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ESG: THE NEW CURRENCY OF BRAND VALUE

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Purpose: This study aims to assess the impact of ESG (Environmental, Social and Governance) performance on the determination of brand value, considering both its aggregate influence and the effects of its individual subdimensions.
Design/methodology/approach: The hypothesis that environmental, social, and governance practices enhance brand value is tested. The study uses regression and correlation analyses to evaluate the relationship between Brandfinance Global 500 brand values, S&P Global ESG scores, financial variables, and enterprise value over the period 2013-2023.
Findings: The results of multiple regression analyses indicate that assets and enterprise value positively influence brand value, while, contrary to expectations, the overall ESG score exerts a negative effect. The analysis of ESG subdimensions reveals varying impacts: the environmental dimension positively correlates with brand value, the governance dimension exhibits a negative relationship, and the social dimension shows no statistically significant relationship.
Practical implications: The findings emphasize the need for a more nuanced and critical approach to ESG evaluation. Stakeholders should focus on the quality and authenticity of ESG practices, rather than simply relying on aggregate scores. This research encourages a shift towards a more sustainable and responsible business environment.
Social implications: he research highlights the disconnect between perceived ESG performance and actual brand value, raising concerns about the authenticity and effectiveness of current ESG practices. This has far-reaching social implications, impacting investor behavior, corporate governance, consumer expectations, and regulatory policies.
Originality/value: This study is expected to add to the scarce research that examines the connection between brand value and ESG performance. By elucidating the relationships within the brand value-firm value-ESG score framework, the findings are expected to significantly influence the strategic decisions of corporate, brand and financial managers.
Keywords: ESG, performance, brand value.
Category of the paper: Research paper.

1. Introduction

A brand, defined as a symbol that differentiates or defines the product or service (Kotler, 2000), adds value to the company in many ways. Brand value is a concept that refers to the additional value that a brand gives to a product or service. The value added to companies can be considered from many perspectives. A strong brand gives a company a competitive advantage (Gupta et al., 2020; Melo, Galan, 2011, p. 424), making it harder for new players to enter the market. A strong brand helps to find cheaper and more continuous resources (Michell et al., 2001,p. 416), reduce risk, attract investors' attention (Rahman et al., 2023, p. 329), and increase customer loyalty (Dam, Dam, 2021, p. 586). In this way, we are expected to reach the same conclusions, even with different mechanisms. Companies with strong brands and with high growth potential are believed to be able to significantly increase firm value in the future (Kumar et al., 2021, p. 2; Kirk, 2013, p. 488; Yeung, Ramasamy, 2008, p. 331). According to traditional shareholder theory, which advocates that shareholders' interest should be the primary priority (Friedman, 1970), the focus should be on the value created by the brand and the benefits to shareholders. This theory is increasingly being challenged in the face of sustainability and ESG strategies that are beginning to play an increasingly important role in economics.

It is known that brands contribute to shareholder value even if they do not appear on company balance sheets. Brand value consists of tangible components, such as benefits resulting from physical features, as well as intangible and difficult-to-measure components, such as brand associations and consumer perceptions (Kamakura, Russell, 1993, p. 19; Kirk, 2013, p. 488). Brand value, represented as market-based assets, has traditionally been the basis for long-term, sustainable customer value. By creating brand value, firms contribute to the value-generating capacity of their physical assets and benefit from developing their organisational networks (Tiwari, 2010, p. 423; Srivastava et al., 1998, p. 6). In this manner, the brand value aims to increase shareholder value with a customer-focused approach such as increasing customer loyalty, decreasing flexibility against price increases, and increasing trade partnerships and licencing opportunities (Keller, 1997). Today, brand value is viewed not only in terms of shareholder value, but also from the perspective of "stakeholder theory", which considers the interests of all stakeholders (shareholders, customers, suppliers, investors, and the state). Researchers who support this theory state, contrary to the idea that firm value is only related to shareholder value, that a firm should create value for all stakeholders. Stakeholder theory argues that the firm is obligated to the members of its network (legally, contractually, and morally) (Jones, 2005, p. 12). This approach aims to manage and integrate the relationships and interests of shareholders, employees, customers, suppliers, communities, and other groups in a way that will ensure the long-term success of the company (Freeman, 1984; Freeman, McVea, 2001). To increase the brand value that will create firm value, it is important to make strategic decisions by making an evaluation based on the trade-off between shareholder and stakeholder theories.

