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2023 Hong Kong Transport & Logistics Industry ESG Survey

Identifying industry practices, gaps, and satisfaction in fulfilling environmental and social requirements of ESG, and providing recommendations for the industry and the HKSAR Government

Final Report – Section on ESG in B2B/C business models

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Funded by the IDS grant, the research team of Research Centre for ESG at the Hang Seng University of Hong Kong, together with the Policy Research Institute of Global Supply Chain (PRISC), engaged with the Chartered Institute of Logistics and Transport in Hong Kong (CILTHK), a professional body for practitioners in various sectors of transport and logistics, including air, sea and land, for both passengers and freight transportation, to conduct the online survey during September to November 2023. Partial findings of the survey were presented in HKTDC Logistics Services Advisory Committee Meeting and ESG Workshop ALMAC 2023. Finding of this report was published and released to the public in January 2024.

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Acknowledgement

Disclaimer

Executive Summary

1. **The survey objectives are to explore the ESG progress, plan, needs and challenges in transport and logistics industry; identify gaps between companies and their clients; and provide recommendations for the industry and the HKSAR government to enhance competitiveness of the industry.** The questionnaire covers 57 questions under seven sections covering companies' demographics, awareness, knowledge, attitude, behaviors, resources, and competitiveness. A total of 203 valid responses were received. However, number of valid responses to each specific question may vary.

2. **This report presents findings related to the measurement of industry practitioners' ESG implementations and satisfaction, and their clients' requirements on related issues.** Responses were captured by 32 questions in four dimensions, which are (1) "clients' environmental or social requirements", (2) "company environmental or social implementations", (3) "environmental/social gaps", and (4) "company satisfaction with their own environmental practices".

3. **Environmental and social requirements from clients are consistent across various company-client business relationships**. The number of clients' environmental and social requirements for industry practitioners are similar, independent of company-client B-to-B, B-to-C, or B-to-B&C business relationship.

4. **Universal importance of environmental and social implementations is observed regardless of a company's business model.** The levels of respondents' environmental and social implementations for their clients are similar, independent of company-client business relationship.

5. **Companies need more effort to close the environmental gap in sustainable sourcing**. Of six environmental issues: (a) carbon and greenhouse gas emissions, (b) reverse logistics, (c) packaging, (d) sustainable sourcing, (e) climate change, and (f) renewable energy, "sustainable sourcing" is found to have the greatest proportion of companies unable to fulfil their client requirements.

6. **More effort is needed to align with the social requirement on product or service quality and safety**. Of five social issues: (g) product/service quality and safety; (h) diversity, equity, and inclusion; (i) fair labor practices; (j) workforce health and safety; and (k) data/cybersecurity and transparency, "product/service quality and safety" is found to have the greatest proportion of respondents unable to fulfil their clients' requirements.

7. **B-to-B companies need more effort to improve the satisfaction with their own environmental practices.** While companies with a direct or indirect customer-facing aspect tend to have higher satisfaction levels with their own environmental practices, B-to-B companies fall behind in general.

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1. BACKGROUND AND METHODOLOGY

1.1 Background and Purpose

As the world becomes more conscious of the impact of business practices on the environment and society, it is crucial for companies to adopt sustainable and ethical practices. The transport and logistics industry in Hong Kong is no exception as it plays a vital role in global trade and commerce. Needless to say, appropriate supports for industry practitioners can enhance the industry's competitiveness in the global market. A better understanding of the industry's environmental, social, and governance (ESG) landscape helps formulate useful suggestions for the HKSAR Government to support the industry in a better way.

Among the three aspects of ESG, the environmental, and then the social, was found to be the most concerned by the industry after multiple discussions with the Logistics Policy Committee members of CILTHK. While some services providers may feel more or less satisfied with their own environmental practices, are these industry practitioners really living up to their clients' expectation in fulfilling particular requirements? Furthermore, what kind of company-client business relationship, for instance, B-to-B, B-to-C, and B-to-B&C, has more environmental and social requirements? What are these requirements? Equally important, how should we formulate the ESG-related supports for companies with these different business relationships?

