

FROM COMPLIANCE TO VALUE CREATION ESG JOURNEY

A Hong Kong Perspective

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GAME CHANGERS



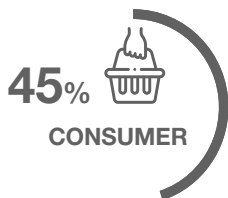
A HONG KONG PERSPECTIVE

In the 21st century, sustainability has transitioned from a tagline to a prerequisite for businesses around the globe. The ESG (Environment, Social, and Governance) concept has become an unequivocal requirement driven by various stakeholders, including the general public, non-government entities, regulators and investors. Their growing awareness has led to a greater push for sustainability regulations across business sectors.



Today, businesses find themselves at an intersection where investment in sustainability has become a non-negotiable prerequisite of corporate conduct. Yet, to think of sustainability from a mere compliance lens would be an oversimplification. Recent data reveal that the roles of government, consumers, and brands are more intertwined than ever. Many Hong Kong residents (58%) believe that the government and companies are responsible for ensuring the eco-friendliness of products and services, while a smaller portion (45%) considers that consumers should carry the onus.

Who if anyone, who, if anyone, is responsible for ensuring consumer products/ services are environmentally and socially responsible ?



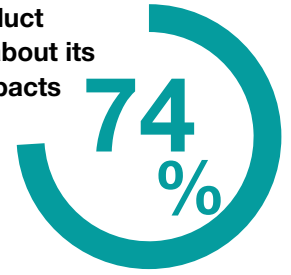
Source: Ipsos research among c.1000 adults in Hong Kong 2023
(You can refer to the New Normal and then do a footnote to provide more details).



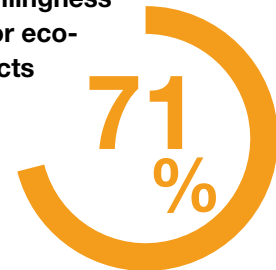
Sustainability goes beyond compliance and enters the realm of value creation. Interestingly, 74% of those surveyed would reconsider purchasing a product due to environmental concerns, 81% identified environmental standards adopted by a company as critical in their purchase decisions, and 68% claimed they are willing to pay more for eco-friendly products.

Although consumers are generally positive toward products and services that are more sustainable, a 'Say-Do Gap' does exist. This 'Say-Do Gap' is a fundamental discrepancy between what consumers express about sustainability and their purchasing behaviours. It is a dissonance between addressing citizen expectations and the genuine needs of the consumer population. To put it into perspective, 83% of Hong Kong respondents agreed that we are heading for environmental disaster unless we change our habits quickly. However, only 68% believed they were already doing enough regarding sustainability. Furthermore, the low rank of sustainability in purchasing decisions is noteworthy, with attributes like lower pricing, convenience and hygiene being the top influential factors on consumer purchasing decisions when products and services are of similar quality and functions.

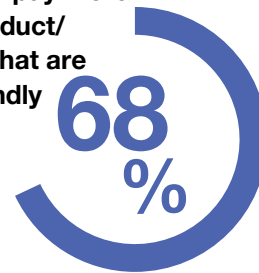
Consumers consider not purchasing a product due to concerns about its environmental impacts



Consumers willingness to pay more for eco-friendly products



Consumers are willing to pay more for a product/service that are eco-friendly



Source: Ipsos research among c.1000 adults in Hong Kong 2023

The citizen perspective:
« I want to save the planet »



83%(HK)
82% (APAC)

Agree that we are heading for environmental disaster unless we change our habits quickly ¹

SAY / DO GAP

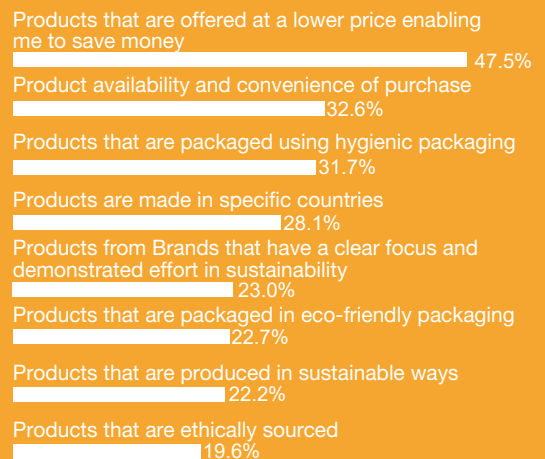
The consumer perspective:
« I buy what's in my immediate best interest or means»



68%

Consider that they already do enough for sustainability everyday²

When comparing products/services of similar quality and features, which of the following are most important to you when making a final purchase decision?