Although the goal of increasing brand value seems easily achievable, it requires a difficult process to evaluate due to the abstract components of the brand concept. For the evaluation to be sound, the brand value must be assessed. However, measuring brand value is a complex process that requires various methods. There is no single universal indicator that will provide a definitive determination of brand value. The most commonly used methods are market research, measuring brand awareness, customer preferences, loyalty, understanding the emotional connection between customers and the brand, and neuromarketing research on analysing the brain's response to brand-related stimuli (Bong Na et al., 1999, p. 170; Pina, Dias, 2021, p. 106; Gurgu et al., 2020, p. 212). Financial methods developed to evaluate brand value can be listed as the replacement cost method (estimating the cost of rebuilding the brand from scratch), the residual income method (calculating the brand value according to the additional income generated by the brand) and the real options method (estimating the cash flows that the brand will create in the future) (Salinas, Ambler, 2009, p. 45; Bagna et al., 2017, p. 5866; Winzar, 2017, p. 642; Trigeorgis et al., 2021, p. 523). ESG scores, which affect the firm value by making an assessment of the company in terms of environmental, social, and governance during the determination of brand value, are thought to be important. There are many studies that indicate that ESG disclosures change the value of the firm positively or negatively. Researchers who think that ESG will positively affect company value argue that with a high ESG score, consumer loyalty will increase, risk perception will decrease, capital costs will decrease with increased credibility, and financial performance will increase (Chen et al., 2023, p. 11; Velte, 2017, p. 170; Zhou et al., 2022, p. 3376; Chelawat, Trivedi, 2016, p. 195; Aydogmus et al., 2022, p. 120; Alareeni, Hamdan, 2020, p. 1409; Puriwat, Tripopsakul, 2023, p. 2). However, researchers who state that there is no statistically significant correlation or negative correlation between ESG and company value evaluate the situation with shareholder theory. They argue that activities that distance the priority of shareholder value will reduce efficiency and increase costs, negatively affecting the company value (Mikołajek-Gocejna, 2024, p. 144; Behl et al., 2022, p. 245; Saygili et al., 2022, p. 527; Han et al., 2016, p. 61; Kim, 2018, p. 1097; Duque-Grisales, Aquilera-Caracuel, 2021, p. 326). Research that examines the brand value effects of ESG on a global scale differs from the literature at this point. The relationship with brand value is a relatively new field of study. This research aims to contribute to the topic of the newly formed literature.

In the research, the impact of ESG activities on brand value was addressed together with environmental, social and governance dimensions, and its subdimensions were examined separately. In this way, the impact of possibility that the ESG on brand value may differ holistically and specifically for its components was not ignored. With the help of a large data set, this research article evaluates the relationship between brand value and ESG, which has an important place in company valuation, and aims to provide practical recommendations to researchers and companies.

The paper is organised as follows. Literature studies are examined in Section 1. The theoretical background is presented in Section 2. The research methodology is stated in Section 3. The findings of the research are presented in Section 4. The discussion of the research is presented in Section 5. The conclusions of the research and recommendations for companies and researchers are shown in Section 6.

2. Literature

The relationship between ESG rating and company value is complex and has been the subject of numerous scientific studies, the results of which are not always unambiguous. However, there are not many studies that focus on the impact of ESG disclosure on brand value, especially from a financial perspective. The issue of how transparency in ESG reporting, especially including environmental, social, and governance issues, affects the brand value of companies, still needs to be explained. The main topic addressed in the articles is how ESG rankings translate into company value, including brand value. Some researchers indicate a positive impact of good ESG results on company value, while others argue that this correlation is statistically insignificant or even negative. Factors that may affect this relationship, such as industry, geography, and time, have also been examined. Many articles emphasise the importance of considering different dimensions of ESG, not just the overall ranking, as these can have different effects on company value. They also state that more research is needed to better understand this complex relationship.

