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How the ESGs Affect Company Branding and Stakeholder Psychology

Tutut Chusniyah*, Kukuh Setyo Pambudi, Gebi Angelina Zahra, Muhammad Rayhan I'tisham

Faculty of Psychology, State University of Malang, Malang, Indonesia

Abstract.
ESG or the Environmental, Social, and Governance criteria are standards for a company's operations that socially conscious investors use to screen potential investments. ESG has become a prerequisite for the management of companies to build sustainability apart from the UN Sustainability Development Goals. However, ESG involves compliance, risk management, branding, and psychology. This paper explored how ESG can influence the perception and behavior of various stakeholders, such as customers, employees, suppliers, regulators, and investors. It also focused on how companies can leverage ESG to create a strong and distinctive brand identity to generate competitive advantages. We conducted a qualitative case study of four companies implementing ESG initiatives in different industries and regions. We collected data from multiple sources, such as annual reports, websites, social media, interviews, and surveys. We used thematic analysis to identify the key themes and patterns in the data. We found that ESG can influence the perception and behavior of various stakeholders differently, depending on the context and the type of ESG initiative. We also found that ESG can help companies create a distinctive brand identity that can differentiate them from their competitors and attract more investors. We suggest that managers adopt a strategic approach to ESG that aligns with their vision, mission, values, and goals and effectively communicates their ESG efforts to their stakeholders. We also recommend that researchers should further investigate the mechanisms and outcomes of ESG branding in different contexts and sectors. One of the limitations of our study is that we focused on only four cases, which may not be representative of the whole population of companies that have implemented ESG initiatives. Therefore, future studies could use a more extensive or diverse sample or employ a quantitative or mixed-methods approach to validate or generalize our findings.

Keywords: Brand Identity; ESG; Perception; Market Behavior

Corresponding Author: Tutut Chusniyah; email: tutut.chusniyah.fppsi@um.ac.id

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1. Introduction

Branding is a strategic process of creating and communicating a distinctive identity and value proposition for a product, service, or organization [1]. Branding can influence the perception and behavior of various stakeholders, such as customers, employees, suppliers, regulators, and investors, and can generate competitive advantage and value creation for the firm [2]. However, branding is not only a matter of functional characteristics or financial performance; it is also a matter of environmental, social, and governance (ESG) criteria. ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments [3,4]. ESG criteria reflect how a company performs as a steward of nature (environmental), how it manages its relationships with people and communities (social), and how it governs itself with transparency and accountability (governance) [2,3].

ESG criteria have become one of the prerequisites in the management world to be implemented in order to build sustainability of life besides SDGs that have long been a reference [3]. However, ESG is not only a matter of compliance or risk management; it is also a matter of branding and psychology. Psychology is the scientific study of the mind and behavior of individuals and groups [5]. Psychology can help explain how ESG can influence the perception and behavior of various stakeholders, and how companies can leverage ESG to create a strong and distinctive brand identity. For example, psychology can help understand how consumers evaluate ESG information and signals from firms, how employees engage with ESG practices and policies, how suppliers cooperate with ESG standards and expectations, how regulators enforce ESG regulations and incentives, and how investors value ESG performance and impact.

Some examples of firms that have incorporated ESG into their branding are:

1. Welch's: The cooperative that creates products like Welch's grape juice is an example of how showing stakeholder ownership can help bolster your brand reputation. Welch's highlights its environmental practices such as reducing water usage and greenhouse gas emissions on its website and social media platforms. It also emphasizes its social impact by supporting local farmers and communities through its cooperative model [6].

2. Cancer Treatment Centers of America: The health care provider showcases its commitment to social responsibility by providing high-quality care for cancer patients and their families. It also demonstrates its governance practices by being

transparent about its patient outcomes data and quality measures on its website. It also engages with its stakeholders through online forums and surveys [7].

3. Amazon: The e-commerce giant has been investing in various ESG initiatives such as renewable energy projects, carbon-neutral delivery services, circular economy programs, diversity and inclusion policies, and philanthropic efforts. Amazon communicates its ESG vision and progress through its sustainability website, annual reports, press releases, social media posts, podcasts, videos, and events [8].

The purpose of this paper is to explore how branding, ESG, and psychology are related. Specifically, this paper aims to answer the following research questions:

1. How do firms signal their ESG achievements to various stakeholders in an interconnected environment?
2. How do stakeholders perceive and respond to ESG signals from firms?
3. How do ESG signals affect brand valuation and brand loyalty?
4. How can firms use psychology to enhance their ESG branding strategies?

