Perceived Environmental, Social, Governance and Consumers’ Responses

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Contributor: Regina Burnasheva

There are direct positive effects of social and governance dimensions of perceived Environmental, Social, Governance (ESG) on brand credibility, brand image, and perceived quality. However, no direct impact of the environmental dimension of perceived ESG on brand-related constructs was identified. Further, the research confirmed that brand credibility, brand image and perceived quality partially mediate the relationship between perceived ESG and attitude.

Keywords: consumer ESG perception ; corporate image ; corporate social responsibility ; sustainability ; attitude

1. Introduction

Environmental, social, and governance (ESG) have recently been gaining attention as important keywords for corporate management strategies worldwide. ESG refers to the non-financial factors from the viewpoint of social or environmental sustainability that a firm should consider alongside the financial factors when making investment decisions [1]. The chairman of the world’s major asset management company, Larry Fink of BlackRock (managing approximately US$7 trillion in assets), directly mentions ESG in his 2020 annual letter to CEOs. In this letter, he requests companies to disclose their plans for realizing sustainability, which has been set as the new standard for BlackRock’s investment strategies [2]. Unlike the past, when financial performance and profits were the only basis for investing in a company, ESG calls for the evaluation of factors that affect the company’s value and sustainability in the long term. Therefore, ESG management can be understood as an essential management strategy for companies that seek to achieve sustainability in terms of environment, society, and governance.

The interest in ESG has been increasing in Korea as well, and government agencies and large corporations have been making moves to incorporate ESG practices following BlackRock’s announcement. For example, domestic conglomerates, such as Samsung, SK, Hyundai, Kia Motors, Hanwha, and POSCO, are earnestly implementing ESG management as their survival strategy, focusing on developing renewable energy, becoming fossil-free, expanding the use of electric vehicles, etc.

With the recognition of ESG’s non-financial factors as a key indicator for assessing a company’s investment value and sustainability, it became worthwhile to consider how companies could strengthen their reputation and consumer trust as well as positively affect consumer attitudes and purchase intentions through ESG management strategies. For example, in the case of Korea, MP Group, known for its Mr. Pizza franchise, was put to sale after suffering controversies over the company founder’s abuse of employees, a breach of trust, and embezzlement. Namyang Dairy Products Co.’s publication of false research claiming its yogurt product, Bulgaris, lowers the chance of COVID-19 infection by 78 percent became the final straw in the sale of the company to a private equity fund by prompting a massive boycott and stock price plunge. These cases highlight how the company’s survival may be jeopardized if it fails to fulfill its social responsibilities and lose consumers’ trust as a result. In this sense, it has become vital for firms to engage in active ESG management. Existing research on this topic confirms the importance of ESG management. Friede et al. [3] surveyed more than 2000 empirical studies conducted on the association between ESG and corporate financial performance since 1970 and found that 63% revealed positive relationships. Alareeni and Hamdan’s [4] study on 500 US S&P listed companies also found a meaningful positive correlation between ESG information disclosure and a firm’s finances and market performance.

While the bulk of existing literature on ESG has focused on the association among ESG and corporate financial performance and the use of ESG performance indicators for investment decision making, there is limited research available on consumer attitude and behavior from the perspective of ESG management and marketing. Thus, this research is one of the first to investigate the influence of perceived ESG on consumer responses. Moreover, existing reviews have assessed the direct influence of a company’s socially responsible management on consumer attitudes toward the company and its products [5][6], but failed to examine the underlying mechanisms in this relationship.

Accordingly, this research tests and develops a more complex relationship between ESG and consumers' attitude by including three mediators (brand credibility (BC), brand image (BI), and perceived quality (PQ)) as three benefits of ESG. The research examines the influence of three dimensions such as environmental, social and governance of ESG on consumers' attitude through the mediation function of BC, BI and PQ. To this end, the researchers surveyed the consumer's perception of the ESG practices of nine representative online and offline platform companies in Korea that have experienced rapid growth since the spread of COVID-19 to analyze whether their perception affects their attitudes and purchase intentions using PLS-SEM. This analysis is expected to help companies to understand how efficient ESG management could promote sustainable growth and explore how ESG management strategies, mainly invested in and applied so far by the government and large corporations, could be implemented by small and medium-sized companies in the future.

2. Theoretical Implications

First, the hierarchical-order structure of perceived ESG was unrevealed in previous literature. The observed assessment of this research found that the higher-order overall factor adequately held the commonality basis amongst the environmental factor, social factor, and governance factor (first-order dimensions). This finding extends the concept and measurement of perceived ESG. The parsimonious higher-order form of perceived ESG typology tackles ESG researchers' need to accurately theorize this complex concept.

Second, this research regarded environmental, social, and governance factors as three separate dimensions of ESG and analyzed their different impact levels when influencing BC, BI, and PQ. The outcomes showed that the social dimension of ESG had the strongest impact on Korean consumers' BC and BI among the three ESG domains examined. These findings are in line with Liu et al.'s [7] result that society dimension had the strongest influence on the BI among the three dimensions. Similarly, Abu Zayyad et al. [8] demonstrated that the social dimension of CSR was more strongly related with BC as compared with all other activities. In terms of PQ, the governance dimension of ESG plays the most effective role as compared to the three dimensions. However, the environmental dimension of ESG had no significant impact on BC, BI, and PQ. This result matches the findings of Martinez et al. [9], Wu and Wang [10], Saleem and Gopinath [11], and Namkung and Jang [12]. The finding of this research has two possible explanations. First, it is difficult for a firm to persuade customers about their devotions to the environment via their environmental policies and initiatives [13]. Specifically, Lee and Shin [14] showed that corporate environmental contributions are less recognized by Korean consumers. The second explanation is that in collectivistic societies, such as South Korea, the environmental domain may have a lower effect than in more individualistic cultures [9]. This research therefore adds to the literature by revealing that not all ESG initiatives are evenly effective.

Finally, this research extends the literature by identifying the underlying mechanism of how consumers' ESG perceptions lead to their attitude by incorporating BC, BI, and PQ as mediators. More specifically, the findings revealed that BC, BI, and PQ partially mediated the effect of consumers' ESG perceptions on attitude. In other words, consumer's perceptions of ESG activities may not always go through cognitive elements as an intermediary step toward generating a positive attitude.

3. Managerial Implications

Apart from the theoretical implications, the results of this research have meaningful implications for ESG practitioners. First, the findings indicate that social and governance activities may be beneficial for firms in building consumer BC, BI, and PQ. Hence, practitioners should focus substantially on these activities. Particularly, social activities generated the most important contribution of developing the level of BC and BI. Firms can therefore take advantage of this priority by engaging in social initiatives such as donations to charities, cultural support, and programs to improve the welfare of the communities.

Second, the findings show that environmental activities did not significantly affect BC, BI, and PQ. As Lee and Shin [14] found, consumers' lack of awareness of corporate environmental contribution initiatives is the main reason for hindering favorable influences of activities. Thus, practitioners are recommended to carefully design strategies to raise perceptions of environmental practices and help consumers to be aware of these activities. Diverse channels can be devised to make consumers aware of environmental activities, such as research reports, advertisement, and corporate websites or social media.

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