

PUBLIC PERCEPTIONS OF ESG INITIATIVES: DOES PROVIDING EVIDENCE OF IMPACT MATTER?

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ABSTRACT

While many companies are engaging in environmental, social, and governance (ESG) initiatives, little attention has been given to assess whether the disclosure of evidence used to support ESG programs impacts public perceptions of corporate trust. For instance, does the provision of evidence to the impact of an initiative matter to individuals or is the mere act of developing and communicating an ESG program sufficient? Does providing evidence of more than one ESG initiative amplify the effects? Using a between-subjects experimental design, the results suggest there is a positive impact on public perceptions of trust when a company provides evidence of the impact of at least one ESG initiative. However, there were no enhanced effects on perceptions when evidence of the impact of more than one initiative was provided.

INTRODUCTION

ESG, or environmental concern (e.g., resource consumption reduction), social responsibility (e.g., impact on communities), and governance (e.g., code of conduct), is an ever-present acronym used in modern day marketing and corporate relations (see, for example, BlackRock 2020). Derived from the well-known concept of corporate social responsibility (CSR), ESG points to the positive impact of corporate policy on society. Specifically, ESG describes how companies voluntarily integrate environmental and social considerations into their business operations and how they define governance issues that pertain to their adopted policies (Strand et al., 2014). Currently, 79% of venture and private equity backed companies and 67% of privately owned companies engage in ESG. Research suggests that actively participating in ESG related programs can lead to positive associations with an organization's product or service offering, in turn, elevating levels of brand trust and loyalty (Ferrell et al., 2019). Given these positive effects, 88% of publicly traded companies make available annual reports that document the impact of their ESG initiatives (Niemoller, 2023). These reports have become an important factor of consideration for consumers when deciding which company to support and, in some cases, a component used by accounting firms to measure value (Yoon et al., 2018). Thus, extant research has focused primarily on the use of ESG performance indicators for consumer investment decisions (see Whelan, 2021). While the relationship between ESG campaigns and a company's overall brand image is shown to be positively related, failure to fulfill ESG promises can erode public trust and credibility in a company which may spillover to consumer confidence with the organization (Koh et al., 2022). Thus, researchers have begun to investigate the impact of ESG programs on consumer sentiment and behavior.

Today, ESG disclosure statements and reports are commonplace on corporate websites and annual 10-K filings. For instance, Apple's Environmental Progress Report pledges that the company will be completely carbon neutral and use only recycled or renewable materials in their products by 2030. They provide evidence to document their strides toward these goals by disclosing the tonnage of carbon emissions avoided each year and the percentage of materials in Apple products that come from recycled sources (Apple, 2022). Given their robust goals and successes, Apple was recently ranked 5th on Investor's Business Daily list of the 2022 Top 100 Best ESG Companies (Doler, 2022). Another publicly traded company, PepsiCo, is using ESG marketing tactics to its advantage. Through their corporate website (PepsiCo.com), they provide an integrated section dedicated to ESG approaches and initiatives. Scrolling through the information provided, PepsiCo provides data disclosures of the positive impact they have had in the following areas: agriculture and sourcing, water, packaging, nutrition, sustainability management, and job growth. For example, Pepsi recently announced the Pepsi Positive or Pep+ program. Pep+ is an initiative focused on sustainability through positive agriculture, positive value chain, and positive choices that inspire positive action for people and the planet (PepsiCo, 2021).

In many instances, the overall impact of a successful ESG program is disclosed in quantified amounts. For instance, a company may report how much money it has raised for a charitable cause, the tonnage of waste that it reduced, or the kilowatts of energy it conserved. However, are these forms of disclosure impactful to an individual or the public at-large? Is a typical person capable of putting aggregated values into meaningful perspective to assess its true level of impact? Or does the public simply value that the company has been committed to a program and documented a result? Moreover, does providing evidence of impact for multiple ESG initiatives matter more than evidence for a single effort? At the corporate level, this question appears to be at issue. For example, Amazon recently discontinued their AmazonSmile campaign. This initiative, launched in 2013, pledged a percentage of eligible purchases would be donated to a consumer's organization of choice. While Amazon stated that \$500 million had been donated through the program, they revealed that they had hoped for a larger impact. With over 1 million organizations eligible for a donation, their ability to have an impact was spread far too thin (Amazon, 2023). Given this issue, the aim of this paper is to assess if disclosing the evidence of the impact of an ESG initiative impacts public perceptions of corporate trust. Moreover, this study will examine the strength of the impact relative to the number of ESG initiatives currently undertaken by the firm. It is anticipated that documented evidence of the impact of an ESG effort will be more positively perceived by the public compared to simply stating an ESG pledge or mission. In addition, it is expected that when a company provides evidence of more than one ESG initiative, the positive impact of the combined efforts will be greater than that of a single effort.