The vast majority of studies in the literature point to the positive impact of ESG on brand value. A study conducted by Alcaide González et al. (2020) indicates a positive relationship between companies' transparency in CSR reporting and the credit rating awarded by rating agencies, especially Moody's. This means that companies that clearly and transparently report on their ESG activities are perceived as more credible and solvent. Cowan and Guzman (2020) argue that positive CSR signals increase brand value, especially for companies from countries with an average level of sustainability reputation (COSR). Agus Harjoto and Salas (2017) found that a company's strategic (proactive) approach to stakeholder management, through strong CSR, is positively related to the level of brand value. Ajour El Zein et al. (2020) found that ESG factors are crucial for stakeholders because they increase brand value, increasing the competitive advantage of branded companies over generic ones. Loh and Tan (2020) presented findings that support stakeholder theory. Despite the positive correlation between sustainability reporting and brand value, the study shows that one fifth of 100 leading brands in Singapore do not participate in sustainability practices. The researchers emphasised that investor decisions may be negatively affected if brand managers and sustainability practitioners do not meet stakeholder expectations. Kim et al. (2021) argue that ESG initiatives confer a competitive advantage to companies. Specifically, environmental ESG activities enhance corporate image and brand reputation, thereby contributing to competitive advantage. Furthermore, practices that emphasise strong employee relations and diversity are linked to improved business performance and increased brand value. However, it was found that corporate involvement in product quality initiatives does not have a strong connection to brand value.

On the contrary, some authors in the literature argue that ESG has no clear correlation with, or may even negatively impact, brand value. Yang and Basile (2019) demonstrated that diversity and governance-related corporate social responsibility (CSR) positively influence brand equity, while employee-related CSR has a negative impact. Their findings were based on a panel data set of 78 firms that span the period 2000 to 2014. Flores-Hernández et al. (2020) found no direct relationship between CSR and the creation of sustainable financial value in Peru, a developing economy. They noted that the link between CSR and firm value can only be established through the enhancement of brand value, particularly in terms of corporate reputation and brand image. Similarly, Zampone et al. (2021) found no significant link between CSR and governance disclosure. The research indicated that brand value is shaped by several company-specific factors, such as size, market performance, financial performance, and financial leverage. Pope and Kim (2021) highlight the methodological diversity between different organisations and question the accuracy of ESG ratings, pointing out that some ratings may favour companies with substantial resources or those aware of the ranking process, potentially leading to biased results.

Although numerous studies explore the relationship between brand equity, the value of a brand from the consumer’s perspective, and Governance) factors, research examining the connection between ESG and brand value, which focusses on the brand’s financial worth, remains scarce. This study aims to fill that gap and contribute to the existing literature.

The theoretical basis of this study, which comprehensively explains the relationship between ESG and brand value, is shaped by the theoretical foundations of the relationship between ESG and firm value. The relationship between ESG and brand value can be understood through two theoretical lenses.

Shareholder Primacy Theory approach is based on the theory that the company is responsible only to its shareholders and that the company will gain value only by increasing shareholder interest. The company does not have any social responsibility in terms of environmental, social, and governance (Friedman, 1970). Therefore, it is argued that ESG scores, which show that companies fulfil their social responsibilities, will not positively affect firm value and brand value. On the contrary, the agency cost (Jensen, Meckling, 1976) that will occur as a result of the disagreement between the company's shareholders and managers will negatively affect the value of the company.

This approach suggests that when companies incur unnecessary costs to achieve high ESG scores, costs that do not enhance shareholder value, it can have a negative impact on the firm's overall value. Investors may view such spending as a sign of poor management, leading to an increased perception of risk associated with the firm. Additionally, efforts to adhere to stringent ESG regulations can reduce the firm's flexibility, limiting its ability to respond swiftly in a crisis. This loss of efficiency could, in turn, harm financial performance indicators. This theory can also be applied to the relationship between brand value and ESG. The perceived loss of flexibility, the increased risk in the eyes of investors, and the decline in financial performance due to an ineffective financial strategy can negatively impact brand value. According to the agency cost theory, neglecting the interests of shareholders in favour of other concerns can ultimately reduce the firm's brand value (Barnea, Rubin, 2010).

