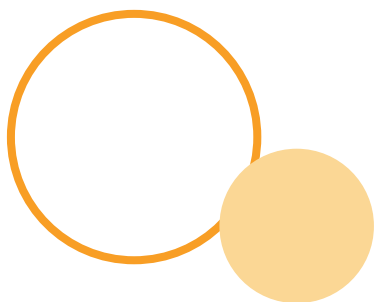
Comments and feedbacks have been collected at the training and capacity building activities throughout the sustainability journey. These provide important insights for deepening the understanding of the SME sustainability landscape in Hong Kong and dissecting the enabling factors for ESG envisioning and practicing SVC management.

## About the Centre for Civil Society and Governance of The University of Hong Kong:

Established in December 2002, the Centre for Civil Society and Governance (the Centre) strives to enhance our knowledge of civil society and its contribution towards good governance. It also facilitates the attainment of a sustainable society through forging community-based, innovative solutions to inform policy deliberation and collective actions. The work of the Centre is organised around three Labs—the Policy for Sustainability Lab (PSL), the Social Entrepreneurship and Civic Action Lab (SECAL), and the Nonprofits and Philanthropy Lab (NPPL); each of them representing a research focus and an area of excellence of the Centre.

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**“Partnership for Sustainability Leadership in Business”**  
**SME Sustainability Landscape Survey**  
**Questionnaire**

Interviewer number: \_\_\_\_\_

Sample code: \_\_\_\_\_

**Part I – Basic Information**

**A1. Industry:**

If your company has multiple businesses, please choose the primary industry your company operates in from the following options and answer all questions with regard to the selected business. In case the industry cannot be determined, you may select “Miscellaneous Category” below.

- |  |   |
|--|---|
| 1 <input type="checkbox"/> Agriculture, forestry and fishing                                   | 12 <input type="checkbox"/> Real estate activities                                  |
| 2 <input type="checkbox"/> Mining and quarrying  | 13 <input type="checkbox"/> Professional, scientific and technical activities       |
| 3 <input type="checkbox"/> Manufacturing   | 14 <input type="checkbox"/> Administrative and support service activities           |
| 4 <input type="checkbox"/> Electricity and gas supply  | 15 <input type="checkbox"/> Public administration                                   |
| 5 <input type="checkbox"/> Water supply; sewerage, waste management and remediation activities | 16 <input type="checkbox"/> Education   |
| 6 <input type="checkbox"/> Construction  | 17 <input type="checkbox"/> Human health and social work activities                 |
| 7 <input type="checkbox"/> Import/export, wholesale and retail trades                          | 18 <input type="checkbox"/> Arts, entertainment and recreation                      |
| 8 <input type="checkbox"/> Transportation, storage, postal and courier services                | 19 <input type="checkbox"/> Other service activities                                |
| 9 <input type="checkbox"/> Accommodation and food service activities                           | 20 <input type="checkbox"/> Work activities within domestic households              |
| 10 <input type="checkbox"/> Information and communications                                     | 21 <input type="checkbox"/> Activities of extraterritorial organisations and bodies |
| 11 <input type="checkbox"/> Financial and insurance activities                                 | 22 <input type="checkbox"/> Miscellaneous Category: _____                           |

**A2. Company size: (Exclude the employees who are not hired in Hong Kong)**

- |  |  |
|--|--|
| 1 <input type="checkbox"/> 11-20 employees | 5 <input type="checkbox"/> 51-100 employees  |
| 2 <input type="checkbox"/> 21-30 employees | 6 <input type="checkbox"/> 101-250 employees |
| 3 <input type="checkbox"/> 31-40 employees | 7 <input type="checkbox"/> 251-500 employees |
| 4 <input type="checkbox"/> 41-50 employees |  |

**A3. Job position:**

- |  |   |
|--|---|
| 1 <input type="checkbox"/> Owner             | 3 <input type="checkbox"/> C-Suite/ Senior management |
| 2 <input type="checkbox"/> Board of director | 4 <input type="checkbox"/> Others _____               |

