

# ***ESG, Brand Trust and Brand Loyalty***

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**Abstract:** The concept of ESG (Environmental, Social and Governance) has emerged as a key element of firm value. It's an important tool for companies to achieve sustainable development and improve their competitiveness. As a critical driver of sustainable development, companies have the responsibility to manage ESG well. Clarifying the benefits that ESG issues can bring to companies is a good way to encourage them to manage ESG. This paper aims to determine how firms' ESG activities affect brand trust and brand loyalty to evaluate the benefits of firms' ESG activities. Based on a sample of 169 online questionnaire, this study used SPSS to analyze the collected data and had the following results. First, it was discovered that brand trust and brand loyalty are positively impacted by all three ESG dimensions. Additionally, this study's findings showed that brand trust positively mediates the association between brand loyalty and ESG performance. According to the results of this work, firms' ESG practices are not only satisfying the needs of sustainable development but also the needs of the enterprise itself. This study emphasizes the importance of ESG and provides practical implications for firms' ESG activities.

**Keywords:** ESG, brand trust, brand loyalty

## **1. Introduction**

As the conflict between humans and nature intensifies, especially environmental damage from human activities, sustainable development has become an important issue for the world today. Environmental, Social, and Governance (ESG) was initially proposed by the UN Global Compact in 2004, which was a replenishment for sustainable development and has gradually affected financial investment and business operations. As a critical way to achieve the goal of sustainable development, ESG must be taken seriously by companies. Currently, a number of companies have joined ESG ratings but there are still many companies do not pay attention to ESG. Besides, incorporating ESG into the business operations process is a challenge job for companies. Companies need to realize the value of ESG issue as well as theoretical guidance of ESG activities. Existing researches are mostly focus on how ESG affects companies' financial performance, only a few papers have assessed the impact of ESG performance on customers, including customers' attitude and behavior. Thus, this paper intends to explore the relationship between firms' ESG performance, brand trust and brand loyalty. The findings of this study will have major consequences for both theory and practice if it can be proven that firms' ESG performance has a beneficial effect on brand trust or brand loyalty.

## 2. Literature Review

### 2.1. Stakeholder Theory

The term "stakeholders" was initially defined in a straightforward manner by Stanford Research Institute: "Stakeholders are groups without whose support an organization cannot survive." It simply takes into account stakeholders' one-sided impact over businesses. Then, Rhenman put up a more thorough definition, contending that stakeholders need to depend on the company to support them in achieving their own goals and that the firm also depends on them to survive [1]. This point of view emphasized the interdependence between enterprises and stakeholders.

The stakeholder theory framework was developed in the early 1990s with the collaboration of academics like Freeman, Blair, Donaldson, Mitchell, and Clarkson [2-3]. According to existing literatures, there are two kinds of definitions of "stakeholders" in a broad sense and a narrow one [2-3]. Stakeholders in a broad sense refer to the subjects that have mutual influence with enterprises. For instance, shareholders, creditors, employees, customers, governments and social groups. While stakeholders in the narrow sense refer to those who are of great significance to the survival and development of enterprises. Governments and social organizations that are covered by the broad definition of stakeholders are typically excluded from this definition.

### 2.2. ESG

ESG is a set of investment concepts and enterprise evaluation standards different from traditional financial performance which focuses on the sustainable development ability of enterprises. Current studies mainly focus on ESG performance, ESG disclosure and ESG investment, especially the association between firms' ESG activities and corporate finance. A flood of literature has investigated relations between ESG ratings and companies' financial performance, as well as firm value. But the findings of these researches are inconsistent. Some of these researches revealed either a negative or nonsignificant relationship between ESG performance and financial performance or market value [4]. Other studies have discovered a favorable connection [5-6]. Besides, several researchers paid attention to ESG disclosure. Alsayegh et al. have investigated how companies' ESG information disclosure affects EES sustainability performance and found a positive correlation between them [7]. ESG investment is also another topic of ESG research [8]. Schanzenbach and Sitkoff have defined ESG investing in their previous study [9].

However, only a few studies have considered the relationship between companies' ESG ratings and stakeholders. Based on stakeholder theory, a firm's stakeholders include shareholders, creditors, employees, customers and many other subjects. Chen and Xie discovered that ESG investors have a positive moderating effect on the association between ESG ratings and financial performance [10]. Velte asserted that CEO power will favorably moderate the association between ESG activities and companies' financial performance [11]. Studies on customers are limited, especially focusing on the Chinese market [12]. Thus, the goal of this paper is to examine the impact of ESG performance on customer loyalty using a sample of Chinese college students.

### 2.3. Brand, Brand Trust and Brand Loyalty

A brand is not just a mere name, term, sign, symbol, or design, but it is a powerful tool that distinguishes the products or services of one seller or group of sellers from those of their competitors [13]. It represents the essence of a company's identity, values, and reputation. A brand is not just what the company says about itself, but it is also what the consumers believe and feel about the company and its offerings. Consumers form their own opinions on brands, which may be favorable or unfavorable. Positive opinions encourage customers to trust a brand. Customers have faith in the

brand that it will act in their best interest and be dependable, providing a sense of assurance in their relationship [14]. This trust bolsters the connection between consumers and brands. In other words, customer loyalty may rise as a result of brand trust.