This project is funded by The Institutional Development Scheme of the Research Grants Council (RGC) of Hong Kong. The main objective of this Hong Kong Transport & Logistics Industry ESG Survey is to find out ESG progress, plans, needs and challenges in the industry; identify gaps between the industry and their clients; provide recommendations for the industry and government; and enhance competitiveness of industry in global markets in the long term.

1.2 Survey Method

Our questionnaire consists of seven sections. Section one has eight questions to ask for respondent or company's information for our demographic segmentation. Sections two to seven require respondents to answer a total of 49 questions covering their company's ESG awareness, knowledge, attitude, behaviors, resources, and competitiveness. All themes of all sections are tabulated below.

Sections of questions	

Sections covered in this report:
 	
  (1) Demographics
  (2) ESG Awareness
  (5) Company's ESG Behaviors
	Sections covered in CILTHK presentation materials:
	
	  (3) ESG Knowledge
	  (4) Attitude towards Environmental or Social Requirements
	  (6) Governmental Resources
	  (7) Transport and Logistics Industry's Competitiveness

While 49 questions are theoretically structured under the last six sections, the findings in this report focus on addressing the questions mentioned in Section 1.1. These questions were converted into in Sections (1), (2) and (5), from which four dimensions with respect to the identification of companies' practices and satisfaction, and their clients' requirements on ESG -related issues are reported.

Four dimensions based on questions theoretically structured in sections (1), (2) and (5)	
(a) ESG awareness of transport and logistics companies	1) *Clients' environmental or social requirements* 2) *Company environmental or social implementations* 3) *Environmental or social gaps*
(d) Company's ESG behaviors	4) *Satisfaction with environmental implementations in transport and logistics company*

Environmental or Social Requirements
refer to the clients' requirements for a transport and logistics services company to fulfil with regards to particular area of environmental or social issues. For instance, pertinent to "sustainable sourcing", clients may ask a company to meet certain accreditation, energy-efficient sourcing, green sourcing policy, or CSR monitoring standards.

Environmental or Social Implementations refer to the operational practices a transport and logistics services company addresses a particular area of environmental or social issues. For instance, regarding "fair labour practices", a company has specific operational arrangements to attend to standard job specifications, structured career path, staff training / development / retainment, medical and work insurance, and labour law awareness training.

An Environmental or A Social Gap is identified by comparing the pairwise responses for the requirement and the implementation questions on an individual environmental or social issue. Respondents may choose to check the requirement or the implementation box if any of the two exist in their companies. If the response for the former is positive whereas that for the latter is negative, a gap is identified.

All the questions for the four dimensions are based on previous academic surveys with proven validity. For the satisfaction question, the respondents are required to choose the answer from a scale from 1 (strongly disagree) to 7 (strongly agree). Back translation of the original English questions first into Chinese, then back into English was conducted for tests of readability and fluency by five research team members as well as The CILTHK. The revised version is then used for the online survey.

Technical aspects of survey

The Research Centre for ESG collaborated with The CILTHK to conduct the online survey during September to November 2023. A soft launch was implemented to test the questionnaire for its validity. As a result, redundant and misleading questions were removed.

The CILTHK invited about 2,200 members to participate in the official survey. A total of 203 respondents, who are all industry practitioners, provided a final sample of 203 valid responses for this analysis.

Conducting the survey

1.3 Sample

Collaborating with CILTHK to conduct an online survey in Hong Kong, a total of 203 valid responses were collected during September to December 2023. Figure a, b, and c show the demographic characteristics of our sample. However, number of valid responses to each specific question may vary.

In terms of company category distribution as shown in Figure a, 23% comes from freight forwarding, 14% comes from manufacturing, trading and supply chain, and 8% comes from road transport in the transport and logistics industry. As for company size (in terms of number of employees) in Figure b, 73% comes from corporations with number of employees above 50. The remaining is contributed by SMEs. A company's business relationship with its clients is the focused segmentation in this report. As shown in Figure c, 49% of the respondents are from business-to-business (B-to-B) companies; 10% from business-to-customer (B-to-C); and 41% from business-to-business and customer (B-to-B&C). This last segmentation is employed to investigate the four ESG dimensions.