LITERATURE REVIEW AND HYPOTHESES

Legitimacy Theory

Suchman (1995, p. 574) posits legitimacy theory as “a general perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. From a corporate standpoint, legitimacy theory suggests that a company's actions should align with social expectations. Essentially, organizations must consistently demonstrate the "legitimacy" of their actions, ensuring that societies perceive them as operating within acceptable boundaries. This creates a social contract between an organization and the community, such that organizations should willingly communicate activities believed to be expected by the societies in which the organization operates (Guthrie and Parker 1989; Deegan, 2002). If the community perceives that the organization's activities do not align with its moral values, the social contract may be revoked, potentially leading to the organization's failure (Abdul Rahman & Alsayegh, 2021). Deegan (2002) emphasizes that an organization's survival is at risk if there is a legitimacy gap, where societal expectations and norms diverge from the organization's needs. Consequences of breaching the social contract may include reduced demand for products, withdrawal of labor and financial capital, or advocacy for increased taxes, fines, or laws by constituents. To address a legitimacy gap, organizations often increase corporate disclosure (Rezaee 2016). For instance, if the community expects environmental consciousness and social responsibility, various stakeholder groups may demand more ESG information from the organization. Firms that voluntarily disclose sustainability practices in ESG reports communicate the benefits of their initiatives to society, thereby legitimizing their social responsibility mandate. Indeed, prior empirical research supports the applicability of legitimacy theory in understanding environmental and social disclosure reporting (e.g., Ali et al. 2017; Dyduch & Krasodomska 2017; Haniffa & Cooke 2005).

Public Perceptions of ESG and Consumer Trust

Public perceptions of CSR, which includes ESG practices, are critical in building trustworthy relationships with customers. According to Dwyer et al. (1987), trust refers to the expectation that people want to cooperate and fulfill their duties and obligations in relationships. Performance-based trust is based on a firm's expertise, capacity to provide high-quality goods or services, and effective business operations, whereas benevolence-based trust is based on the beliefs of customers that a corporation cares about the well-being of society (Mayer et al., 1995). Thus, companies engaging in pro-social corporate undertakings can signal their desire to protect and advance societal welfare and build trust with customers. In fact, social trust plays a crucial role in enhancing corporate social responsibility (Chen and Wan, 2020). Numerous studies have confirmed the positive impact of firms' social responsibility engagement on customer trust (e.g., Abu Zayyad 2021) In general, consumers perceive businesses with significant CSR commitments as being more dependable, responsible, and trustworthy (Hur et al., 2014; Gilal et

al., 2020). Of note, Koh et al. (2022) found social and governance attributes of ESG enhance credibility, image, and quality of the brand. Moreover, research indicates that trust built through ESG activities can result in significant positive effects on consumer repurchase behavior and word-of-mouth intentions (Bae et al., 2023; Moon et al., 2022)

Evidence of ESG Impact

While the goal of an ESG report is to provide a snapshot of the sustainability and social responsibility efforts of a company, the framework that sets standards and guidelines for the disclosure vary by country and industry. For instance, the Corporate Sustainability Reporting Directive (CSRD) requires large European organizations (over \$150M sales) to report on all activities that have an impact on the environment or society. Similarly, the United States has proposed new regulation that publicly traded companies be required to disclose information on emissions and climate-related impacts (SEC, 2022). While some disclosure requirements are regulated, other companies may elect to voluntarily report on metrics that can serve as benchmarks against competitors. From a financial perspective, a side-by-side comparison of ESG metrics may be helpful when making investment decisions. In addition, environmental and social responsibility reporting is shown to have a greater impact when presented separately from other financial information (Bucaro et al., 2020). However, it is not clear whether consumers attend more to holistic (i.e., summary evaluation) or precise details, such as the absolute impact (e.g., total dollars donated to a charitable cause), relative impact (e.g., kilowatts of energy per capita conserved), proportional impact (e.g., pounds of waste reduced as a function of firm size) or combined impact (e.g., total dollar, energy, and waste efforts), of ESG programs.