**A4. Contact information:**

Your name: ☐ Mr.    ☐ Mrs.    ☐ Ms.    ☐ Miss    ☐ Dr.    ☐ Prof. \_\_\_\_\_

Job title: \_\_\_\_\_ Organisation name: \_\_\_\_\_

Email address: \_\_\_\_\_

## Part II – Perception on Sustainability

### About Sustainability

Sustainability, or sustainable development, emphasises the harmonisation of three interconnected elements - economic growth, social inclusion and environmental protection. Through concerted efforts across different sectors, it builds an inclusive, sustainable and resilient future for the human society and planet.

B1. What sustainability challenges are your company facing now? Please select all that are applicable.

- |  |   |
|--|---|
| 1 <input type="checkbox"/> Climate change    | 7 <input type="checkbox"/> Economic/ financial instability                              |
| 2 <input type="checkbox"/> Waste             | 8 <input type="checkbox"/> Global health crisis (e.g. COVID-19)                         |
| 3 <input type="checkbox"/> Pollution         | 9 <input type="checkbox"/> Compliance with mandatory and voluntary standards (e.g. ESG) |
| 4 <input type="checkbox"/> Inequality        | 10 <input type="checkbox"/> Consumer expectations                                       |
| 5 <input type="checkbox"/> Human rights      | 11 <input type="checkbox"/> Others, please specify: _____                               |
| 6 <input type="checkbox"/> Resource scarcity |   |

B2. Please select up to three aspects that your company identifies as key action areas for driving sustainability in business.

- |  |   |
|--|---|
| 1 <input type="checkbox"/> Strategy and oversight          | 12 <input type="checkbox"/> Sustainability advocacy               |
| 2 <input type="checkbox"/> Ethics and integrity            | 13 <input type="checkbox"/> Resource efficiency                   |
| 3 <input type="checkbox"/> Sustainability risk management  | 14 <input type="checkbox"/> Low-carbon operations                 |
| 4 <input type="checkbox"/> Stakeholder engagement          | 15 <input type="checkbox"/> Innovation culture                    |
| 5 <input type="checkbox"/> Sustainability disclosure       | 16 <input type="checkbox"/> Knowledge management                  |
| 6 <input type="checkbox"/> Employment practice             | 17 <input type="checkbox"/> Research and development              |
| 7 <input type="checkbox"/> Training and development        | 18 <input type="checkbox"/> Sustainability capacity building      |
| 8 <input type="checkbox"/> Employee wellbeing              | 19 <input type="checkbox"/> Corporate social innovation           |
| 9 <input type="checkbox"/> Customer satisfaction and trust | 20 <input type="checkbox"/> Others, please specify: _____         |
| 10 <input type="checkbox"/> Value chain risk management    | 21 <input type="checkbox"/> Not promoting sustainable development |
| 11 <input type="checkbox"/> Ethical and green sourcing     |   |



## Part III –Sustainability Practices

### General

C1. Please select all business processes into which sustainability has been completely or mostly integrated in your company.

Please select all that are applicable.

- |  |  |
|--|--|
| 1 <input type="checkbox"/> Mission and values  | 6 <input type="checkbox"/> Supply chain management |
| 2 <input type="checkbox"/> Strategic planning  | 7 <input type="checkbox"/> Marketing               |
| 3 <input type="checkbox"/> Corporate culture   | 8 <input type="checkbox"/> External communications |
| 4 <input type="checkbox"/> Internal operations | 9 <input type="checkbox"/> Budgeting process       |
| 5 <input type="checkbox"/> Employee engagement | 10 <input type="checkbox"/> None of the above      |

C2. Please rate your company's overall effectiveness at advancing sustainability goals.