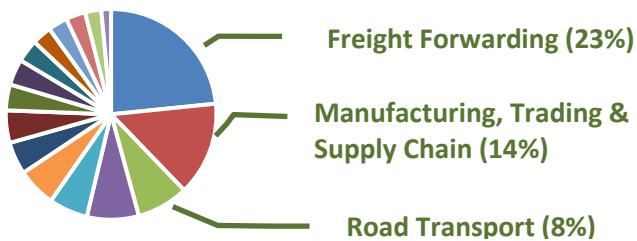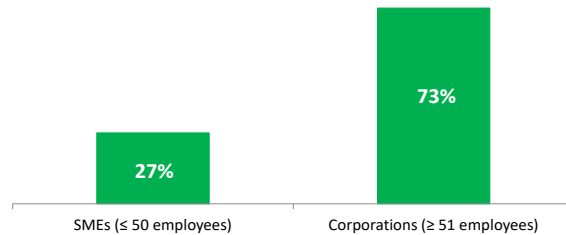**Figure a: Company Category** (n=203)

Figure b: Company Size (n=203)

- Freight Forwarding (23%)
- Manufacturing, Trading & Supply Chain (14%)
- Road Transport (8%)

SMEs (≤ 50 employees) — 27%	Corporations (≥ 51 employees) — 73%

Figure c: Respondent-Client Business Relationship (n=203)

B-to-B	B-to-B&C	B-to-C
49%	41%	10%
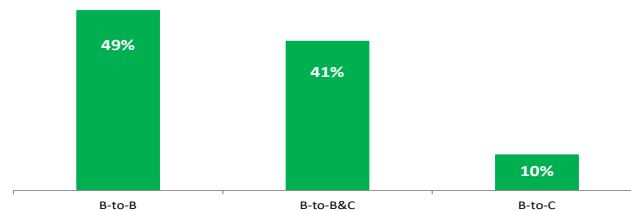
2. FINDINGS

2.1 Looking through the Magnifying Lens 🔍

Let us take a snapshot of the breakdown of the company-client business relationship of our transport and logistics industry respondents in this survey!

As identified by one question, among the 203 respondents, the majority of the respondents are from business-to-business (B-to-B) entities, with a total of 100. This was followed by 83 respondents who are from businesses that provide transport and logistic services for both other businesses and customers (B-to-B&C). The smallest group was the business-to-customer (B-to-C) category, with only 20 respondents.

Another follow-up question taps further into respondents' clients' business relationship with their own clients. Out of the 100 B-to-B respondents, 43 of them had clients whose business nature was also B-to-B. A smaller portion, 9 respondents, had clients with a business-to-customer (B-to-C) nature. Interestingly, 38 of the B-to-B respondents had clients whose businesses catered for both other businesses and customers (B-to-B&C). The remaining 10 are uncertain about this information. To facilitate all analyses based on these two questions, they are regrouped into a new segmentation with five types as follows and shown in Figure 1.

1. B-to-B respondents with B-to-B clients,
2. B-to-B respondents with B-to-C clients,
3. B-to-B respondents with B-to-B&C clients,
4. B-to-C respondents, and
5. B-to-B&C respondents.

This breakdown offers a more nuanced understanding of the B-to-B respondent group's clientele in the context of the survey.
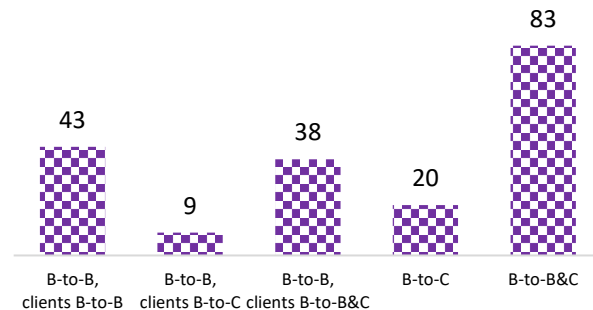

Figure 1. Count of Respondents by Company-Client Business Relationship

2.2 Clients' ESG Requirements

193 respondents are able to be classified into clear new company-client business relationship segments. During the survey, they were asked about 6 environmental and 5 social issues. In response, they gave feedback on whether their clients have particular requirements on each issue. Below are the details of all eleven issues.