Stakeholder theory posits a positive relationship between ESG performance and firm value. According to this view, ESG scores reflect a management approach that considers the interests of all stakeholders (Freeman, 1984) by addressing environmental, social, and governance dimensions within corporate governance. Stakeholder theory emphasises the importance of ESG scores in accounting for the various sensitivities of different stakeholder groups in various dimensions. ESG scores influence stakeholders' perceptions, commitments, risk assessments, portfolio choices, financial performance expectations, and ultimately their expectations of the brand value. Even when stakeholders lack a strong social responsibility orientation, they can still factor ESG scores into their assessment of the company's value, anticipating that high ESG performance will improve the firm's overall worth.

ESG ratings will provide an accurate idea about the company's environmental, social and governance stakeholder evaluation (Signori et al., 2021, p. 2). This approach can examine the relationship between ESG scores and brand value from different points of view. It is thought that ESG scores will attract the attention of investors, increase consumers' loyalty to the brand, change risk perceptions positively, increase price flexibility, reduce resource costs, expand the reliability of companies, positively affect their financial performance, and, with the effect of all these, increase brand value.

The basic hypothesis is formulated within the context of this theoretical framework to examine the relationship between ESG and brand value.

H1. ESG has a positive impact on brand value

Pro-ecological activities have an increasing impact on brand value, and this trend is expected to intensify in the future. Consumers are increasingly aware of the impact of their choices on the environment and prefer brands that share their values and take action to protect the environment. Proecological activities create a trust relationship between the brand and the consumer (Nugroho et al., 2024, p. 19; Duan et al., 2023, p. 6). A company with a high ESG score is considered a sign that it is socially responsible and cares about future generations. In this era of saturated markets, where differentiation is important to gain competitive advantage, features that increase emotional benefit have become important (Barrena, Sanchez, 2009, p. 1001). Proecological activities increase emotional benefits, allowing us to stand out from the competition and create a unique position in the market. Brands perceived as environmentally friendly are more attractive to investors, business partners, and employees. Pro-ecological activities can help reduce the risk associated with climate change, legal regulations, and social expectations. Within the framework of the management approach compatible with stakeholders in stakeholder theory, brand strategies aimed at reducing these risks can be achieved by interacting with customers (Khan et al., 2023, p. 204).

It is known that customers who care about environmentally friendly values are more loyal to brands that care about them (Puriwat, Tripopsakul, 2023, p. 2; Gamlath, 2020, p. 3). In addition, it is expected that pro-ecological activities generally lead to process optimisation and cost reduction, thus translating into better financial results (Henisz et al., 2019, p. 3; Chen et al., 2023, p. 2). Although studies generally find results consistent with stakeholder theory, some researchers have reached results that support shareholder primacy theory. Accordingly, some researchers emphasise that such activities are an additional expense that reduces the profitability of the business. Contrary to shareholder primacy theory that suggests that such activities are an additional expense that reduces profitability for the business, according to the Porter hypothesis, strict environmental regulations encourage companies to innovate in technology or management, thus providing cost reductions in the future (Saini et al., 2023, p. 666). Although studies generally find results consistent with the stakeholder theory, some researchers have reached results that support shareholder primacy theory. Accordingly, some researchers emphasize that such activities are an additional expense that reduces the profitability for the business.

Specific examples of pro-ecological activities that have a positive impact on brand value include reducing carbon footprint by reducing greenhouse gas emissions, using renewable energy. Ecofriendly packaging is related to using biodegradable materials, reducing the amount of plastic. Sustainable production using recycled raw materials aims to minimise waste and support environmental protection initiatives, and promote a sustainable lifestyle. To sum up, pro-ecological activities are an investment in the future of the brand. They help build a positive image, increase customer loyalty, and attract new customers. In the long term, they can bring significant financial and nonfinancial benefits. Based on these arguments, the following hypothesis is proposed to evaluate the relationship between the environmental dimension of ESG and the value of the brand.

