

How much do you know about ESG?

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Have you heard of ESG? ESG has been widely discussed by enterprises in recent years. Significant resources have also been invested. However, what kind of impact can engaging in ESG bring to enterprises, and how do people perceive it?

What is ESG and why do enterprises start to pay attention to it?

The concept of ESG was first mentioned in the report "Who Cares Wins"¹ by The Global Compact, a United Nations initiative, in 2004. ESG stands for Environmental, Social, and Governance, which suggests that in the globalized environment, enterprises not only compete but also have closer connections. Therefore, evaluating the success of a company should not be limited to the numbers on financial statements, but also consider its performance in environmental protection, social responsibility, and risk management of governance. The report also points out that enterprises with better performance in ESG are more likely to enhance shareholder value by, for example, proper risk management, anticipating regulatory actions, rapid entry into new markets, and sustainable development of the societies in which they operate. Additionally, ESG can have a strong impact on the reputation of enterprises or brands, an increasingly important part of company value.

During the 2008 financial crisis, the concept of ESG gained more attention. Taking the top 3000 US enterprises by market value as an example, enterprises with higher ESG scores, due to their long-term investment in social assets and gained the trust of investors, which helped maintain their performance at a certain level, resulting in less impact from the financial crisis.²

Consumers are also one of the driving forces that urge enterprises to pay attention to ESG. Consumers tend to choose brands that they trust or that align with their values. According to the "2022 Taiwan Smart Commerce Report"³ by Google, although consumers today appear to be more cost-conscious, they are actually more self-aware. While they value rational factors such as price and function when making purchasing decisions, these are only the "standard features." Good brand image, trustworthiness, and emphasis on environmental sustainability and other emotional elements are the "optional features" that stimulate upgrades and are more likely to impress consumers. ESG demonstrates the aspects of a company's emphasis on sustainability, social responsibility, integrity, compliance, risk management, and other trust-building factors, which will make consumers' choices or investments more secure.

How do consumers consider ESG from their perspective?

According to the "2022 Consumer Sustainability survey" by National Chengchi University

¹ https://www.unepfi.org/fileadmin/events/2004/stocks/who_cares_wins_global_compact_2004.pdf

² <https://www.managertoday.com.tw/articles/view/62727?>

³ https://services.google.com/fh/files/misc/2022_google_taiwan_commerce_whitepaper.pdf

Sinyi School, 49% of Taiwanese people are aware of the term ESG, meaning one out of every two individuals has heard of it. However, according to Ipsos's observation, can consumers be aware of what ESG represents? The answer seems would to be negative. When mentioned ESG, people tend to associate it with aspects of environmental protection such as green energy, energy conservation and carbon reduction, recycled materials, plastic reduction, wastewater treatment in manufacturing, or waste management. A small part can also mention corporate social responsibility (CSR), though it's only a part of the whole concept of ESG's social responsibility. Governance is barely known. Overall, people's understanding of ESG is still not comprehensive, but they appreciate and are optimistic about enterprises that are willing to invest in helping the environment or social development.

Many enterprises hesitate to invest in ESG, fearing it will impact their product's price competitiveness. However, this is a long-term investment for businesses or brands. In an era where products and services are constantly innovating and choices are becoming increasingly diverse, those brands that have a good reputation, are trustworthy, and share values that consumers identify with, are more likely to stand out from numerous options and enter the consumer's consideration list. This also means that the likelihood of making a deal increases significantly.

How can enterprises implement ESG when it covers such a broad range?

Ipsos provides 4 suggestions from a strategic perspective:

Communicate organizational goals and vision internally.

ESG is not just about environmental protection like beach cleanups or charitable donations. It emphasizes the relationships with stakeholders throughout the supply chain, including employees, customers, communities, etc. It involves making changes in areas such as human rights, labor rights, environmental protection, business ethics, and information disclosure. It is more like a cultural transformation toward information transparency. Therefore, enterprises need to communicate their ESG goals and vision to all employees, not just limit it to consensus at the management level. This will facilitate the future implementation of ESG-related policies within the organization or cross-departmental collaboration, as well as attracting relevant talent to join the organization.

Focus on issues related to the core business and respond to the expectations of stakeholders.

Combining ESG with the operation of a company's core business and business model can create both economic and social value. In addition, the complex network of stakeholders can often pose an obstacle to the implementation of ESG for the company. Therefore, it is necessary to clarify the rights and expectations of different stakeholders, such as employees, customers, communities, supply chains, and investors, and respond to the issues they are

concerned about. Taking TSMC as an example⁴, its main stakeholders are divided into six categories: shareholders/investors, employees, customers, suppliers/contractors, government, and society. The company has integrated major ESG issues, such as water management in the environmental aspect, talent development in the social aspect, and product quality and safety in the economic aspect.⁵

Identify Consumer's Resonance.

One of the purposes of enterprises implementing ESG is to enhance their brand image. According to the Information Processing Theory of cognitive psychology, short-term memory can only last for about 20 seconds and has limited capacity. However, if the new information in short-term memory can be linked to background knowledge in long-term memory, it is easy to be retained and form long-term memory. Therefore, ESG issues that are more relevant, closer, and more imaginable to consumers' lives, and even those that have direct impacts, are more likely to be remembered, thereby further enhancing their favorability of the company.

Deliver ESG messages in an attractive way.

Traditional society advocated the spirit of "Virtue is its own reward" but now, doing good things needs to be more widely known so that can attract people's attention and call for more enterprises to join. However, we have found enterprises often face the challenge that press releases related to PR and good deeds are not as attention-grabbing as other more exciting or interesting news. Therefore, it is recommended that ESG-related news should depart from the conventional approach in terms of the title and content. Suggested using more attractive copy or themes, even incorporating hot topics, or using multimedia to attract the public's attention.

In recent years, the external environment has been volatile, from climate change, the China–United States trade war, the COVID-19 pandemic, the Ukraine-Russia war, and energy crises, to global inflation. ESG can demonstrate whether a company can face external risks in financial performance. ESG is a win-win-win for the environment, enterprises, and consumers. As an environmental advocate, Anna Lappé said, "Every time you spend money, you're casting a vote for the kind of world you want." The government and enterprises are already highly aware of this issue. As consumers become more aware of and value ESG in the future, this will further encourage more enterprises to invest and accelerate a positive feedback loop.

⁴ <https://www.seinsights.asia/article/9123>

⁵ <https://esg.businessstoday.com.tw/article/category/180689/post/202301310027>

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