Environmental	Social
(a) Carbon and greenhouse gas emissions: carbon and greenhouse gas emissions control or reduction, vendor awareness	(g) Product/service quality and safety: cargo disposal/delivery procedures and efficiencies, product handling instructions, quality control and assurance, storage conditions
(b) Reverse logistics: return and recall policy, 3Rs implementation, packaging material recycling	(h) Diversity, equity, and inclusion: diversity of employees, equal employment policy, anti-harassment policy, vulnerable group development policy, antidiscrimination policy
(c) Packaging: green materials, reduce the use of materials, pallet management, waste management policy	(i) Fair labor practices: standard job specifications, structured career path, staff training/development/retainment, medical and work insurance, labor law awareness training
(d) Sustainable sourcing: accreditation, energy-efficient sourcing, green sourcing policy, CSR monitoring	(j) Workforce health and safety: standard/emergency operating procedures, escape routes and equipment, employee safety policy, ergonomic workplace design, general work from home policy
(e) Climate change: low carbon travel, pollution reduction, environmental protection facilities, climate change education, climate change related goals	(k) Data/cybersecurity and transparency: genuine antivirus software, data confidentiality policy, data and network recovery plan, standard data management protocols
(f) Renewable energy: sources for renewable electricity, visualization of energy use, wastewater recycling, paperless operations	

The average number of requirements received from their clients, broken down into environmental and social, are charted in Figure 2. B-to-B companies with B-to-C clients have to fulfil the largest average number of environmental requirements (average 4.11 issues) in their transport and logistics services for clients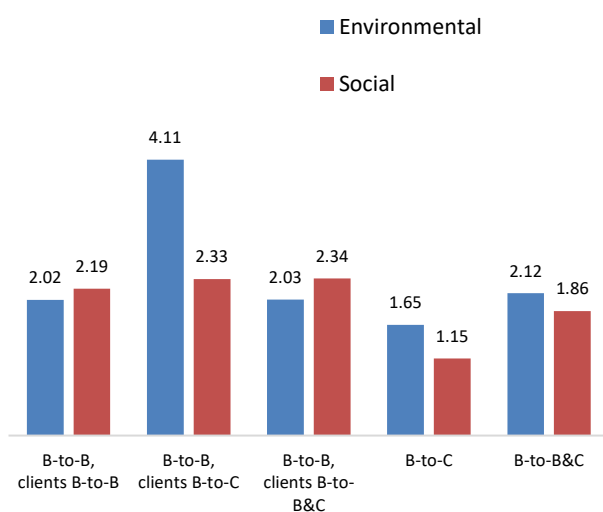. Independent-samples and pairwise Kruskal-Wallis hypothesis tests were conducted to compare the distributions of the number of environmental or social requirements from clients across different business relationships. The results show that there are no significant differences (with 95% confidence) in the respective environmental or social distributions. This suggests that the total number of requirements from clients, whether environmental or social, is consistent across the five different business relationships.

Figure 2. Average Number of Environmental & Social Requirements from Clients

2.3 Company ESG Implementations

These 193 respondents also gave feedback on the associated ESG implementations in their companies, which provides an overview of the prevalence of environmental and social practices. Among all environmental and social issues asked, that companies need to have operational arrangements for about 2-4 issues. The average number of implementations is shown in Figure 3. The data highlight that the levels of environmental and social arrangements by B-to-C businesses are the highest, covering an average of 4.00 and 3.85 issues, respectively.

The average number of environmental or social issues addressed by companies does not vary significantly across different company-client relationships, as supported by independent-samples and pairwise Kruskal-Wallis hypothesis tests with 95% confidence. In other words, the levels of implementations a company, whether a company is B-to-B, B-to-C, or both, do not differ significantly. This underscores the universal importance of environmental and social practices by service providers.
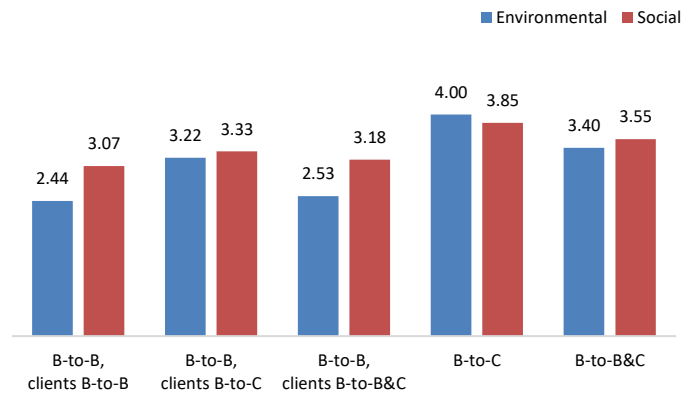

Figure 3. Average Number of Company's Environmental & Social Implementations

2.4 Environmental and Social Gaps

Each environmental or social issue of a respondent is classified further into one out of four types, by comparing their responses to a company's implementation and their client requirement. The details of each type are as follows:

Type 1: A company implements it, but it is not a requirement from clients.

