ESG Practices and Sustainable New Product Launch

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Abstract

There is a growing expectation for firms to actively contribute to environmental, social, and governance (ESG) goals. Hence, firms with poor ESG practices oftentimes experience downward revisions of earning forecasts and lower firm valuation, suggesting that the stock market anticipates negative consumer reactions to deteriorating ESG practices. In this study, the authors study whether and how adjust their product market strategy in response to poor ESG practices, and find that firms with poorer ESG practices tend to introduce a larger share of new products labeled with sustainability claims—that is, sustainable new products; yet these claims may be made without any meaningful improvement in their underlying ESG practices. The authors use these findings to help stakeholders better understand firm behaviors in response to ESG pressures.

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