- |   |  |
|---|--|
| 1 <input type="checkbox"/> Highly ineffective | 4 <input type="checkbox"/> Effective                             |
| 2 <input type="checkbox"/> Ineffective        | 5 <input type="checkbox"/> Highly effective                      |
| 3 <input type="checkbox"/> Neutral            | 6 <input type="checkbox"/> Not promoting sustainable development |

### Five Sustainability dimensions

#### (A) Governance

C3. Please rate the degree to which the following sustainability practices are adopted in your company on a 5-point scale, with:

|   |   | Not<br>sure | Not adopted         |  | Adopted                                       |   |
|---|---|-------------|---------------------|--|---|---|
|   |   |             | No plan<br>to do so | Considering<br>or planning<br>to implement | Effectiveness<br>not reviewed<br>periodically | Effectiveness<br>reviewed<br>periodically |
|   |   | 1           | 2                   | 3  | 4   | 5   |
| 1 | Write a vision and mission statement that addresses a business-related sustainability issue(s)  | ○           | ○                   | ○  | ○   | ○   |
| 2 | Have governance structure in the form of board of directors, advisory committee or the like for planning and oversight of the company | ○           | ○                   | ○  | ○   | ○   |
| 3 | Disclose the company’s latest sustainability practice and/or data publicly (e.g. company website, brochure)                           | ○           | ○                   | ○  | ○   | ○   |

C4. Does your company consider the opinions from the following stakeholders when making decisions?

Please select all that are applicable.

- |   |   |
|---|---|
| 1 <input type="checkbox"/> Customers        | 6 <input type="checkbox"/> Government/ Regulator        |
| 2 <input type="checkbox"/> Suppliers        | 7 <input type="checkbox"/> Peers/ Industry associations |
| 3 <input type="checkbox"/> Employees        | 8 <input type="checkbox"/> NGOs                         |
| 4 <input type="checkbox"/> Shareholders     | 9 <input type="checkbox"/> None of the above            |
| 5 <input type="checkbox"/> Credit providers |   |

(B) **Workplace Culture**

C5. Please rate the degree to which the following sustainability practices are adopted in your company on a 5-point scale, with:

|   |  | Not sure              | Not adopted           |                                      | Adopted                                 |                                     |
|---|--|-----------------------|-----------------------|--------------------------------------|---|-------------------------------------|
|   |  |                       | No plan to do so      | Considering or planning to implement | Effectiveness not reviewed periodically | Effectiveness reviewed periodically |
|   |  | 1                     | 2                     | 3                                    | 4                                       | 5                                   |
| 1 | Recruit individuals based on their ability, experience and performance, regardless of their sex, age, religion, ethnicity or disabilities.                     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 2 | Promote individuals based on their ability, experience and performance, regardless of their sex, age, religion, ethnicity or disabilities.                     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 3 | Develop a programme(s) or provide resource(s) to create a family-friendly work environment (e.g. flexible working hours, childcare leave, lactation room etc.) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 4 | Provide training, performance review or appraisal to employees that prepare them for future assignments and career development                                 | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 5 | Use cross-functional team to enhance employee's collaboration and exposure   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |

**(C) Customer-supplier relationships**

C6. What is your company's position in the supply chain? Please select all that are applicable.

- |  |  |
|--|--|
| 1 <input type="checkbox"/> Producer of raw materials                   | 4 <input type="checkbox"/> Distributor   |
| 2 <input type="checkbox"/> Producer of components/ semi-finished goods | 5 <input type="checkbox"/> Retailer  |
| 3 <input type="checkbox"/> Producer of finished goods                  | 6 <input type="checkbox"/> Service provider (e.g. Logistics, finance, market research, product design, information technology, etc.) |