1 Source: Ipsos Global Trends Series Base: c.1,000 adults aged 16-75 in HK, and c16,000 (16-75 in APAC) across 14 markets

2 Source: Ipsos New Normal Survey Base: c.1,000 adults aged 16-75 in HK, May 2023

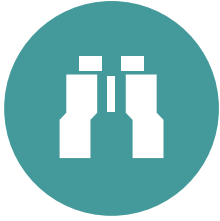


ESG Journey

The ESG journey should focus on **ORIENTATE**, **FOCUS**, **ACT**, **TALK**, and **EVALUATE**.

This Ipsos framework aims to help businesses understand the ESG landscape and identify where to start, determine the areas where businesses should prioritise their efforts and create a strategic roadmap, develop new sustainable offerings and refresh existing practices to engage stakeholders, how to effectively communicate sustainability efforts, position the brand, and influence positive behaviour change, and finally, monitor and track the impact of sustainability initiatives systematically.

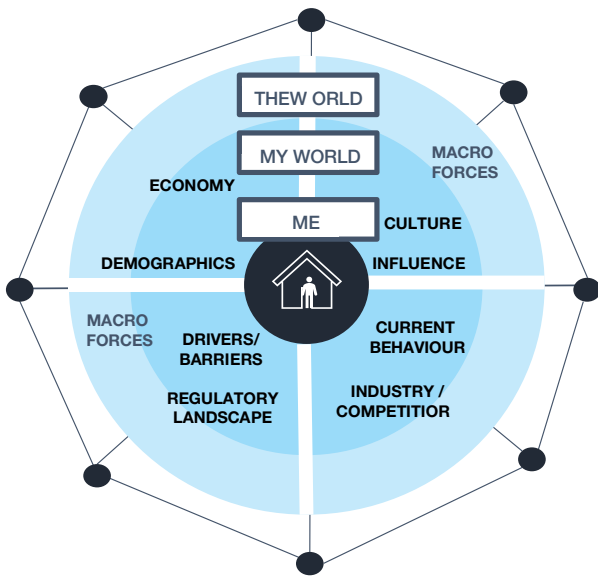




ORIENTATE

Before embarking on the ESG journey, companies must **ORIENTATE** themselves and strive to understand the landscape in which they operate.

This 'Orientation' encompasses understanding the market, the customers, the expected benefits, and the scenarios in which the companies operate.

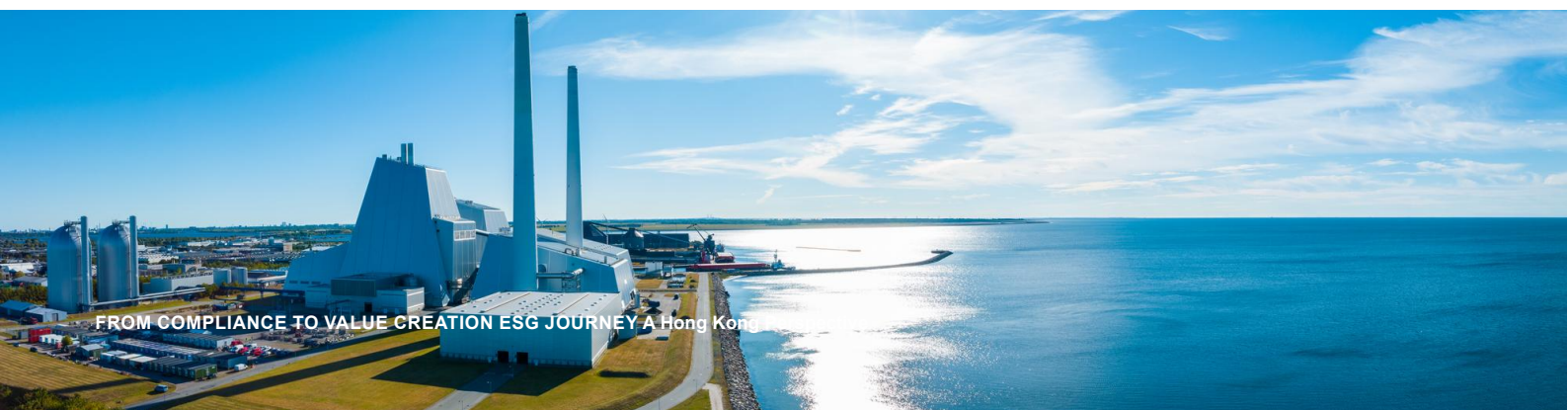


Businesses must broaden their perspective to formulate an efficacious framework for sustainable development. Focusing merely on the 'Inside-Out' view, such as compliance and regulations, impacts on sourcing and suppliers, operations, HR, and governance, and internally focused sustainable initiatives won't be sufficient. Businesses also need to factor in the 'Outside-In' perspective, understanding that consumers purchase products and services that cater to their immediate needs and what they can afford.

