

GBA IMPACT FOUNDATION



Newsletter | December 2020



Merry
Christmas

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Happy
New Year

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EDITORIAL

As 2020 draws to a close, Hong Kong enters a fourth wave of the pandemic while the Mainland operates normally and Macau is relatively unaffected by COVID cases. After a roller coaster black swan year, we are finally able to see with new horizons of vaccines in 2021. For every crisis there is an opportunity; and the acceleration of digitisation and leapfrogging of legacy with technological innovation certainly bring opportunity in GBA and promise to create new companies and employment. With the US election and BREXIT behind us, the signs of a new globalisation era appear though the new year will be the time for reflection.

The GBAIF continues its work virtually and we are pleased to submit three articles in this edition on GBAIF presentations in Macau by our chief representative there, insights on CEO homegrown green sustainability in GBA, and the first of several articles on the new emerging Greater Bay data privacy laws very relevant to our research work. The GBAIF marine committee have made good progress with the *Adopt a Ship Project* for young students in Hong Kong in conjunction with the maritime museum. We send season's greetings for our student committee who have had a tough year with online studies and disruption. We are looking forward to when we can all meet up again and travel across the GBA borders once more. We wish our readers a happy holiday and prosperous new year and our next newsletter will be published after the Spring Festival time in March.

David Piesse
Editor-in-chief, GBAIF

GBAIF Newsletter Editorial Team

Editor-in-chief:
David Piesse

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Greater Bay is the Way

José Carlos Matias

The way forward will imply new measures facilitating regional integration within the Guangdong-Hong Kong-Macau Greater Bay Area. Mr Vong detailed opinions collected among industry players, aimed at developing the integration of insurance services with the neighboring cities. These point to the need to enhance cross-border fund exchanges, support the development of innovative products such as cross-border medical insurance, provide convenient underwriting and claims services, improve the vehicle insurance system, and study the establishment of after-sales service centers for Macau and Hong Kong insurers.

The GBA regional integration plan also ranked high on the remarks made by Félix Pontes, Chief Representative for Macau at the Greater Bay Area Impact Forum Foundation. The former Chairman of the Macau Institute of Financial Services made the case for Macau to push for economic diversification amid the COVID-19 crisis, and in face of the regional integration in the GBA. This could be pursued by setting up an excellent health tourism industry, establishing credit lines to central banks of African Portuguese Speaking Countries and Timor Leste, alongside the incorporation of a credit insurance company with public funds, in order to foster the development of Macau as a financial platform.

Mr Pontes also encouraged authorities to move on with a Five-Year innovation and Technology Plan based on four key pillars: digital gaming, block chain and crypto currency technology, smart MICE (Conventions and Exhibitions), and a GBA-Lusophone countries IT hub.



Félix Pontes
Chief Representative for Macau at the
Greater Bay Area Impact Forum Foundation

CEO hometown identity and firm green innovation¹

Karena Yan



Dr. Karena Yan

Associate Professor
in Durham University
Business School, UK.

Biography: She is chair of board of examiners, business Faculty member of Senate Discipline Committee, member of Research Committee and Education Committee. She is an academic advisor for Knowledge transfer programme (KTP) and ESRC Impact Acceleration Account (IAA), represents the university in Science and Parliament Committee in Westminster, and is the board member of China-Europe/UK Economic Association. She has published in world-leading journals such as *Research Policy* (FT50), *Journal of Product Innovation Management*, *Business Strategy and the Environment* and *Journal of Business Research*. Her research has made social impact and has been reported by media such as BBC, *Economists* and *Sunday Times*.

Drawn on the upper echelons theory, this study investigates how CEO hometown identity drives firm green innovation. Using Chinese publicly listed firms from 2002 to 2016 in heavily polluting industries, our findings support these hypotheses:

- CEO hometown identity has a positive impact on a firm's green innovation performance.
- Institutional ownership negatively moderates the positive relationship between CEO hometown identity and green innovation
- Market complexity plays a positive moderating role.

Firms are increasingly paying attention to environmental issues and implementing environmental management practices to simultaneously maximize their economic interests and take social responsibility. Therefore, as a new sustainable development pattern, green innovation has attracted wide attention from researchers and practitioners.