C7. Please rate the degrees to which the following sustainability practices are adopted in your company on a 5-point scale, with:

|   |  | Not sure              | Not adopted           |                                      | Adopted                                 |                                     |
|---|--|-----------------------|-----------------------|--------------------------------------|---|-------------------------------------|
|   |  |                       | No plan to do so      | Considering or planning to implement | Effectiveness not reviewed periodically | Effectiveness reviewed periodically |
|   |  | 1                     | 2                     | 3                                    | 4                                       | 5                                   |
| 1 | Have customer complaint handling procedures  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 2 | Promote customers' understanding of business-related sustainability issue(s) through promotional or educational activities   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 3 | Require all suppliers to acknowledge the company's ethical code of conduct (i.e. a guide of principles setting out the expected ethical behaviour at work and when conducting business activities) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 4 | Require suppliers to provide comprehensive information and data about their societal and environmental practices (e.g. carbon emissions, health and safety)  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |

**(D) Resource management**

C8. Please rate the degree to which the following sustainability practices are adopted in your company on a 5-point scale, with:

|   |   | Not sure              | No plan to manage the resource | Monitoring consumption   |                       |   |
|---|---|-----------------------|--------------------------------|--------------------------|-----------------------|---|
|   |   |                       |                                | Not reducing consumption | Reducing consumption  | Reducing consumption and adopting renewable or recycled resources |
|   |   | 1                     | 2                              | 3                        | 4                     | 5   |
| 1 | Energy use (electricity, diesel, petrol, town gas etc.)     | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/>    | <input type="radio"/> | <input type="radio"/>   |
| 2 | Water use   | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/>    | <input type="radio"/> | <input type="radio"/>   |
| 3 | Paper use   | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/>    | <input type="radio"/> | <input type="radio"/>   |
| 4 | Packaging use (arising from products, courier service etc.) | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/>    | <input type="radio"/> | <input type="radio"/>   |

C9. Please rate the degree to which the following sustainability practices are adopted in your company on a 5-point scale, with:

|   |  | Not sure              | No plan to manage the waste | Monitoring generation          |  |  |
|---|--|-----------------------|-----------------------------|--------------------------------|--|--|
|   |  |                       |                             | Without waste reduction effort | With effort to reduce waste disposal to landfill | With effort to reduce waste disposal to landfill, and avoid waste generation at source |
|   |  | 1                     | 2                           | 3                              | 4  | 5  |
| 1 | Non-hazardous waste (e.g. paper, plastic, aluminium, food waste, other solid waste)  | <input type="radio"/> | <input type="radio"/>       | <input type="radio"/>          | <input type="radio"/>                            | <input type="radio"/>  |
| 2 | Hazardous waste (e.g. toner cartridge, fluorescent light, battery, waste electrical or electronic equipment, chemical waste) | <input type="radio"/> | <input type="radio"/>       | <input type="radio"/>          | <input type="radio"/>                            | <input type="radio"/>  |

**(E) Innovation**

C10. Please rate the degree to which the following sustainability practices are adopted in your company on a 5-point scale, with:

|   |   | Not sure              | Not adopted           |                                      | Adopted                                 |                                     |
|---|---|-----------------------|-----------------------|--------------------------------------|---|-------------------------------------|
|   |   |                       | No plan to do so      | Considering or planning to implement | Effectiveness not reviewed periodically | Effectiveness reviewed periodically |
|   |   | 1                     | 2                     | 3                                    | 4                                       | 5                                   |
| 1 | Improve work processes with experimentation and innovation (e.g. digitalisation)  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 2 | Budget for employees to attend courses or training on a sustainability issue(s)   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 3 | Donate resources (e.g. money or materials) to NGOs  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 4 | Take part in volunteer work   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
| 5 | Have a product(s), service(s) or project(s) to specific social or environmental issue(s)  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |
|   |   |                       |                       |                                      | Please answer C10a                      |                                     |
| 6 | Make the first move when developing or implementing sustainability innovations (new products and services, new techniques and technologies, production methods, etc.) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                | <input type="radio"/>                   | <input type="radio"/>               |

C10a. For the sub-question 5 (Have a product(s), service(s) or project(s) to specific social or environmental issue(s)), if **(4) Adopted and the effectiveness not reviewed periodically** or **(5) Adopted and the effectiveness reviewed periodically** is selected, please provide details

