

## Environmental, Social and Governance (ESG) factors and Brand Perception – A Generation Z Perspective

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### Abstract

The Environmental, Social, and Governance (ESG) aspects of a corporation have garnered substantial attention from stakeholders in recent times. The COVID-19 pandemic caused investors and decision-makers to reevaluate their investment methods, which led to the rise in popularity of ESG investing. Demand for ESG disclosures, rankings, and ratings has increased due to the growing interest from stakeholders and Government policy. , Generation Z (Gen Z) is a crucial group for marketers due to their substantial purchasing power and distinctive traits. Gen Z, who make up 40% of the world's consumer population, are the most racially and ethnically diversified generation. To market to them would require understanding their values and preferences. This paper looks impact ESG factors have on the Brand Perception of Gen Z. The study found that Gen Z responds differently to each ESG factor with Environment being the most important. Furthermore, there was a difference in ESG and brand perception with respect to gender.

**Key Words:** Environment, Social and Governance Factors , Brand Perception, Generation Z

### 1. Introduction

Over the last two decades, the interest in sustainable development has been gradually increasing amongst governments, businesses, non-profits and individuals alike. This can be evidenced in the setting of the Millennial Development Goals (MDGs) and its successor the Sustainable Development Goals (SDGs) and their adoption by various governments and corporates. Concepts like corporate sustainability and corporate social responsibility have taken centre stage and have been incorporated into government policy. The latest push of this movement towards building a more sustainable society comes in the form of Environmental, Social and Governance (ESG) disclosures to be made by corporates in addition to their financial disclosures.

The Securities Exchange Board of India has made ESG disclosures mandatory in India through the Business Responsibility and Sustainability Report (BRSR). The top 1000 listed businesses are required by SEBI circular SEBI (2021) to file the BRSR from FY 2022–2023; its subset, BRSR Core, is required for the top 150 listed companies from FY 2023–2024, per SEBI circular SEBI (2023). Nine ESG qualities are represented by the Key Performance Indicators (KPIs) that make up the BRSR Core.

According to (Kupperschmidt, 2000), generation is defined as “an identifiable group (cohorts) that shares birth years, age location, and significant life events at critical developmental stages.” Dimock (2019) labelled generations as the Silent Generation (1928-1945), Baby Boomers (1946 – 1964), Generation X (1965 – 1980), Millennial Generation (1981-1996) and Generation Z (1997 – 2012)

Generations tend to have similar characteristics due to shared experiences. Generation Z (Gen Z) was born in an age where issues like climate change and global warming have shaped their reality. A survey on sustainable practices and their impact

on shopping habits and purchase decisions in 2019 in the United States of America revealed that consumers belonging to Generation Z were most influenced by sustainable retail practices, FIRST INSIGHT (2020).

Generation Z is now entering the workforce and will be the dominant generation present in the workforce for the next two decades. Companies will therefore have to tailor their messaging and processes to better suit the needs of this generation. Little research has looked at whether ESG factors impact the perception of brand image of Generation Z. To fulfil this research gap, the current research looks into the role ESG factors play in creating a positive brand perception.

## 2. Review of Literature

The United Nations Principles of Responsible Investment were published in 2006, which is when the idea of ESG first emerged (Yoon et al., 2018). Although ESG has been around for over ten years in the finance industry, it was Larry Fink of Black Rock, the largest asset management company in the world, who sent an annual letter to CEOs in 2020 that really got people interested in ESG reporting. In his letter, Fink highlighted the need to assess organisations not just on the basis of financial performance but also on their ESG metrics as well, (Fink, 2020). Huber et al. (2017) gives an overview of the most well-known ESG data providers - Thomson Reuters ESG Research Data, MSCI ESG Research, RepRisk, Bloomberg ESG Data Services, DowJones Sustainability Index, Corporate Knights Global 100, Institutional Shareholder Services, and Sustainalytics Company ESG Reports. This is a clear indication that there are many players in this market as there is an increasing demand for ESG related data.