Type 2: Both a company implements it, and clients require it.

Type 3: Neither a company implements it nor is it a requirement from clients.

Type 4: A company does not implement it, but it is a client requirement.

The last type is treated as a "gap". This classification provides an understanding of the alignment between a company's implementations and their clients' requirements. As shown in Figure 4, the biggest environmental gaps exist in "sustainable sourcing", then "carbon and greenhouse gas emissions". Out of all respondents answering the related question, 16% and 15% of them, respectively, fall into Type 4. In Figure 5, the biggest social gaps appear in "product/service quality and safety", then "fair labor practices" and "diversity, equity, and inclusion", with 10%, 9% and 9% respondents, respectively, not meeting requirements of clients. Both Figures 4 and 5 highlight areas where improvements can be made to meet client expectations better.
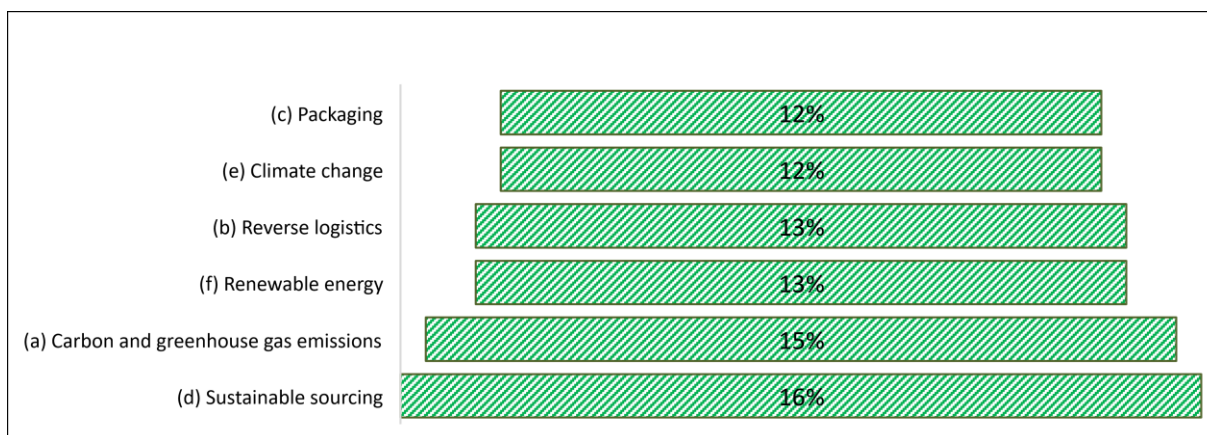

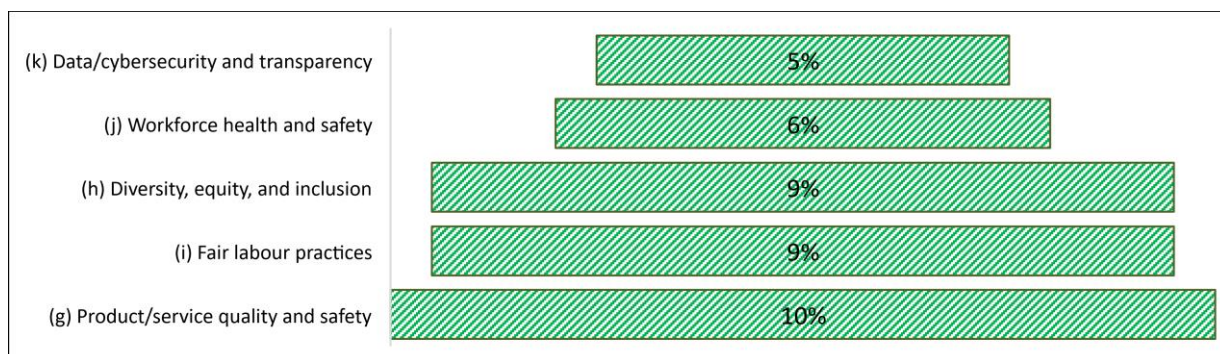Figure 4. Environmental gaps of transport and logistics companies