---

## Part IV – Drivers and Barriers

D1. Where applicable, please rate the extent to which you agree with the following statements, with "1" representing "strongly disagree" and "5" representing "strongly agree".

|                                    |   | Strongly disagree     |                       |                       |                       | Strongly agree        |
|------------------------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                    |   | (1)                   | (2)                   | (3)                   | (4)                   | (5)                   |
| Company's Situation and Perception |   |                       |                       |                       |                       |                       |
| 1                                  | My company has sufficient resources for sustainability initiatives  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 2                                  | My company has the right capabilities for sustainability implementation   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 3                                  | My company currently has governance structure that supports sustainability initiatives  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4                                  | My company has incorporated sustainability measures into the vision and/or mission statement  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 5                                  | My company considers that implementing sustainability measures will increase the business's overall competitiveness   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 6                                  | My business has the right metrics to quantify sustainability impact   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 7                                  | My business has system overseeing the sustainability measures within the company and every aspect of the supply chain   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 8                                  | My company and its management have a responsibility to give back to the community   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 9                                  | My company and its management have a strong commitment to protecting the environment and operating in the most efficient manner possible  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Stakeholder's Consideration        |   |                       |                       |                       |                       |                       |
| 10                                 | My company's leadership sees sustainability implementation as an important priority   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 11                                 | My company will implement voluntary sustainability measures to meet the Sustainable Development Goals if government support is available  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 12                                 | My company will implement / upscale sustainability initiatives or attain sustainability standards and certifications if required by my industry or business partners (e.g. listed/ large companies) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 13                                 | My company's customers are primarily concerned with cost, service quality and other competitive performance   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 14                                 | My company's customers are willing to pay for green or socially responsible products and services   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

| Industry Benchmark and Regulation |   |                       |                       |                       |                       |                       |
|-----------------------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 15                                | Industry benchmark is present for my company to compare sustainability performance with industry peers              | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 16                                | The standards set by existing regulations for my industry are high when compared to other industries                | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 17                                | My company can easily cope and comply with relevant regulations and/or standards set by regulators and corporations | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 18                                | Existing regulations in my industry have adequately responded to all environmental issues and social needs          | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 19                                | Existing regulations in my industry have adequately responded to employees' concerns                                | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

## Part V – Incentives and Support

E1. What kind of support do you need for integrating sustainability into your business operations, strategies and business model?

Please select all that are applicable.

- |  |  |
|--|--|
| 1 <input type="checkbox"/> Financial support (e.g. loans, tax relief)  | 8 <input type="checkbox"/> Customer engagement (e.g. convince them to commit to recycling, responsible consumption)        |
| 2 <input type="checkbox"/> Regulatory advice   | 9 <input type="checkbox"/> Communication of sustainability goals (within and beyond the company)                           |
| 3 <input type="checkbox"/> Information and communication technology (e.g. digitalisation)  | 10 <input type="checkbox"/> Support from industry/ business association (e.g. standard setting, sharing of best practices) |
| 4 <input type="checkbox"/> Marketing   | 11 <input type="checkbox"/> Others, please specify: _____  |
| 5 <input type="checkbox"/> Knowledge transfer on sustainable business and CSR  | 12 <input type="checkbox"/> No support needed/ Not promoting sustainable development                                       |
| 6 <input type="checkbox"/> Skills-based training and experience sharing (e.g. mentoring and coaching)  |  |
| 7 <input type="checkbox"/> Networking and business matching platform to explore potential collaboration opportunities across supply chain partners |  |

E2. Who do you feel would be best able to provide this support? Please select all that are applicable.