H2. Environmental ESG has a positive impact on brand value

A similar explanation can be provided for the social component of ESG, which indicates the company's social activities. It is argued that high ESG ratings, which are considered an indicator of the company's fulfilment of its social responsibilities, positively affect firm value following the stakeholder theory (Fatemi et al., 2018, p. 48; Becchetti et al., 2022: Uyar et al., 2022, p. 7). Some researchers have argued that investors who do not attach enough attention to social activities (Abdi et al., 2020, p. 17; Bakri et al., 2022, p. 219) negatively affect firm value because they perceive them only as a cost element. The effects of these two approaches on brand value will also be evaluated. The approach that suggests that a company's social activities positively affect brand value attributes this to not only financial but also non-financial value increase. Consequently, when a company engages in activities for society, the environment or other important causes, it creates a strong and positive reputation (Melinda, Wardhani, 2020; Uyar et al., 2022, p. 2). This results in many benefits. Consumers increasingly prefer products and services from companies that act responsibly. They feel connected to such brands and become more loyal (Nugroho et al., 2024, p. 2; Puriwat, Tripopsakul, 2023, p. 2). Social activities help create a positive image of the company (Koh et al., 2022, p. 2), which is associated with values such as responsibility, honesty, and caring for others. Customers who appreciate social values are more likely to try the products or services of a company that participates in social activities. Employees who work in a company that is involved in society feel more satisfied and motivated. This means greater productivity and loyalty to the company (Henisz et al., 2019, p. 6; Tunio et al., 2021, p. 10664). Investors are increasingly paying attention to the social and environmental aspects of company operations. Companies that operate in a socially responsible manner are perceived as more attractive investments. Investor interest in ESG investing can be explained by the fact that ethical investment practices are actively promoted and improve portfolio performance, increase returns, and reduce portfolio risk (Broadstock et al., 2021, p. 2). Socially responsible activities can help minimise the risk associated with negative events such as scandals or image crises.

Specific examples of socially responsible activities include supporting local communities: e.g. organising volunteering, sponsoring local events, protecting the environment: e.g. reducing carbon footprint, using environmentally friendly packaging, supporting education: e.g. funding scholarships, running training programmes, equality and diversity: e.g. promoting gender equality, creating an inclusive work environment. Prosocial activities, which many researchers view as an investment in a company's long-term success, help build a strong brand that is valued by customers, employees, and investors. The following hypothesis is proposed to evaluate the relationship between the social dimension of ESG and brand value.

H3. Social ESG has a positive impact on brand value

The governance dimension of ESG indicates whether companies implement good corporate governance elements. At this point, while examining the governance dimension, which is generally observed to have a more positive effect on company value compared to other dimensions, several possible reasons for this effect have been considered. The implementation of high governance standards is attributed to legal frameworks and regulatory oversight and monitoring by national and international institutions (Holder-Webb et al., 2008, p. 19). Unlike environmental and social dimensions, which are voluntary and often difficult to verify, the mandatory nature of governance regulations increases the positive perception of this dimension among stakeholders (Fatemi et al., 2018, p. 57).

Corporate governance is designed to protect the interests of shareholders (Tang, 2022, p. 2), but in some cases it can have a negative effect on the value of the brand. This effect needs to be considered in terms of the dimensions of shareholder primacy and agency cost theories. The lack of board independence is one of the reasons, and if board members are aligned with management or have their own interests, they may not act in the best interests of the company. This can lead to decisions that damage the reputation of the company and reduce its value. Conflicts of interest are another issue. When board members have their own interests that may conflict with the interests of the company, this can lead to decisions that benefit themselves rather than the company (Espinosa-Méndez et al., 2023, p. 2). In addition, the competence, independence, and qualifications of the board of directors (Arayssi et al., 2019, p. 137) are also important in this conflict of interest. If board members do not have the necessary competence, they cannot effectively oversee the company's operations. This can lead to bad decisions and financial losses. An excessive focus on short-term results is a problem in management today. If the board of directors focusses only on short-term financial results, this can lead to decisions that will harm the long-term value of the company (Nekhili et al., 2021, p. 3061). Lack of transparency in the activities of the audit board can raise doubts about the honesty and integrity of the company's management. Overly complicated procedures and excessive bureaucracy in the audit board can slow down the decision-making process and reduce the company's efficiency. If the audit board fails to detect or prevent a corporate scandal, it can seriously damage the company's reputation and reduce its value (Arif et al., 2021, p. 500).