Recently, a joint study conducted by McKinsey and NielsenIQ examined sales growth for products that claim to be environmentally and socially responsible (Bar Am et al., 2023). A couple key takeaways from this study could provide guidance toward the anticipated effects of ESG disclosure information. First, products making ESG-related claims on packaging (e.g., vegan, eco-friendly, biodegradable) were shown to grow faster than products that were absent ESG information. This result was consistent across two-thirds of the 32 product categories analyzed. Thus, it appears providing specific ESG related claims results in positive consumer response behavior. Second, the study analyzed the effects on growth when a product package displayed multiple types of ESG-related claims. Results revealed that products with multiple claims grew nearly twice as fast as products that made only one. This suggests that consumers may be more likely to perceive the combined effects of the claims made by a product correlates with authentic ESG-related behavior. It also suggests that brands might be wise to incorporate claims across the interconnected social and environmental factors associated with their product. Thus, it is expected that ESG disclosure information would mirror these results. Specifically, companies that provide evidence of the impact of their ESG initiatives will be viewed more favorably than companies that fail to provide evidence and companies that provide evidence of multiple ESG initiatives (especially across multiple ESG issues) will be more positively viewed than companies that provide evidence of a single effort. Therefore,

H1: *Companies that provide evidence of the impact of their ESG initiative will be perceived more positively by the public than those that fail to provide evidence of their ESG initiative.*

H2: *Companies that provide evidence of the impact of combined ESG initiatives will be viewed more positively by the public than those that provide evidence of a single ESG initiative.*

METHOD

The study employed a between-subjects experimental design. Actual ESG initiatives of a select healthcare company were manipulated across conditions. To clarify the concept of ESG and limit confusion, subjects were first provided with a definition of ESG and how it applies to environmental, social, and governance issues of a company. Participants were then provided with a brief description of the selected healthcare company, McKesson, which included their actual ESG mission statement. Initial results revealed that nearly 50% of the participants reported knowledge of the healthcare company used in this study. However, subsequent analyses revealed that corporate knowledge and experience had no significant relationship with the dependent measures. Respondents were provided monetary compensation for their participation and data was collected through TurkPrime (formally CloudResearch).

First, respondents were randomly assigned to one of three conditions: control, evidence of impact for a single ESG initiative, or evidence of impact for multiple ESG initiatives. In the control condition, only the ESG mission statement was provided to respondents (*i.e.*, no evidence of impact). In the single ESG initiative condition, respondents were only provided with evidence of the impact of the company's water conservation efforts. In the multiple ESG initiatives condition, respondents were provided with evidence of the impact of the company's water conservation, waste reduction, and carbon emission footprint efforts. Stimuli used in the study are provided in Figure 1.

Figure 1. ESG Initiatives

McKesson Corporation Emissions Footprint

We know that rising greenhouse gas (GHG) emissions are the primary source of climate change, and we work to do our part to reduce and avoid emissions in our operations and supply chain. We do this by working to optimize our fleet, improve the efficiency of our buildings, and increase our renewable energy procurement.

McKesson has **reduced its emissions 9%** on its way to its 2030 carbon neutral goal.

Scope	FY20 MT CO ₂ e	FY21 MT CO ₂ e
Scope 1	104,129	114,724
Scope 2 (location-based)	160,906	147,447
Scope 2 (market-based)	151,212	150,178
Scope 3	114,428,191	114,419,394

McKesson Corporation Waste Data

We generate waste in our offices, warehouses, distribution centers and pharmacies. In every McKesson location, we aim to reduce the amount of waste we produce. Where we cannot reduce, we try to reuse materials and seek to avoid sending waste to landfill by — donating, recycling, or composting.

	FY20	FY21
Waste recycled	26,526	25,816
Waste sent to landfill*	11,698	12,672
Hazardous waste generated	1,880	2,739
Hazardous waste diverted from disposal through recycling, reclamation or recovery efforts*	21	9
Non-hazardous waste generated*	212	196
Other waste (non-hazardous, non-recycling)**	4,416	4,088

McKesson Corporation Water Usage

The bulk of our water use stems from landscape irrigation and water consumption in our buildings. To manage our water use in the U.S., we monitor alerts in the utility bill-pay system that flags significant usage increases, enabling us to identify potential water leaks and work with the affected locations to ensure they are repaired.