- |   |  |
|---|--|
| 1 <input type="checkbox"/> Public listed company            | 7 <input type="checkbox"/> Business association                                      |
| 2 <input type="checkbox"/> Large business or organisation   | 8 <input type="checkbox"/> SMEs in the same industry                                 |
| 3 <input type="checkbox"/> Bank/ financial institution      | 9 <input type="checkbox"/> Professional organisation                                 |
| 4 <input type="checkbox"/> University/ tertiary institution | 10 <input type="checkbox"/> Others, please specify: _____                            |
| 5 <input type="checkbox"/> NGOs                             | 11 <input type="checkbox"/> No support needed/ Not promoting sustainable development |
| 6 <input type="checkbox"/> Government                       |  |



E3. Are you, or have you been, engaged in any of the following? With:

|   |  | No engagement  |                       |                       | Currently Engaged  |                          |
|---|--|--|-----------------------|-----------------------|--|--------------------------|
|   |  | No interest  | Interested            | Planning on joining   | Engaged less than a year   | Engaged more than a year |
|   |  | (1)  | (2)                   | (3)                   | (4)  | (5)                      |
| 1 | Member of a business association/ industry association or similar organisation?  | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 2 | Any government-led sustainability-orientated initiatives/ schemes/ programmes (e.g. reward schemes, certifications, eco-labelling, awards etc.)?                                     | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 3 | Any voluntary sustainability orientated initiatives/ schemes/ programmes organised and run by other organisations (e.g. NGOs, charities, academic institutions, large corporations)? | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 4 | Development of industry standards/ code of conduct/ regulations?   | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 5 | Sustainability-orientated initiatives/ schemes/ programmes organised and run by your industry?   | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 6 | Participated as a mentee in a mentoring scheme?  | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 7 | Collaborating and building networks with actors such as other SMEs, large corporations, NGOs etc.?   | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 8 | Participate in a voluntary environmental/ social programme?  | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
| 9 | Is your firm a member of an environmental/ social group?   | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/>    |
|   |  | If all of the previous question answered no, please go to <b><u>E4</u></b> |                       |                       | If you answered yes to any of the previous question, please go to <b><u>E5</u></b> |                          |

Please answer the following question(s) if you **haven't engaged** all of the previous activities.

Please go to **Part VI** when you finish.

**E4. (Non- Participant) If you have not engaged in any association/ initiative/ programme, what are the main reasons?**

**Please select all that are applicable.**

- |   |  |
|---|--|
| 1 <input type="checkbox"/> Do not know about any initiatives/ schemes/ programmes | 6 <input type="checkbox"/> No benefit to business                      |
| 2 <input type="checkbox"/> Does not align with business values or goals           | 7 <input type="checkbox"/> Will negatively impact business profits     |
| 3 <input type="checkbox"/> Will negatively impact business operations             | 8 <input type="checkbox"/> Not our responsibility                      |
| 4 <input type="checkbox"/> Too time consuming                                     | 9 <input type="checkbox"/> Government regulation is already sufficient |
| 5 <input type="checkbox"/> Too resource consuming                                 | 10 <input type="checkbox"/> Others, please specify: _____              |

Please answer the following question(s) if you **have engaged** at least one of the previous activities.

Please go to **Part VI** when you finish.

**E5. (Participant) What were the main motivations for joining the initiative/ association/ programme?**

**Please select all that are applicable.**

- |  |   |
|--|---|
| 1 <input type="checkbox"/> Industry peer involves  | 6 <input type="checkbox"/> Supply chain requires                                    |
| 2 <input type="checkbox"/> Membership requirement of trade association or similar organisation | 7 <input type="checkbox"/> Prestige/ reputation                                     |
| 3 <input type="checkbox"/> In line with my company's internal values and goals                 | 8 <input type="checkbox"/> Access to resources (knowledge, technical know-how etc.) |
| 4 <input type="checkbox"/> Customer requires   | 9 <input type="checkbox"/> Lack of government regulations                           |
| 5 <input type="checkbox"/> Shareholder requires  | 10 <input type="checkbox"/> Others, please specify: _____                           |

**E6. How would you rate your overall experience?**

- |                                       |                                     |
|---------------------------------------|-------------------------------------|
| 1 <input type="checkbox"/> Positive   | 3 <input type="checkbox"/> Negative |
| 2 <input type="checkbox"/> No opinion |                                     |

**E7. Do you think your involvement has improved the sustainability performance of your business?**

- 1 ☐ Yes, positively impacted
- 2 ☐ No change
- 3 ☐ Yes, negatively impacted

## Part VI Conjoint Analysis

In the last part of our survey, we would like to know more about your opinion on how the government should devise different policies to promote sustainability among SMEs. You would be shown six pairs of policy bundles in each of the three dimensions. Please indicate your preference in each of the comparison by ticking the boxes below (A/B).