Previous studies have linked ESG factors with brand attributes. The findings of Koh et al. (2022) and Lee & Rhee (2023) showed that Environmental initiatives had no effect on brand loyalty, but social and governance activities positively affected brand attitude and image. Mysakova & Zakharcheva (2023) identified that the environment factor is the most substantial factor influencing the brand value of fuel and energy companies by key stakeholder groups. Puriwat & Tripopsakul (2022) reported that customer's attitude fully mediated the relationship between digital environmental, social and governance (DESG) model and brand equity. Fernandez-Feijoo et al. (2013) finds that it is not just the industry that drives transparency in Corporate Social Responsibility Reporting, rather, it is their stakeholders' pressure from customers, clients and employees, that improves transparency. On the other hand, Aksoy et al. (2022) found that ESG metrics and reporting are not reflected in a customer's perception of an entity's social innovativeness.

According to Turner (2015), Generation Z are digital natives and are socially conscious. Choi et al. (2021); Bassiouni and Hackley (2014) discover how reliant on social media and the internet this generation is. The four elements of the cyclic consumer journey—connect, explore, buy, and use—were established by the Millennial Generation before them in the context of both the physical and digital worlds. Mele et al. (2021) reports that Generation Z continues these trends and that there is almost no distinction between the physical and digital worlds. Nunes et al. (2021) finds that Generation Z, like Millennials, are characterised by their pursuit of authenticity and this weighs heavily on their consumer decisions.

Gomes et al. (2023) reported that if environmental concerns and the prediction of a greener future were issues, Gen Z would probably pay extra for green items. Perceived environmental benefits had a negative impact on respondents' willingness to pay extra, according to the study. In Ewe & Tjiptono (2023), Gen Z's buying intention and willingness to pay more is significantly more towards familiar eco-friendly products as opposed to familiar non-eco-friendly products. Studies like Khurana & Mekuriaw (2021) indicate that the favorable opinion of a brand based on brand activism affected the brand loyalty of female Generation Z customers.

Based on the literature reviewed, the following hypothesis were formulated.

**Hypothesis 1(H1):**            **There is a significant difference among mean rank towards ESG Factors of Brand Perception of Generation Z**

**Hypothesis 2 (H2):**        **There is a significant difference between mean rank of men and women with respect to ESG Factors of Brand Perception of Generation Z**

### 3. Methodology

#### 3.1 Sample and Design

For this study, data was collected from Generation Z participant residing in Bengaluru, India using an online questionnaire. The sample collected contained responses from 355 participants.

The Core Business Responsibility and Sustainability Report (BRSR Core) guidelines published by the Securities Exchange Board of India served as the basis for the questionnaire. The BRSR Core comprise of nine ESG principles which were categorised into Environment, Social and Governance factors respectively. The first group of questions measured brand perception in relation to the Environment factor, the second group measured brand perception in relation to the Social factor and the third group measured brand perception in relation to Corporate Governance factors. The questions were measured on a 5-point Likert Scale. “1- Strongly Disagree, 2 Disagree, 3- Neutral, 4 – Agree and 5 – Strongly Agree.”

#### 3.2 Tool of Analysis

As the data was analysed using non parametric tests. The Friedman Test was used to test Hypothesis 1 and Mann Whitney U test was used for Hypothesis 2.

### 4. Analysis and Interpretation

#### 4.1 Reliability Analysis

Cronbach's Alpha was used to assess the constructs' internal consistency. The constructs' Cronbach's Alpha of 0.795 indicates a satisfactory level of internal consistency (Pallant, 2020).

#### 4.2 Descriptive Analysis

Of the sample, 55.49% were male and 44.51% were female. The descriptive statistics are depicted in Table 1

**Table 1:** Descriptive Statistics

		Mean( $\bar{X}$ )	Median(M)	Std. Deviation
Environmental Factors of Brand Perception	Environment Factor 1	3.75	4	0.907
	Environment Factor 2	3.97	4	0.964
	Environment Factor 3	4.06	4	0.907
	Environment Factor 4	3.96	4	0.971
	Environment Factor 5	3.28	3	1.195
Social Factors of Brand Perception	Social Factor 1	4.15	4	0.989
	Social Factor 2	3.88	4	1.235
	Social Factor 3	3.78	4	0.97
	Social Factor 4	3.91	4	0.93
	Social Factor 5	2.91	3	1.1
Governance Factors of Brand Perception	Governance Factor 1	4.08	4	1.015
	Governance Factor 2	3.32	3	0.833
	Governance Factor 3	3.89	4	1.007
	Governance Factor 4	4	4	0.891