To answer these questions, this paper reviews the relevant literature on branding, ESG, psychology, signaling theory, and brand valuation. Then, this paper proposes a conceptual framework that illustrates the relationships among branding, ESG, psychology, signaling, and brand valuation. Finally, this paper discusses the implications of the framework for theory and practice.

2. Literature Review

2.1. Trend of ESG

Environmental, social, and governance (ESG) factors have become increasingly important for investors, companies, and regulators in recent years. ESG investing aims to generate positive returns for global issues such as climate change, human rights, and social justice, as well as steady revenue for the investor [8]. According to S&P Global, total sustainable debt issuance reached a record high in 2021 and is poised for continued growth in 2022 [9]. However, a key challenge for market participants in the coming year will be to manage that growth in a way that combats rising concerns about greenwashing, which is the practice of making misleading or unsubstantiated claims about the environmental or social benefits of a product or service [9]. Moreover,

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ESG trends are not only driven by the environmental component, but also by the social and governance aspects. For example, corporate boards and government leaders will face rising pressure to demonstrate that they are adequately equipped to understand and oversee ESG issues, such as diversity, equity, and inclusion, worker wellbeing, and stakeholder engagement [9]. Furthermore, ESG trends are expected to evolve and interact with each other in 2022 and beyond. For instance, MSCI identifies some of the ESG trends to watch for 2022 and 2023, such as the receding of greenwashing and the emergence of impactwashing, the intensifying push for change in how the planet produces energy and the critical role of natural capital, and the growing existential threat of biodiversity loss and its implications for financial stability [10].

ESG factors not only affect the performance and reputation of companies, but also their branding and marketing strategies. Branding is the activity of creating a distinctive identity and image for a company or a product in the minds of customers and other stakeholders [11]. Marketing is the activity of promoting the value proposition of a company or a product to customers and other stakeholders [11]. ESG branding and marketing are therefore the activities of communicating the material environmental, social and governance attributes of a company or a product to its investors, buyers and other stakeholders in alignment with corporate purpose and mission [12]. A company's ESG branding and marketing message builds its brand equity, financial worth and potential for true social impact [12].

ESG branding and marketing can help companies differentiate themselves from their competitors, attract and retain loyal customers and employees, enhance their credibility and trustworthiness, and create positive social change. However, ESG branding and marketing also pose some challenges and risks for companies. For example, companies need to ensure that their ESG claims are authentic, consistent, and verifiable; otherwise, they may face accusations of greenwashing or impact washing [9]. Companies also need to balance their ESG goals with their financial goals; otherwise, they may lose profitability or competitiveness [9]. Companies also need to adapt their ESG strategies to changing customer preferences, market conditions and regulatory requirements; otherwise, they may become irrelevant or obsolete [13].

1. **Brand Creation**. Brand creation is the process of developing a distinctive identity and image for a business or a product that sets it apart from its competitors and connects with its target audience. Brand creation is based on various theories and concepts that help to understand and manage the effects of branding on customers and other stakeholders. Some of these theories and concepts are brand equity, brand identity, brand positioning, and personality.

2. Brand equity. Brand equity is the value that a brand adds to a product or service beyond its functional benefits [1]. Brand equity is influenced by factors such as brand awareness, brand associations, brand loyalty, and brand quality [14]. Brand equity can enhance customer satisfaction, retention, and advocacy; increase market share and profitability; and reduce marketing costs and risks [15].

3. Brand identity. Brand identity is the set of attributes and values that define the essence and character of a brand [16,17]. Brand identity is expressed through the brand name, logo, slogan, design, and communication style [14]. Brand identity helps to create a consistent and coherent image of the brand across different touchpoints and channels [17].

4. Brand positioning. Brand positioning is the process of creating a unique and favorable perception of a brand in the minds of customers and other stakeholders relative to competing brands [18]. Brand positioning involves identifying the target market, the points of difference, and the points of parity of the brand [19]. Brand positioning helps to communicate the value proposition and competitive advantage of the brand [18].

5. Brand personality. Brand personality is the set of human traits or characteristics that are associated with a brand [15]. Brand personality can be measured by five dimensions: sincerity, excitement, competence, sophistication, and ruggedness [15]. Brand personality helps to create an emotional connection and relationship between the brand and its customers [20].