Figure 5. Social gaps of transport and logistics companies

To determine if each environmental or social gap varies significantly across different business relationships, Chi-square hypothesis tests were conducted with 95% confidence. The null hypothesis was: The distribution of the four types for each environmental or social issue does not differ much across respondent-client business relationships.

Statistical test results reveal that some individual environmental or social issues vary significantly across different business relationships. For example, "sustainable sourcing" and "climate change" are identified as two environmental issues significantly dependent on business relationships. On the social front, more issues were found to be dependent on the client's nature. They include "product/service quality and safety", "diversity, equity, and inclusion", and "workforce health and safety". These findings highlight the importance of considering the specific respondent-client business relationship when addressing environmental and social issues. As the relevance of these issues towards different companies can differ greatly, a tailored approach in implementing environmental and social practices and in formulating governmental supports are deemed necessary.

To check if the numbers of environmental gaps of companies with different business relationships vary a lot, an independent-samples Kruskal-Wallis test was conducted. It is found with 95% confidence such distribution is independent of the relationship, as reflected in Figure 6 below. In general, we can say companies of all client types need to close approximately the same number of gaps to satisfy their clients on ESG.
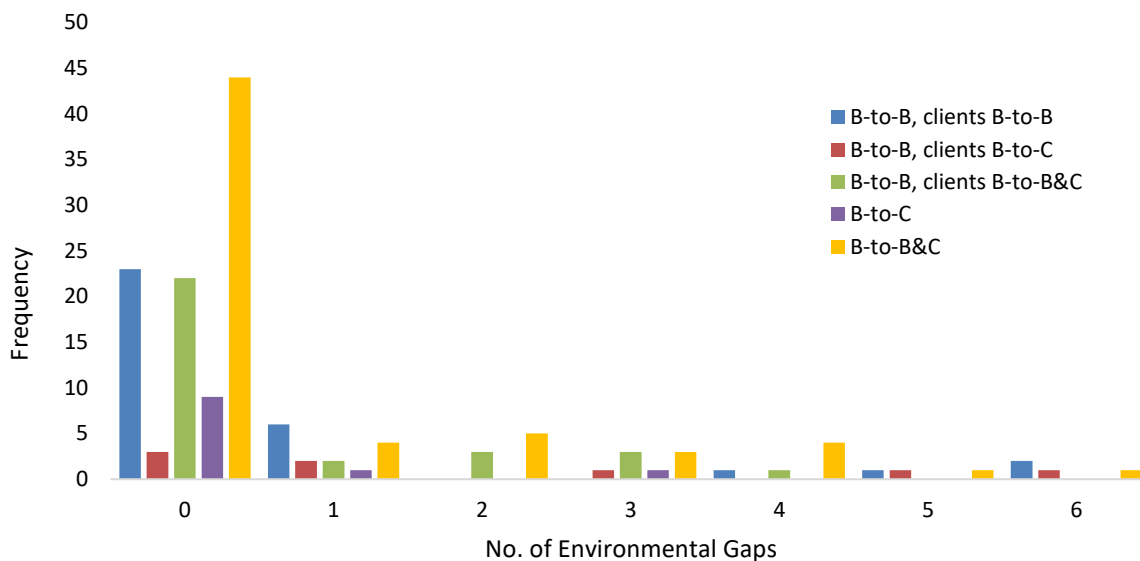

Figure 6. Number of company environmental gaps across company-client business relationships

2.5 Satisfied with ESG Environmental Practices?

Among those having responded their clients' business nature, 145 respondents also gave feedback on their satisfaction with their own company's environmental practices. The responses from 72 B-to-B, 11 B-to-C, and 62 B-to-B&C are based on a 7-point scale, with "1" as "strongly disagreeing" and "7" as "strongly agreeing" with a related satisfaction statement. Respondents who have customers as their direct clients or their clients' clients generally expressed higher satisfaction. The detailed scores are shown in Box and Whisker plot below (Figure 7).