	Governance Factor 5	2.88	3	1.164
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#### 4.3 ESG factors and Brand Perception

H1: There is a significant difference among mean rank towards ESG Factors of Brand Perception of Generation Z

**Table 2: Friedman test for significant difference among mean ranks towards ESG Factors of Brand Perception of Generation Z**

ESG Factors of Brand Perception	Mean Rank	Chi-Square Value	P Value
Environment Factors of Brand Perception	2.19	37.797	<0.001**
Social Factors of Brand Perception	2.05		
Governance Factors of Brand Perception	1.76		

**Note: \*\* Denotes significant at 1% level**

At the 1% level of significance, the null hypothesis is rejected because the P value is less than 0.01. Thus, it can be inferred that there that there is a significant difference among mean rank towards ESG Factors of Brand Perception of Generation Z. Koh et al.(2022) and Lee & Rhee (2023) report that consumers do not have the same positive effect towards brand image and brand attitude with respect to all three ESG Factors. Also, Generation Z grew up in a world where climate change issues have taken centre stage. They are the forefront of climate change action along with Millennials (Tyson, 2021)(Farber, 2020). Furthermore, as a generation, Gen Z is said to be more socially conscious and aware than past generations (Vredenburg & Spry, 2022). This is probably why the Environment and Social Factors rank higher than the Governance Factor.

Based on the mean rank, Environment factor is the most important factor of brand perception (2.19) followed by social factor (2.05) and the Governance factor (1.76).

#### 4.4 Gender and ESG Brand Perception of Generation Z

H2: There is a significant difference between mean rank of men and women with respect to ESG Factors of Brand Perception of Generation Z

**Table 3: Mann Whitney U test for significant difference between mean rank of men and women with respect to ESG Factors of Brand Perception of Generation Z**

ESG Factors of Brand Perception	Gender		Z Value	P Value
	Male	Female		
Environment Factors of Brand Perception	161.6	198.45	-3.379	0.001**
Social Factors of Brand Perception	164.8	194.46	-2.723	0.006**
Governance Factors of Brand Perception	173.19	184	-0.992	0.321
Overall ESG Brand Perception Factor	165.21	193.95	-2.625	0.009**

**Note: \*\* Denotes significant at 1% level**

As the P value is less than 0.01, the null hypothesis is rejected at 1% level of significance with respect to Overall ESG Brand Perception Factor, Environment Factor and Social Factor. This signifies a difference in way in men and women of Generation Z perceive brands with respect to ESG factors. According to Deckman et al. (2020), the perspectives of the sexes on political matters varies. Compared to men, Gen Z women tend to be more politically engaged. Political views range across the sexes, with female Gen Z members typically holding pro-social beliefs and leaning more liberal. Women may care more about others than males do because they are more empathetic. Djafarova & Bowes (2021) reports that Gen Z customers, both male and female, respond differently to social media marketing from firms because they utilise them for different purposes. Women use social media more frequently and do so to keep up with celebrities and fashion. Men on the other hand, use it to get news or sports information. When making purchases, female Gen Z customers usually follow the advice of friends, family, celebrities, and other social media users since they don't trust brands with ulterior motives. Consequently, since men and women use social media for different purposes, marketers must employ different strategies to target each gender. It is clear from past literature gender does play a role in how people perceive the outside world.

It should be noted that with respect to corporate governance, there was no significant difference in the mean ranks of men and women. The previous finding found that corporate governance was the least important in relation to brand perception. This could be a reason for there being no difference between men and women with respect to this factor.

## 5. Conclusion

According to a 2021 Bloomberg report, Generation Z has a projected disposable income of USD 360 billion and this is more than double of an estimate made three years prior. It is clear that companies and marketers alike must take into account the values and preferences of this generation.

From this study it is clear that each ESG factor, though having a positive impact on brand perception, is not equally ranked in the minds of Gen Z. Companies will have to take this into account while positioning themselves and their products. Furthermore, companies will also have to take into consideration gender based differences while building on brand perception.

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