Researchers have distinguished the two concepts of brand loyalty and customer loyalty [15]. Since studies on brand loyalty and customer loyalty have used the same multi-dimensional constructs of affective and behavioral approaches, this paper will not distinguish these two concepts.

According to current literature, brand loyalty refers to that consumers repeatedly purchasing the same brand and developing an emotional preference for a specific brand [15-16]. Attitude loyalty and behavior loyalty are the two components of brand loyalty [17]. Attitude loyalty is expressed as a high degree of customer identification and contentment with the concept, behavior, and visual image of the business while behavior loyalty refers to customers' recurring purchases of goods and services when they use them again. Attitude loyalty determines behavioral loyalty, but behavioral loyalty cannot determine attitude loyalty because it is difficult to accurately distinguish whether the repetitive purchase behavior of consumers is out of habit or loyalty. Both attitude and behavior loyalty will be considered in this paper when designing the questionnaire.

Numerous studies have looked into how brand trust and brand loyalty are related. Based on the investigation of consumers from the Beijing Pinduoduo community, Luo found that brand trust brand trust plays a significant mediating role between community e-commerce identity and consumer loyalty [18]. Also, in the investigation of the Turkish hotel industry, Tatar and Eren-Erdoğan found that social media marketing can affect brand loyalty by influence brand trust [19]. Positive efforts of social media marketing such as a clear website and website security can enhance customers' trust by which customers' loyalty can be improved as well. The results of above two studies are in line with many previous researches [20-22].

According to the studies mentioned above, it can be inferred that there exists a link between brand trust and brand loyalty. In addition, brand trust usually plays a mediating role and generally has a positive impact on brand loyalty.

Therefore, the following hypotheses can be developed:

H1: Environmental issues have a positive impact on brand trust.

H2: Social issues have a beneficial impact on brand trust.

H3: Governance issues are beneficial to brand trust.

H4: Brand loyalty is positively impacted by environmental issues.

H5: Brand loyalty is positively influenced by social issues.

H6: Brand loyalty is positively affected by governance issues.

H7: The association between brand loyalty and ESG performance is positively mediated by brand trust.

### 3. Data Analysis

The survey consists of four parts: (1) introduction of this survey and matters needing attention before filling out the questionnaire; (2) one question used to screen usable data; (3) typical information on the behavioral and demographic profiles of respondents, and (4) create measuring items.

In the survey of this study, a question about whether respondents knew about ESG was used to identify valid samples. Respondents who have heard of ESG were selected and their data were used for statistical analysis. A reconstruction of the environmental, social, and governance measurement components was based on the ESG key issues explored by the MSCI ESG Ratings. Two items were used to measure brand trust, and four items were used to measure brand loyalty. The scores for each item in the survey were gathered using a 5-point Likert scale, which ranged from 1 (strongly disagree) to 5 (strongly agree).

SPSS was used to analyze the collected data for this study. Frequency analysis was performed to determine the demographic characteristics of the samples used in this study. Additionally, validity and reliability assessments were conducted to measure the validity and reliability of this survey. Finally, correlation analysis was used to examine the relationship between two different factors.

A reliable analysis technique to evaluate the validity of a questionnaire measuring tool is the Cronbach's alpha coefficient. This coefficient's value ranges from 0 to 1, with higher values indicating higher reliability of the questionnaire. It is generally accepted that a high reliability of the questionnaire is indicated by a Cronbach's alpha coefficient greater than 0.7. The reliability of this questionnaire is presented in Table 1.

Table 1: Reliability assessments for the data.

| Cronbach's Alpha | Number of Items |
|------------------|-----------------|
| 0.993            | 56              |

This survey exhibits internal consistency since Cronbach's alpha was 0.993, which is greater than the reference value (0.7).

The degree to which and whether the results are valid are determined by their validity. With the use of the KMO and Bartlett samples, the validity of the questionnaire in this study is evaluated. The questionnaire validity is improved when the KMO number is nearer 1. Meanwhile, according to the existing studies, it is confirmed that when the KMO value is higher than 0.9, the more valid the questionnaire data is; when the KMO value is between 0.8-0.9, the questionnaire data validity is high; when the KMO value is between 0.6-0.8, the questionnaire data validity is average; and when the KMO value is less than 0.5, the questionnaire does not have validity. The validity of this questionnaire is shown in Table 2.

Table 2: Validity assessments for the data.

|                              |                    |          |
|------------------------------|--------------------|----------|
| KMO                          |                    | 0.941    |
| Bartlett Test of Sophericity | Approx. Chi-Square | 7577.227 |
|                              | df                 | 351      |
|                              | Sig.               | 0.000    |

The questionnaire has good validity and is noteworthy because the value of KMO was 0.941, which was greater than 0.9.