1. B-to-C respondents have an average satisfaction score of 4.909.
2. B-to-B&C have an average score of 4.871.
3. B-to-B respondents with B-to-B&C clients have an average of 4.581.
4. B-to-B respondents with B-to-C clients have an average of 4.375.
5. B-to-B respondents with B-to-B clients have the lowest at 3.970.
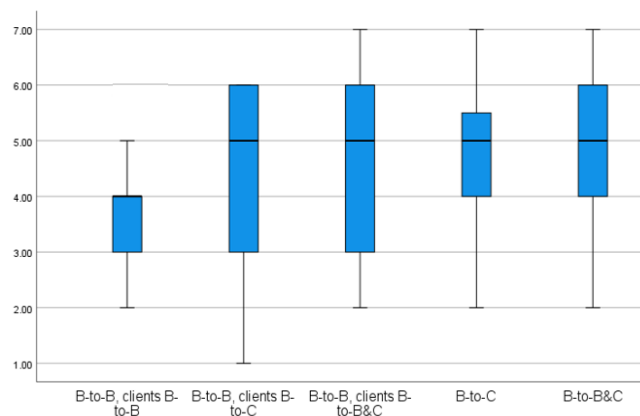

Figure 7. Box and Whisker plot for number of company environmental gaps across different company-client business relationships

This finding suggests that companies with a customer-facing aspect, either directly or indirectly, tend to have higher satisfaction levels with their own environmental practices. This could potentially be attributed to the increasing consumer demand for environmentally responsible practices, which in turn could lead to a greater emphasis on such practices within these companies. More industry information will need to be collected to confirm this postulation.

Independent-sample pairwise Kruskal-Wallis hypothesis tests were conducted to analyze the satisfaction levels across business relationships. The results showed that the distributions of satisfaction levels can vary significantly from each other. In particular, it is found that the satisfaction level of B-to-B respondents with B-to-B clients is significantly lower than that of B-to-B&C respondents. This shows that companies operating in a B-to-B environment need more effort to enhance their environmental practices. More precise governmental supports may help the industry more.

Knowing how the industry practitioners evaluate their own company's environmental practices is only half of the story. If we compare the numbers of environmental gaps in Section 2.4 and the environmental practice satisfaction scores in this section, a more complete story can be unveiled. In Figure 8, it is shown that a higher average count of the number of environmental gaps does not necessarily come with a lower average environmental practice satisfaction score in a company. Although the average number of environmental gaps of B-to-B companies with B-to-C clients is 2, the highest among all business relationships, their satisfaction (4.375) does not average the lowest.

To dive deeper, a related-samples Wilcoxon signed rank test with the following null hypothesis "The median differences between the normalized environmental gap score (the fewer the gaps, the higher this score) and the normalized environmental practice satisfaction score equals zero" was conducted. The test result shows that with 95% confidence the median differences deviate significantly from zero, implying there exists a more complicated relationship between the environmental practice satisfaction score and the number of environmental gaps. Further research has to be conducted to figure out the relationship behind.
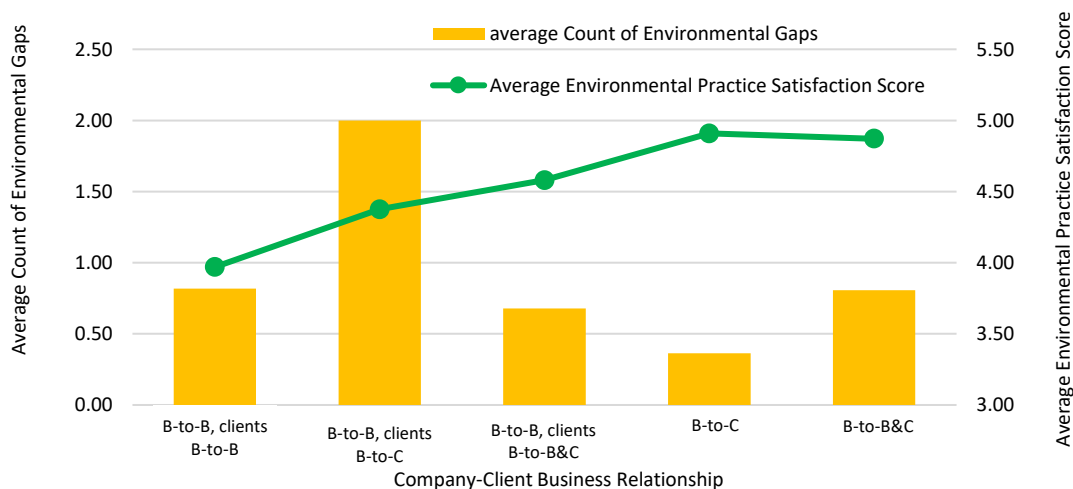