An example of a successful brand creation is Apple. Apple is a global technology company that offers innovative products and services such as iPhone, iPad, Mac, Apple Watch, AirPods, Apple TV, Apple Music, iCloud, App Store, etc. Apple has created a strong and distinctive brand based on the following elements:

1. Brand equity: Apple has a high level of brand equity due to its high brand awareness, positive brand associations, loyal customer base, and premium product quality. Apple is consistently ranked as one of the most valuable brands in the world by various sources such as Interbrand [8,21].

2. Brand identity: Apple has a clear and consistent brand identity that reflects its core values of innovation, simplicity, design excellence, user-friendliness, and social responsibility. Apple's brand identity is expressed through its iconic logo (a bitten apple), its minimalist design style (white color scheme), its catchy slogan ("Think Different"), and its distinctive communication style (simple yet powerful messages).

3. Brand positioning: Apple has a unique and favorable brand positioning that targets customers who seek cutting-edge technology products that are easy to use, aesthetically pleasing, and socially conscious. Apple's points of difference are its innovation leadership, design elegance, user experience quality, and environmental sustainability. Apple's points of parity are its functionality, reliability, and compatibility.

4. Brand personality: Apple has a strong and appealing brand personality that matches its target customers' self-image and aspirations. Apple's brand personality can be described by the following traits: sincere (honest, trustworthy, friendly), exciting (creative, imaginative, daring), competent (reliable, intelligent, successful), sophisticated (elegant, charming, prestigious), and rugged (tough, strong, durable).

2.2. ESG as a Brand

ESG stands for environmental, social and governance, and it refers to the criteria that measure the sustainability and ethical impact of a company or a product. ESG is not only a set of standards or practices, but also a brand that communicates the values and purpose of a company or a product to its customers and other stakeholders. ESG as a brand has various benefits, such as enhancing the reputation and recognition of a company or a product. It can create a positive association and impression in the minds of customers and other stakeholders who care about global issues such as climate change, human rights, and social justice [8]. ESG as a brand also able to increase the profitability and growth of a company or a product. It can attract and retain more customers and other stakeholders who are willing to pay more for the value that the company or product offers. It can also reduce the marketing costs and risks by creating a strong word-of-mouth effect [8]. Distinguishing a company or a product from its competitors and position it within the marketplace. It can highlight the unique features and benefits of the company or product that make it stand out from the crowd. It can also define the niche and segment that the company or product serves [9]. Building trust and loyalty among customers and other stakeholders. It can show them that the company or product is reliable, consistent, and authentic. It can also show them that the company or product cares about their needs, preferences, and expectations [9].

The history of ESG as a brand goes back to the origins of socially responsible investing (SRI), which emerged in the 1960s as a response to increased environmental degradation and social rights awareness [21]. SRI investors sought to align their investments with their values by avoiding companies that were involved in harmful activities such as tobacco, alcohol, weapons, gambling, or human rights violations [21]. However, SRI was mainly based on negative screening and did not consider the positive impact of companies on environmental, social and governance issues.

The term ESG was first coined in 2005 in a landmark study entitled "Who Cares Wins" by the United Nations Global Compact (UNGC), which argued that incorporating ESG factors into financial analysis and decision making would lead to more sustainable markets and better outcomes for societies [8]. The study was followed by another report by UNGC and UNEP Finance Initiative called "The Freshfield Report", which concluded that ESG issues are relevant for financial valuation and fiduciary duty [8]. These reports laid the foundation for the launch of the Principles for Responsible Investment (PRI) in 2006 by UNGC and UNEP Finance Initiative, which invited investors to commit to six principles that integrate ESG factors into their investment practices.

Since then, ESG as a brand has gained momentum and popularity among investors, companies, regulators, and consumers. According to PRI there are now over 4,000 signatories representing over $120 trillion in assets under management that have adopted the PRI principles. According to Morningstar, there are now over 4,500 sustainable funds globally with over $2 trillion in assets under management [22]. According to Edelman Trust Barometer, there is now an expectation gap between what people expect from companies on ESG issues and what they perceive companies are doing [23].