Recent studies in the upper echelons theory have started to explore the role of executive characteristics on firm green innovation. The central tenet of the theory is that executives will make highly personalized interpretations of the situations and choices they face, in turn, influence their decision. That is, executives inject a lot of their own personalities, experiences and values into their behaviors. It is clear that these characteristics shape the cognitive makeup of the firm and thus affect firm's green innovation (Horbach & Jacob, 2018).

Hometown identity, in our research, refers to a psychological bias that individuals tend to make decisions favoring their hometowns due to emotional ties. Existing research shows that firms with hometown CEOs may be more concerned about local environmental issues and are more likely to reduce environmental pollution by actively developing environmentally friendly products and improving the environmental performance of the manufacturing process.

Meanwhile, the relationship between top executive hometown identity and firm green innovation may be subject to some important contingent factors. Managerial discretion, defined as 'latitude of managerial action' (Hambrick & Finkelstein, 1987), can be used to explain whether and the extent to which executives can have a significant impact on the organization (Child, 1972). When executives have more discretion, they will have a stronger influence on firm strategies and the results (Hambrick & Finkelstein, 1987). Institutional investors refer to legal entities engaged in securities investment in financial markets. Institutional investors have the power to block or sanction executives' behaviors, thereby increasing the restriction on CEO.

Our research offers several practical implications. First, given the impact of the hometown CEO on green innovation, firm boards need to consider this characteristic when making decisions on selecting senior managers and seeing that their decisions adhere to the firm's goals. Second, our research shows that the effect of CEO hometown identity on firm green innovation is contingent on the discretion of the CEO. And to promote firms' green innovation, boards need to consider the CEO hometown identity and the firm's external characteristics (e.g., market complexity) and internal characteristics (e.g., governance characteristics).

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Importance of Data Privacy Law Changes in Greater Bay Area (GBA)

David Piesse

Data as an asset of value is going to be the foundation of the next decade as the world digitizes all sectors now going to a complete reset accelerated by the pandemic. Many consider data the fuel of the new economy. As the value of data moves to the balance sheet in the same way as other investible assets and cash, it is very important to ensure and secure the integrity of that data away from data breaches and cyber-crime that could threaten the solvency of corporations and security of the realm. This becomes even more important as central bank digital currency (CBDC) will emerge soon on the horizon. Regulators and governments need to pass laws to protect not only data privacy, but data integrity as had already been done in Europe with GDPR (General Data Protection Regulation), Australia with APA (Australian Privacy Act) and California CCPA (California Consumer Protection Act) where heavy penalties are lodged for bad data practice. One of the big issues here is of course cross border data protection and in GBA data needs to transfer securely between Hong Kong, Macau and the 9 mainland cities. So, we are seeing a data breach law emerging for GBA and then linking to overall China data privacy acts and cyber security laws. This is a good development.

The key issues for GBA companies are inbound and outbound and data transfers of sensitive personal data and company information with trade secrets which brings legal obligations on the importers and exporters of data as controls appropriate to risk are implemented. GBA companies will need to conduct impact assessments on the incoming laws. When interacting with the PRC, mainland rules on the identification is important and critical infrastructure data needs to be fully understood. While it remains unclear of these definitions right now, the legal opinion is to treat all data with respect within the law. This results in a confluence of mandatory local laws with data processing agreements on a contractual basis. Technology, especially blockchain, is going to play a key role here.

China has issued a draft law called the Personal Information Protection Law, which was issued for public consultation on 21st October 2020. This applies to overseas entities processing personal data of data subjects in China. It shows that the draft law has adopted GDPR style principles for processing, data subject rights, fines up to RMB 50 million or 5% of annual revenue plus restrictions of export of personal data outside of China notwithstanding the interaction with the GBA law, which allows export to Hong Kong and Macau. This will also apply to personal data generated as part of critical infrastructure.

Recent developments in blockchain technology allow the concept of data visibility where data does not travel and enabled by new cryptography-based technologies where data can be analysed without it leaving the data owners environment coupled with a cryptographic audit trail. Data does not have to be physically shared in order to make use of it with permission. This principle of data visibility will enable use of data without law violation. We will see immediate benefit of this technology in the global maritime sector as increased marine traffic will require protection of data from cyber-attack and more data analysis.

GBAIF will track this law in 2021 and update in the newsletter.



David Piesse



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