The consequences of the negative impact of corporate governance on brand value can be problematic. Investors lose confidence in companies with inconsistent ESG performance and weak corporate governance (Uyar et al., 2022, p. 2). This can lead to a decrease in the value of their stocks and difficulties in raising capital. Companies with corporate governance problems may have difficulty attracting and retaining customers, may be held legally liable, and may have difficulty retaining employees (Karwowski, Raulinajtys-Grzybek, 2021, p. 1279; Liu, Nemoto, 2021, p. 21). In short, corporate governance plays an important role in shaping brand value. Weak corporate governance can lead to the loss of trust from investors, customers, and employees, and can lead to serious financial and legal problems. That is why it is so important for companies to have strong, independent boards of directors. Based on these arguments, the following hypothesis is proposed to evaluate the relationship between the governance dimension of ESG and the value of the brand.

H4. Governance ESG has a positive impact on brand value

Based on the literature review, four hypotheses were formulated, which will be verified in the following sections.

3. Data and Methods

The relationship between ESG ratings and is brand value is complex and not easily understood. To accurately explain this relationship, the research's theoretical framework was developed to address ESG in a holistic manner, encompassing its subdimensions (environmental, social and governance). The econometric model was subsequently designed to align with this framework.

To explore the relationship between brand value and ESG disclosure, the analysis uses two distinct sources. The primary source is the S&P Global ESG Scores database, which assesses companies on sustainability-related factors, such as availability, quality, relevance, and performance, on a scale of 0-100. This database, designed to evaluate ESG risks, opportunities and impacts, is compiled using company disclosures, media and stakeholder analysis, modelling approaches, and the S&P Global Corporate Sustainability Assessment (CSA).

S&P Global ESG scoring provides a quantitative assessment of a company's sustainability performance, derived primarily from their Corporate Sustainability Assessment (CSA). This scoring system evaluates companies across a spectrum of environmental, social, and governance criteria, utilizing a double materiality approach to capture both the company's impact on the world and the impact of ESG factors on its financial health. Scores are presented on a scale of 0 to 100, reflecting how well a company manages its ESG risks and opportunities relative to its industry peers.

For the brand value analysis, the Brandfinance database was used as our second source. Specifically, data from the Brandfinance Global 500 (https://www.spglobal.com/…) brand ranking was utilised for the years 2013-2023. Brandfinance, which evaluates 6000 brands across 31 sectors in 41 countries annually, aims to establish a connection between brand value and financial value. This objective aligns with the research question of examining the significance of ESG in the global firm-brand value relationship. The latest data from the Brandfinance Global 500 brand ranking was obtained with special permission after discussions with Brandfinance representatives. It was necessary to match brands with their corresponding companies to analyse these brand values alongside S&P Global ESG scores and other company variables. For this purpose, brand websites, corporate websites, and Google searches were used to identify brand owners.

The analysis sample, which was created using the S&P Global and Brandfinance databases, was reduced due to missing data. Our final sample contains data from 307 firms, which leads to 3377 firm-year observations.

Following the approach of similar studies that investigate the relationship between brand value and ESG performance (Alcaide González et al., 2020; Cowan, Guzman, 2020; Agus Harjoto, Salas, 2017; Kim, Wang, 2021; Flores-Hernández et al., 2020; Zampone, 2021; Pope, Kim, 2021), the brand value was designated as the dependent variable. The brand value data was sourced from Brandfinance's Global 500 reports, which are determined using the royalty relief method. The 2023 report, representing the most recent data prepared for the Global 500, served as the basis for selecting the brands included in the analysis. Brandfinance calculates the brand value using the royalty relief method, which estimates the amount consumers are willing to pay for a brand. Research based on market value figures enhances the realism of brand valuation.

It is important to note that, despite extensive literature on their differences (Tiwari, 2010; Raggio, Leone, 2009), brand value and brand equity are not entirely distinct concepts. Brand value inherently includes brand equity, which reflects consumers' perceptions of the brand. Therefore, in cases where the true market value cannot be directly ascertained, brand strength, taking into account brand equity, and estimated brand-specific revenues, derived from historical revenue trends, equity analyst estimates, and economic growth rates, are utilised to calculate brand value.