Please be assured that there is absolutely no model/desirable answer to each of the following questions. Please pick the option (A/B) that appears to be more acceptable to you by considering its impacts on your businesses.

|  |          |          |
|--|----------|----------|
| F1. If the government is to devise a set of programmes for the business sector to address <b><u>climate change</u></b> (e.g. <i>conducting climate risk assessment and setting carbon emission goals</i> ), which of the following policy bundle would you prefer? |          |          |
|  | Option A | Option B |
| Regulatory provisions on climate change-related issues will target at...   |          |          |
| The government will subsidise the businesses in adopting relevant measures in the form of...   |          |          |
| The government will offer relevant training that is...   |          |          |

|   |          |          |
|---|----------|----------|
| F2. If the government is to devise a set of programmes for the business sector to manage the <b><u>employment practices</u></b> (e.g. <i>providing the employees with more training opportunities, creating diverse and inclusive workplace</i> ), which of the following policy bundle would you prefer? |          |          |
|   | Option A | Option B |
| Regulatory provisions on employment practices-related requirements will target at...  |          |          |
| The government will subsidise the businesses in adopting relevant measures in the form of...  |          |          |
| The government will offer relevant training that is...  |          |          |

|   |          |          |
|---|----------|----------|
| F3. If the government is to devise a set of programmes for the business sector to shape their <b><u>corporate governance</u></b> in a way that is <b><u>more conducive to sustainable development</u></b> (e.g. <i>establishing corporate governance structure and mechanism for sustainable development, disclosing measures on sustainability and their effectiveness, understanding the concerns of other stakeholders such as investors, customers and suppliers on sustainability-related issues</i> ), which of the following policy bundle would you prefer? |          |          |
|   | Option A | Option B |
| Regulatory provisions on sustainable corporate governance will target at...   |          |          |
| The government will subsidise the businesses in adopting relevant measures in the form of...  |          |          |
| The government will offer relevant training that is...  |          |          |

|    |   | A                     | B                     |
|----|---|-----------------------|-----------------------|
| F1 | 1 | <input type="radio"/> | <input type="radio"/> |
|    | 2 | <input type="radio"/> | <input type="radio"/> |
|    | 3 | <input type="radio"/> | <input type="radio"/> |
|    | 4 | <input type="radio"/> | <input type="radio"/> |
|    | 5 | <input type="radio"/> | <input type="radio"/> |
|    | 6 | <input type="radio"/> | <input type="radio"/> |

|    |   | A                     | B                     |
|----|---|-----------------------|-----------------------|
| F2 | 1 | <input type="radio"/> | <input type="radio"/> |
|    | 2 | <input type="radio"/> | <input type="radio"/> |
|    | 3 | <input type="radio"/> | <input type="radio"/> |
|    | 4 | <input type="radio"/> | <input type="radio"/> |
|    | 5 | <input type="radio"/> | <input type="radio"/> |
|    | 6 | <input type="radio"/> | <input type="radio"/> |

|    |   | A                     | B                     |
|----|---|-----------------------|-----------------------|
| F3 | 1 | <input type="radio"/> | <input type="radio"/> |
|    | 2 | <input type="radio"/> | <input type="radio"/> |
|    | 3 | <input type="radio"/> | <input type="radio"/> |
|    | 4 | <input type="radio"/> | <input type="radio"/> |
|    | 5 | <input type="radio"/> | <input type="radio"/> |
|    | 6 | <input type="radio"/> | <input type="radio"/> |

**End of Questionnaire**