Figure 8. Number of environmental gaps and environmental practice satisfaction of companies with different clients

3. CONCLUSION & RECOMMENDATIONS

3.1 Summing Up

The ESG landscape for the transport and logistics industry is rapidly transforming, as driven by stakeholder expectations, value creation, regulatory compliance, and community impact. Among all stakeholders, clients' demand for ESG compliance is pushing companies faster towards more sustainable practices. These practices can in turn be recognized as a role for value creation. Companies are realizing that robust ESG practices can lead to multiple benefits including green financing, reputation improvement, customer satisfaction, and lower operational costs. Regulatory compliance is another driving force behind the transformation. The industry is adapting to legal regulations and trends, including the directives outlined in the HKSAR 2023 Policy Address, setting new standards for ESG performance.

After multiple intensive discussions with CILTHK, The Research Centre for ESG at The Hang Seng University of Hong Kong found that the industry is particularly concerned with its practices and gaps in the environmental and social aspects under ESG. While some service providers may feel more satisfied with their own ESG practices, are they really ready to live-up to clients' expectation in fulfilling their requirements? Furthermore, what kind of company-client business relationship has more environmental and social requirements? What are these requirements?

To answer these questions, we explore how the demographic segmentation on respondent-client business relationship, namely, B-to-B, B-to-C, B-to-B&C, may give different pictures in the industry. We employed this segmentation to investigate each of the four dimensions regarding environmental and social requirements, implementations, gaps, and satisfaction towards company's environmental practices. In short, the purpose of this report is to explore the gaps that may exist between the practitioners and their clients through our online survey.

The Research Centre for ESG worked with The CILTHK to conduct an online survey during September to November 2023. We control the type of respondents by inviting only CILTHK's members. A final sample of 203 participants with valid responses was collected. In the questionnaire, questions are theoretically structured under seven sections: demographics, awareness, knowledge, attitude, behaviors, resources, and competitiveness. In this report, environmental and social aspects of ESG were studied based on four dimensions: clients' environmental or social requirements, company environmental or social implementations, environmental or social gaps, and company satisfaction with their own environmental practices. The findings are presented with breakdown of company-client business relationship accordingly.

3.2 Recommendations for Industry and Government

Based on the findings in this report, here are some recommendations for both industry practitioners in the transport and logistics sector and the HKSAR government:

Consistent Requirements

Given that environmental and social requirements from clients are consistent across various company-client business relationships, industry practitioners should establish a standard set of ESG practices that can be applied across all types of business relationships. This will ensure a uniform approach to meeting client requirements and facilitate standardization.

Addressing Environmental Gaps

Companies should invest more resources into sustainable sourcing and reducing carbon and greenhouse gas emissions. The government could support this by providing incentives for companies that demonstrate significant improvements in these areas.

Meeting Social Requirements

Companies should make a concerted effort to improve product or service quality and safety, fair labor practices, and diversity, equity, and inclusion. The government could facilitate this by providing guidelines and resources to help companies implement these practices effectively.

Improving Environmental Practices in B-to-B Companies

Business-to-business companies should strive to improve their environmental practices to meet the increasing demand for environmentally responsible practices. The government could support this by offering targeted assistance to them, such as training programs or financial incentives for implementing green practices.

Accurate Assessment of Environmental Practices

Industry practitioners should seek technical support to ensure their assessment of environmental practices accurately reflects the actual environmental gaps between them and their clients. The government and trade associations could provide this support by establishing a dedicated agency or offering resources to help companies conduct accurate assessments.