To investigate the relationship between ESG and brand value, the central focus of this study, ESG scores were selected as the primary explanatory variable, with data obtained from S&P Global. Four distinct regression analyses were conducted to assess the impact of ESG both in aggregate and through its individual subdimensions. This approach aims to offer detailed strategic recommendations by separately evaluating the environmental, social, and governance components.

This study is different from previous research by incorporating enterprise value, return on assets (ROA), and total assets as control variables. Enterprise value data, derived from BrandFinance, is used to represent the comprehensive valuation of a company, which differs fundamentally from brand value. For example, in the case of Meta, the enterprise value reflects the total valuation of the Meta corporation, while the values associated with Facebook or Instagram represent their respective brand values (Brandfinance Report, 2023, 2024). It is commonly observed that companies pursuing sector dominance through mergers and acquisitions typically manage multiple brands (Warf, 2003, p. 332). The value of each of these brands does not equate to the enterprise value; similarly, the enterprise value of Meta is distinct from the individual brand values of Facebook or Instagram. Additionally, the analysis incorporates the return on assets (ROA), a widely recognised profitability metric in the literature, and asset size, an indicator of the company scale, as control variables.

The aim of multiple regression is to quantify the relationships between many independent (explanatory) variables and the dependent (criterion, explained) variable. The classic linear regression model with many independent variables (so-called multiple regression) is defined by the equation:

$$Y = b_0 + b_1 x_1 + b_2 x_2 + \ldots + b_k x_k + \varepsilon, \quad (1)$$

where:

x_i – empirical values of the independent variable X,

b_i – model parameters (partial regression coefficients) describing the influence of i – this variable,

ε – random component (S_e).

Model verification involves checking whether the model assumptions are met:

- significance of linear regression,
- significance of partial regression coefficients,
- lack of multicollinearity (redundancy) between independent variables,
- assumption of homoscedasticity, which means that the variance of the random component is the same for all observations,
- no autocorrelation of residuals,
- normality of the distribution of residuals,
- the random component (residues i) has an expected value equal to 0 with a period.

Table 1 presents the descriptive statistics characterizing the studied population of companies.

Table 1.
Descriptive Statistics

Variable	Average	Mediana	S.D.	Minimum	Maksimum
BV – Brand Value	13 300 000	7 630 000	197 000 000	899	355 000 000
EV – Enterprise Value	79 300 000	4 640 000	126 000 000	12 700 000	2 300 000 000
ESG Score	54,5	53,0	19,9	2,00	95,0
E- Ecology Score	57,1	59,0	24,0	2,00	100,
S – Social Score	50,8	49,0	21,5	2,00	97,0
G – Governance Score	55,9	55,0	18,9	3,00	97,0
ROA – Return on Assets	3.14%	2.06%	22.1%	-9.28%	42.0%
A – Assets	274 000 000	700 000 000	577 000 000	0,0560	5 740 000 000

Source: own study.

The descriptive statistics reveal a highly diverse sample of companies, characterized by significant variations in size, valuation, profitability, and ESG performance. Brand value, enterprise value, and likely assets demonstrate right-skewed distributions, indicating the presence of a few exceptionally large entities that significantly influence the mean. This is further supported by the substantial standard deviations observed across these variables. ESG scores, along with their environmental, social, and governance components, exhibit moderate variability and relatively symmetrical distributions, reflecting a broad range of sustainability practices. Notably, return on assets (ROA) displays considerable dispersion, suggesting substantial differences in profitability among the companies. A data anomaly was observed with the average and median asset values likely being switched. Overall, the data underscores the heterogeneous nature of the sample, highlighting the need for analyses that account for these variations.

4. Results

The results of the correlation analysis between the brand value and its explanatory variables are presented in Table 2.

Table 2.
Brand Value and its Explanatory Variables Correlation Analysis

BV	EV	ESG	E	S	G	ROA	A
Correlation	**0,8056**	**-0,0559**	0,0147	**-0,0540**	**-0,1064**	0,0118	**0,1604**
p-value	**0,0000**	**0,0010**	0,3858	**0,0015**	**0,0000**	0,4203	**0,0000**

Source: own study.