	FY20	FY21
Fresh water intensity: gallons/ft ² *	15.7	14.8

Next, participants were asked a series of questions regarding their perceptions of the company on a seven-point scale ranging from “Strongly Disagree” (1) to “Strongly Agree” (7). All dependent measures were adapted from existing scales that assess environmentally friendliness (i.e., concerned with the environment, environmentally friendly, conserving the environment), environmental impact (i.e., making a difference in the environment, significant benefits to the environment, positive impact on the environment) and corporate trust (i.e., trustworthy company, honest company, improving the well-being of society) (Afzali and Kim, 2021; Fatma et al., 2016; Fatma et al., 2021; Font and Lynes, 2018; Milfont and Duckitt, 2010). Finally, basic demographic information such as age, gender, and ethnicity were collected.

RESULTS

A total of 289 respondents completed the survey. Experimental cell sizes were as follows: control group (96), single ESG initiative (97), and multiple ESG initiatives (96). Approximately 55% of respondents identified as male and 79% identified as Caucasian. The average age of the sample was 37.4 years. While gender and age had no significant effect on the main dependent variables in the study, women were found to be significantly more concerned about the environment compared to men ($p = 0.11$). Assessment of the scale items found the measures of all three dependent variables to be highly reliable ($\alpha > 0.70$). Thus, a single item composite measure for each variable was constructed and used for testing purposes.

A MANCOVA test was performed to test the hypotheses, with personal concern for the environment retained as a control variable. Results revealed a significant main effect across conditions for environmental friendliness ($F(2, 286) = 8.41, p < .001$), environmental impact ($F(2, 286) = 4.76, p < .01$), and corporate trust ($F(2, 286) = 3.67, p < .05$). A post hoc multiple comparison test was then performed to determine the differences between the control, the single ESG initiative, and the multiple ESG initiatives groups. For each dependent variable, results only reveal a significant difference between the control group and both the single and multiple initiative groups. Thus, while providing evidence of impact matters, the impact of multiple ESG initiatives had no significant effect compared to that of a single effort. Thus, the results only show support for H1.

DISCUSSION

The purpose of this study was to determine if disclosing evidence related to the impact of ESG initiatives positively influenced consumer's perception of corporate trust. Results of this study should be of particular interest to corporate communication strategists. The results indicate that consumer perceptions of corporate trust were significantly higher when evidence of impact for ESG programs was provided. Thus, companies are encouraged to openly communicate and disclose the impacts of their ESG initiatives in their marketing communications rather than merely providing a comprehensive ESG mission/policy statement. However, findings revealed that there was no added benefit to providing evidence of impact of more than one ESG effort. In essence, there are no additive effects of instituting multiple ESG programs in hopes of magnifying their impact on public perceptions of consumer trust. Thus, companies may be advised to focus exclusively on communicating the impact of a single ESG program. In addition, results suggest that there may be added value in targeting women when communicating the impacts of ESG initiatives, as they were found to be more environmental conscious consumers that may be more receptive to, and influenced by, such information.

Limitations and Future Research

Although these initial results are insightful, there are ample avenues for future research. First, this study only examined the effects specific to a single company/industry. Future research might find that consumer perceptions of ESG initiatives could vary based on product/service impact on the environment or the well-being of society. For instance, a company that manufactures products that are dependent on natural resources (i.e., furniture) may face more scrutiny over their ESG initiatives. In addition, the use of real-world ESG initiatives by a healthcare organization limited the examination to the environmental aspect of the ESG model. Future research may discover that providing evidence of the impact for other aspects of the ESG model (i.e., social) to be more influential on public perceptions. Finally, while this study tested the number of ESG impact disclosures that were provided, the magnitude and type of impact for each ESG initiative remained constant. Future research may find that framing impact using proportional or relative metric amounts could be more effective. Likewise, examining ESG programs that impact multiple issues (i.e., environmental and social) may prove more influential than programs that impact a single issue. Given the recent evidence of ESG initiatives on consumer sentiment and product choice, ESG research will likely be a burgeoning area of academic inquiry.

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