Based on the results of reliability and validity assessments, the questionnaire used in this paper has good reliability and validity, indicating that the empirical analysis based on the data is strongly persuading and that the analysis of the results obtained according to the questionnaire is reliable, real, and in keeping with the actual circumstances.

#### 4. Result

A total of 246 questionnaires were distributed, and 169 were successfully collected, resulting in an effective recovery rate of 68.70%. The profiles of the survey respondents are shown in Table 3. Men made up 39.05% of survey respondents, while women made up 60.95%. The majority of respondents were sophomore (77.51%). 8.88% of them were freshmen, 11.24% were junior and 2.37% were senior.

Table 3: Profiles of survey respondents.

| Variable  | n (=169) | Percentage (%) |
|-----------|----------|----------------|
| Gender    |          |                |
| Male      | 66       | 39.05          |
| Female    | 103      | 60.95          |
| Grade     |          |                |
| Freshman  | 15       | 8.88           |
| Sophomore | 131      | 77.51          |
| Junior    | 19       | 11.24          |
| Senior    | 4        | 2.37           |

In Table 4, correlation was measured using Pearson Correlation Coefficient. The correlation value is between +1 and -1. +1 represents a perfect positive linear correlation, 0 indicates no linear correlation, and -1 denotes a perfect negative linear correlation.

Table 4: Correlation value.

|               | Environmental | Social  | Governance | Brand trust | Brand loyalty |
|---------------|---------------|---------|------------|-------------|---------------|
| Environmental | 1             |         |            |             |               |
| Social        | 0.782**       | 1       |            |             |               |
| Governance    | 0.806**       | 0.895** | 1          |             |               |
| Brand trust   | 0.983**       | 0.860** | 0.852**    | 1           |               |
| Brand loyalty | 0.941**       | 0.742** | 0.807**    | 0.902**     | 1             |

Notes 1: \*  $p < 0.05$  \*\*  $p < 0.01$

Table 4 shows that most ratios were greater than 0.8, indicating a significant positive association between two different variables.

The correlation value between trust and loyalty was 0.902, and the significance level was 0.01, which indicates that there is a significant positive correlation between brand trust and brand loyalty.

The significance level for the correlation between trust and loyalty was 0.01, and the correlation value was 0.902, demonstrating a substantial positive link between the two.

Only social and brand loyalty had a correlation value that was less than 0.8 (0.742), which also indicates a positive correlation.

Table 5 summarizes the verification of the research hypothesis.

Table 5: Results of hypothesis.

| H | Hypothesized Relationship         | Results   |
|---|-----------------------------------|-----------|
| 1 | Environmental → Brand trust       | Supported |
| 2 | Social → Brand trust              | Supported |
| 3 | Governance → Brand trust          | Supported |
| 4 | Environmental → Brand loyalty     | Supported |
| 5 | Social → Brand loyalty            | Supported |
| 6 | Governance → Brand loyalty        | Supported |
| 7 | ESG → Brand trust → Brand loyalty | Supported |

## 5. Discussion

This paper investigated how ESG performance affects brand trust and brand loyalty. ESG performance includes three aspects: environmental, social and governance. This paper discussed the influence of these three aspects on brand trust and loyalty respectively, as well as the influence of brand trust on brand loyalty. The following is a description and discussion of the findings.

First, all three aspects of ESG contribute positively to brand trust. This is due to that they convey to consumers that a company is not only concerned about its own profits, but also about the welfare of its employees, the environment, and the communities it operates in. Therefore, consumers are more likely to trust a brand that demonstrates a genuine commitment to ESG issues, as it suggests that the company is responsible and ethical. Among these three dimensions, Environmental issues have the greatest power. Thanks to the increasing focus on environmental protection, customers are also influenced and unconsciously pay attention to the brand's environmental activities. Companies' environmental efforts are easier to be publicized and visible by their customers.

Second, brand loyalty is positively affected by all three aspects of ESG. In contrast, the influence of social issues on brand loyalty is weaker than other two dimensions. This result may be due to that customers do not care about companies' social issues or companies' social efforts are difficult to be noticed by customers.

Third, Brand loyalty was discovered to benefit from brand trust. When customers trust the brand, they are more willing to keep an eye on this brand and repurchase its products. This result was consistent with previous studies [20-22]. This suggests that companies that want to have loyal customers must gain their trust first. The relationship between firms and customers is very important.

## 6. Conclusion

This study investigated how brand trust and loyalty are impacted by companies' ESG performance as well as the connection between the two. According to the results of this work, improvements of ESG issues increase customers' trust to the brand and enhance customers' willingness to sustain consumption and behavior (brand loyalty). The findings provide a strong reference and guidance for companies' development. Companies should pay more attention to their ESG performance, such as focusing on brand building and improving product quality, in order to win more customers' trust and loyalty, realizing long-term sustainable development. This paper aims to make more individuals and organizations aware of the importance of ESG issues as well as inspire them to get involved in sustainable development.

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