By achieving a comprehensive 'Outside-In' perspective requires understanding the sustainability landscape and the ability to compare and position oneself among industry peers. By adopting the perspectives of "ME," "MY WORLD," and "THE WORLD," businesses can anticipate and adapt to evolving trends and needs within the ESG sphere.

Not all stakeholders are ESG-conscious. It is important to understand the ESG segmentation of the stakeholders to identify the segments to focus on. Moreover, businesses must ensure their ESG efforts resonate with stakeholder expectations. This can be achieved through an audit to assess the impact and effectiveness of sustainability initiatives, as well as the barriers and opportunities within the market and promoting inclusive growth are crucial steps.

To plan for an uncertain future, businesses need to develop integrated ESG strategies with clearly defined Key Performance Indicators (KPIs), aligning their focus and actions with long-term sustainability goals. Finally, businesses should also focus on identifying barriers and opportunities, acknowledging market fragmentation, and promoting inclusive growth for businesses. This deeper understanding serves as a starting point to equip businesses in tailoring the sustainability approach that most resonates with the target stakeholders and sets the path for a greener future.





FOCUS

Addressing ESG matters can sometimes feel overwhelming. The many options available often lead to delays, wrong decisions, or even indecision. Focusing on the right sustainability efforts and meeting stakeholders' expectations is crucial for meaningful progress. Sustainability should be an essential design aspect beyond being just an attractive add-on. By integrating sustainability in a meaningful way, businesses can create valuable products and services that align with citizens' and stakeholders' values, leaving a lasting impact on their corporate brand reputation and the world.

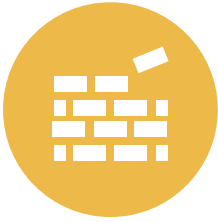
To embark on this phase of the sustainability journey, businesses should identify and **FOCUS** on the material ESG issues relevant to their company. Understanding the importance of these issues for different stakeholder groups sets the stage for prioritisation. This assessment should be informed by a comprehensive understanding of strategic and tactical ESG questions. For instance, a gap analysis can help compare the relevance and engagement of ESG topics with consumers, media, and institutions against the brand's existing initiatives.



As sustainability initiatives often involve customer touchpoints and impact the overall customer experience (CX), it is vital to gauge the organisation's CX maturity and embed ESG principles in the customer journey. This understanding allows businesses to determine the necessary investments and assess the returns on CX investments related to ESG experiences. From a branding perspective, it is crucial to future-proof commercial and corporate brand positioning against evolving consumer and market needs. Instead of reactive measures, brands should shape the dynamic landscape of a sustainable future and align with emerging ESG needs.

Measuring the return on investment (ROI) for ESG initiatives is critical to prioritise possible initiatives. This assessment should consider the impact on

brand and reputation, identifying and prioritising growth opportunities. By integrating financial, brand, marketing, reputation, and corporate communication metrics, businesses can evaluate the financial impact of different ESG initiatives on stakeholder relationships. Moreover, isolating the impact of ESG on brand and reputation helps prioritise growth opportunities based on factors such as the company's ability to deliver on promises, authenticity, alignment with the brand's DNA, differentiation, and relevance for various stakeholders. In summary, taking strategic steps towards sustainability entails focusing efforts, engaging stakeholders, integrating sustainability into design, understanding material ESG issues, assessing CX maturity, future-proofing branding efforts, and measuring ROI to drive meaningful change.



ACT

The ESG journey continues beyond just understanding the sustainability landscape, the ‘Say-Do Gap’, and assessing where to play. Businesses must **ACT** and strive to provide a unique and distinct value tailored that is also sustainable to the overall business goals. To truly set a brand apart from the rest, value creation should branch out from generic offerings—the proverbial ‘me-too’—to a differentiated, unique proposition.

Towards this, businesses must **ACT** to create offerings and experiences that are sustainable and equitable. The critical question businesses must pose to themselves is how to conceive new, more sustainable offerings (spanning products, services, and business models, amongst others) and how to revitalise existing efforts (like packaging, experiences, supply chain, and policies) to captivate and engage their customers.

To elevate a brand beyond the pack, value creation must rise above cookie-cutter offerings and transform into a consumer-focused, differentiated, extraordinary proposition. To achieve this, an agile co-creation innovation sprint is the ideal approach to build, test, learn and iterate in collaboration with stakeholders to:

- Develop a fresh and informed viewpoint on the future trajectory of the brand’s ESG strategy.
- Understand, through in-depth research data analyses, of the mindsets of customers, communities, and citizens.
- Incorporate research across activists, pragmatists and detached groups to understand their reasons to adopt and to detract.
- Utilize an iterative and seamless design thinking co-creation process to generate ideas and concepts.
- Test the ideas and marketing through an integrated research approach that bridges customers with the brand, CMI, and R&D stakeholders.

