Rebuilding Reputation Through New Product Introductions Following Environmental, Social, and Governance Penalties

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Abstract

Firms are often penalized for their violations of environmental, social and governance (ESG) regulations, thus incurring negative reputational consequences. Building on a reputation management perspective, we examine the extent to which firms seek to mitigate these negative consequences introducing new products. We argue that firms' abilities and incentives to alleviate potentially negative reputational effects from the penalties with new product introductions (NPIs) are shaped by (1) firm factors, such as marketing department power and myopic marketing behavior, and (2) market forces, namely market concentration and competitors' product similarity. A longitudinal analysis of 343 high-tech firms publicly traded in the U.S. from 2001 to 2019, indicates that ESG penalties increase next year's NPIs. Myopic marketing spending reduces firms' ability to respond to ESG penalties through NPIs, whereas strong marketing department power lowers their incentives to do so. In contrast, firms operating in concentrated markets and facing high product similarity among competitors have stronger incentives to introduce new products.

Track: Innovation Management & New Product Development