

CITY UNIVERSITY OF HONG KONG
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**The Effect of Ownership Structure and Board
Characteristics on ESG Performance of Hong Kong
Listed Firms**

股權結構及董事會特徵如何影響香港上市公司的環
境、社會和治理（ESG）績效的研究

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Abstract

This study investigates the relationship between ownership structure, board characteristics, and environmental, social, and governance (ESG) performance among firms listed on the Main Board of the Hong Kong Stock Exchange (HKEX). It was motivated by the increasing significance of ESG-related issues in corporate governance and investment decisions, particularly in light of growing stakeholder demands for accountability and sustainability. More specifically, this thesis aims to build on and extend the previous literature by (i) examining the association between firm-specific corporate governance mechanisms and ESG performance and (ii) contextualizing institutional investors' observations on the relationship between these governance mechanisms and the ESG performance of Hong Kong-listed firms, and exploring how they integrate ESG performance-related information into their investment decisions and the practical challenges that they face in utilizing such information.

This study employed a mixed-methods approach: quantitative analysis using multiple regression models to test hypotheses regarding the effects of firm-specific ownership structure—namely, institutional, foreign, family, and state ownership—and board characteristics—specifically board independence and gender diversity—on ESG performance, followed by qualitative semi-structured interviews with institutional investors to provide deeper insights on the empirical findings.

The results of the quantitative analyses revealed that institutional ownership was significantly associated with lower ESG performance. This contrasts with prior research in Western markets, which suggests that institutional investors advocate for sustainable practices. Conversely, foreign investors were found to have a positive and significant association with ESG performance. Similarly, family-controlled firms—one of the most prevalent ownership structures in Hong Kong—exhibited lower ESG performance, likely due to conflicting priorities between family wealth preservation and broader stakeholder engagement. On the other hand, state ownership demonstrated a negative association with ESG performance, contrary to initial hypothesis. Unlike non-SOE firms, SOE firms' inherent political legitimacy may shield them from regulatory demands related to ESG guidelines imposed by governments or regulators. Regarding board characteristics, the analysis indicated that board independence positively influenced ESG performance, as independent directors prioritized sustainability initiatives in the absence of short-term financial performance-based incentives. Notably, board independence was the only variable in this study that consistently showed a positive association with ESG performance across all ownership sub-groups. However, board gender diversity led to nonsignificant results in this study, which diverges from many prior studies. Thus, further research may be needed to determine whether this effect stems from the fact that the proportion of female directors in Hong Kong has not yet reached a critical mass.

Meanwhile, key findings from the semi-structured interviews further illuminated the above dynamics. The interviews highlighted a divide between local and foreign investors with regard to engagement in ESG issues, with foreign investors generally being more proactive than local institutional investors; this explains empirical results related to the positive association between foreign ownership and ESG performance. Additionally, many respondents emphasized the importance of robust governance structures in promoting sustainable practices and highlighted the need for regulatory

reforms to enhance transparency in ESG disclosures. They also observed that board characteristics significantly impacted ESG performance, with independent directors being viewed favorably; however, tokenism in gender diversity remained a concern. Furthermore, the interviews revealed that institutional investors in Hong Kong actively integrate ESG information into their investment decisions, primarily motivated by the pursuit of improved risk-adjusted returns. However, challenges persist, particularly in aligning ESG criteria with increasingly popular passive investment strategies such as exchange-traded funds, inconsistent reporting standards across firms, etc.

In conclusion, this dissertation extends existing research on the influence of corporate governance mechanisms on ESG performance in the Hong Kong context. Hong Kong is an important market for study, as it offers a unique testing ground for Chinese corporations within a mandatory ESG reporting regime in the Hong Kong market. Notably, mainland Chinese companies constitute 74% of the Hong Kong stock market. Thus, the results of this study provide valuable insights for policymakers, corporate managers, and investors seeking to navigate the complexities of ESG performance in China and non-Western markets. The findings from this study provide valuable insights for various stakeholders, including corporate leadership, policy makers, etc. They suggest the need for stricter anti-greenwashing regulations and incentives to encourage ESG investments, such as tax benefits and the deregulation of engagement rules. Additionally, board independence was identified as a key mechanism that positively influences ESG performance, which warrants stronger measures to enhance it. The study also highlights the need for improved ESG reporting standards and guidelines to address inconsistencies across firms and the role of SOEs in driving better ESG outcomes through regulatory intervention.

Key words: Ownership structure, institutional ownership, state-owned enterprises (SOE), family control, board characteristics, board independence, board gender diversity, ESG (Environmental, Social, Governance), explanatory sequential mixed-methods, generalized least squares (GLS) regression, semi-structured interviews, agency theory, stakeholder theory, institutional theory.