The research on ESG as a brand has also grown significantly in recent years. There are now various frameworks and standards that help companies measure and report their ESG performance and impact, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD), the International Integrated Reporting Council (IIRC), and the World Economic Forum's Stakeholder Capitalism Metrics (WEF) [24,25]. There are also various ratings and rankings that help investors assess and compare companies' ESG performance and risk, such as MSCI ESG Ratings, Sustainalytics, Refinitiv, ISS, FTSE4Good, and Dow Jones Sustainability Indices [25].

The research on ESG as a brand has also shown that ESG factors have a positive impact on financial performance and risk management. According to a meta-analysis by Friede et al., 90% of the studies on the relationship between ESG and corporate financial performance found a nonnegative correlation, with the majority finding a positive correlation [26]. According to a study by Khan et al., companies with high ratings on material ESG issues have higher future returns than companies with low ratings on the same issues [27]. According to a study by Eccles et al., companies that voluntarily adopted integrated reporting, which combines financial and ESG information, had higher stock prices and lower cost of capital than their peers [28].

1. Psychological Part on Brand Creation. The psychological part of brand creation is based on various theories and concepts from cognitive, emotional, motivational, personality, interpersonal, and group psychology. Some of these theories and concepts are self-determination theory, implicit self-esteem, and social identity theory.

2. Self-determination theory. Self-determination theory is a theory of human motivation that posits that people have three basic psychological needs: autonomy (the need to act with volition and choice), competence (the need to feel effective and capable), and relatedness (the need to feel connected and cared for) [29]. Self-determination theory helps to explain how perceived benefits of brand co-creation tasks can facilitate consumer motivations to participate in brand co-creation campaigns [30].

3. Implicit self-esteem theory. Implicit self-esteem theory is a theory of self-evaluation that posits that people have an unconscious or automatic sense of self-worth that affects their spontaneous responses to stimuli that are related or unrelated to the self [31]. Implicit self-esteem theory helps to explain how brand self-connection can facilitate consumer motivations to participate in brand co-creation campaigns [30].

4. Social identity theory. Social identity theory is a theory of group behavior that posits that people derive part of their self-concept from their membership in social groups and seek to enhance their self-esteem by favoring their own group over other groups [31]. Social identity theory helps to explain how brands can create social identity with social group linking value for customers who share similar values, beliefs, or lifestyles [32].

Creating ESG as identity using psychological approach involves various aspects that aim to understand and influence how customers perceive, feel, and behave toward a company or a product that adopts ESG criteria [33]. These aspects are based on different psychological theories and concepts that explain how people construct and regulate their self-concept in relation to external stimuli, such as brands. By creating ESG as identity using psychological approach, a company or a product can appeal to the customers' self-related motives and needs, such as self-expression, self-enhancement, self-consistency, and self-expansion. This can result in stronger customer loyalty, satisfaction, and advocacy for the ESG identity.

In order to create ESG identity, the corporate need to consider following aspects, such as.

1. Understanding the self-concept of the target customers: Self-concept is the cognitive representation of oneself that consists of various aspects, such as actual self, ideal self, social self, and self-image [34]. Understanding the self-concept of the target customers helps to create ESG as identity that matches or complements their actual or ideal selves, or that signals their social identity or desired image to others [35].

2. Reducing the self-discrepancy of the target customers: Self-discrepancy is the gap between one's actual self and one's ideal or ought selves [36]. Reducing the self-discrepancy of the target customers helps to create ESG as identity that can help them achieve their desired goals or fulfill their obligations [37].

3. Maintaining or restoring the self-consistency of the target customers: Self-consistency is the harmony among one's cognitions, such as beliefs, attitudes, and behaviors [38]. Maintaining or restoring the self-consistency of the target customers helps to create ESG as identity that is congruent with their existing self-concept or that can change their self-concept to match their chosen ESG identity [39].

4. Expanding the self-concept of the target customers: Self-expansion is the inclusion of others in one's sense of self [40]. Expanding the self-concept of the target customers helps to create ESG as identity that incorporates aspects of the ESG identity into their own identity, such as ESG personality, values, or associations [35].

3. Conclusion

ESG as identity is a powerful way to communicate the sustainability and ethical impact of a company or a product to its customers and other stakeholders. By using psychological approach, ESG as identity can be created and managed in a way that aligns with the customers' self-concept and self-related motives and needs. This can enhance the value proposition and competitive advantage of the ESG identity, as well as foster positive customer outcomes, such as loyalty, satisfaction, and advocacy. Therefore, creating ESG as identity using psychological approach is a promising strategy for achieving both business and social goals in the current competitive and complex market.

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