This co-creation innovation approach extends beyond mere product and service design but also encompasses the customer journey and experiences throughout customers’ interactions with the brand. Ultimately, this approach needs to be bound by collaborative efforts across stakeholder groups, maintaining a customer-centric focus to formulate a value proposition that finds widespread adoption and generates value for all parties involved.





TALK

Beyond creating the right ESG initiatives, businesses also need to consider their communication activities - how they **TALK** about their efforts and how they position their brand, business, or organisation. They must also reflect on how to influence positive behaviour change

*Over **89%** of surveyed in Hong Kong considered it important for companies and brands to be transparent about their sustainability efforts and outcome*

Businesses need to identify the ESG domains that are most essential and resonate with their consumers by category. For example, what ESG elements within the category are most relevant to the target customers? How to communicate about ESG authentically and effectively?

Businesses could consider mapping and comparing local cultures around ESG topics in real time. This data would help to inform and inspire their communication strategy and creative development, ensuring it aligns with customer culture. Businesses can picture this real-time data as digital anthropology that uses millions of customer narratives around the relevant ESG topic in the target category to study the meaning behind everyday text and visuals.

It's also crucial to understand the most relevant and distinctive tone of voice, imagery, signals, and iconography when communicating ESG and sustainability. Businesses need to compare their own ESG communication with competitors across different channels to assess whether their own tone unique, whether it is culturally resonant and reflective of current cultural standards, and/or whether their packaging communicates their ESG efforts effectively using the most resonant language, iconography, and signals.

If their communication efforts in ESG do not resonate with their customers, businesses need to track down why and find ways to shift them. Using semiotics, the science of 'signs', can assist in analysing visual, language, narrative, and cultural indicators in packs, ads, products, experiences, and broader culture to deduce the implicit messages you are communicating to customers, which affect their brand perception.





EVALUATE

Brand ESG Scores and Single Sustainability KPIs provide key insights to **EVALUATE** the strength of a brand across Environmental, Social, and Governance dimensions, as well as the effects of its initiatives over time. These scores would provide a competitive benchmark and pinpoint which areas require refining and maximising.

As a business navigates this evaluation phase, key considerations should include:



Assessing whether the brand's ESG position is influencing the brand on a larger scale and to what extent the brand's sustainability credentials impact the broader brand perception in a positive way.



Strategizing for further improvement and growth within the realm of sustainability.



Considering the role of the brand's communications, particularly in sustainability.



Looking to successful brands within this space and learning from their effective sustainability communication strategies.



Ascertaining whether the audiences are effectively hearing about the brand's sustainability efforts and whether these efforts are having the desired impact.



Reflect regularly on how shopping engagement can be made more accessible and identify the touchpoints of the highest importance for advancing sustainability.

The journey towards sustainability necessitates continuous evaluation and refinements. This ensures the business remains relevant, competitive, and, most importantly, successfully meets its sustainability goals.

CONCLUSION

The journey towards sustainability is an intricate and strategic process, melding various elements – uncovering any customer “Say-Do” gaps, understanding the ESG landscape, acting to improve customer-centric sustainability offerings, effective communication of initiatives and results, and continuous evaluation and improvements. The pressing need for sustainability has undoubtedly placed businesses in a pivotal role. Therefore, a meticulous strategy that considers these elements is vital. To keep pace with the complexities and dynamism of the market, businesses need to maintain flexibility and adaptability. Incorporating sustainability principles is not just a ‘nice-to-have’, but a ‘must-have’ to stay competitive and resonate with informed, conscious customers.

CONCLUDING THOUGHTS

Businesses need to invest time and effort in understanding their unique sustainability landscape. Consider the ‘Outside-In’ perspective, ensuring actions align with long-term sustainability goals. Focus on the right ESG priorities, balance their ‘Say-Do’ actions, and effectively communicate their progress. To make this journey successful, managing the balance between customer expectations, company capabilities, and genuine sustainability efforts is crucial. Regularly evaluating the impact of sustainability initiatives will help businesses stay relevant and, most importantly, achieve their sustainability goals.

HOW IPSOS CAN HELP?

Ipsos is one of the largest global market research firms, with 90 offices and over 18,000 employees. We give businesses, governments and public bodies the confidence they need to take the right actions for the benefit of people and the planet, to drive long-term prosperity for all.

At Ipsos, we believe in adopting a holistic approach towards ESG, which our comprehensive **ORIENTATE, FOCUS, ACT, TALK, and EVALUATE** framework encapsulates.

Our experienced professionals, spanning fields such as consultancy, social intelligence, customer experience, innovation, and quantitative and qualitative research, are geared to support businesses in navigating their ESG journey - yielding not just data but profound insights-driven strategy to create value for all stakeholders. With Ipsos as partner, businesses can move beyond uncertainty to find their compasses in the ESG landscape.

Reach out to us for a conversation.

Ipsos is a thought-leader on customer-focused sustainability thought-leadership and innovations



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