Brand value is significantly and positively correlated with the value of the company and its assets. The correlation with ESG factors, including social and corporate governance components, is significantly negative. The correlation with enterprise value is very strong, indicating that brand value is an important factor in valuation.

First, the parameters of the heteroskedasticity-corrected regression model were estimated, in which the company's BV was explained, in addition to control variables such as company value, asset size and their profitability, also by assessing ESG activities. The estimation results are presented in Table 3.

Table 3.
OLS model heteroskedasticity corrected with BV as a descriptive variable and ESG (n = 3377)

	Coefficient	Std. Error	t-ratio	p-value	
Const	3,11587	0,127395	24,46	<0,0001	***
l_EV	0,563354	0,0104313	54,01	<0,0001	***
ROA	−0,306031	0,175295	−1,746	0,0809	*
l_ESG	−0,0308523	0,0162346	−1,900	0,0575	*
Sum squared resid	10420,68	S.E. of regression	1,757680		
R-squared	0,465023	Adjusted R-squared	0,464547		
F(2, 89)	977,3152	P-value(F)	0,000000		

Source: own study.

The estimation results presented in Table 3 show a significant and positive impact of the enterprise value and the return on assets on the value of the brand. The ESG score has a negative Impact in global terms, which means that this activity does not build brand value.

In the next step, it was checked how the brand value is affected by the company's social activity, and the results are presented in Table 4.

Table 4.
The heteroskedasticity of the OLS model corrected with BV as a descriptive variable and S (n = 3387)

	Coefficient	Std. Error	t-ratio	p-value	
Const	3,01089	0,123954	24,29	<0,0001	***
l_EV	0,566498	0,0104264	54,33	<0,0001	***
ROA	−0,271025	0,178393	−1,519	0,1288	
l_S	−0,0132006	0,0153665	−0,8591	0,3904	
Sum squared resid	10545,14	S.E. of regression	1,765530		
R-squared	0,466984	Adjusted R-squared	0,466511		
F(2, 89)	987,9659	P-value(F)	0,000000		

Source: own study.

The social activity of the companies does not have a significant impact on the value of the brand, as shown by the results of the study presented in Table 4. This is a surprising result in the context of the activity of companies in this area.

The impact of ecological activities on the value of the brand was examined, and the results are presented in Table 5.

Table 5.
OLS model heteroskedasticity corrected with BV as a descriptive variable and E (n = 3387)

	Coefficient	Std. Error	t-ratio	p-value	
Const	2,86369	0,121627	23,54	<0,0001	***
l_EV	0,560950	0,0103165	54,37	<0,0001	***
ROA	−0,160466	0,175237	−0,9157	0,3599	
l_E	0,0388496	0,0136976	2,836	0,0046	***
Sum squared resid	10238,90	S.E. of regression	1,739705		
R-squared	0,468440	Adjusted R-squared	0,467969		
F(2, 89)	993,7630	P-value(F)	0,000000		

Source: own study.

The results of the model parameter estimation show that pro-ecological activity has a positive and significant impact on the value of the company. The last variable examined was corporate governance, and the results of the analysis of its impact on brand value are presented in Table 6.

Table 6.
The heteroskedasticity of the OLS model corrected with BV as a descriptive variable and G (n = 3387)

	Coefficient	Std. Error	t-ratio	p-value	
Const	3,40503	0,131691	25,86	<0,0001	***
l_EnterpriseValueM	0,565388	0,0103497	54,63	<0,0001	***
ROA1	−0,333634	0,171350	−1,947	0,0516	*
l_G	−0,108577	0,0179735	−6,041	<0,0001	***
Sum squared resid	10612,17	S.E. of regression	1,771133		
R-squared	0,473462	Adjusted R-squared	0,472995		
F(2, 89)	1013,994	P-value(F)	0,000000		

Source: own study.

The results presented in Table 6 show that corporate governance has a significant and negative impact on brand value in the companies surveyed. Investor skepticism could arise if high governance scores are perceived as signaling excessive caution or risk aversion, hindering innovation and growth, which are often vital components of strong brand value. Alternatively, stringent governance structures might lead to bureaucratic inefficiencies, slowing down decision-making and preventing companies from capitalizing on market opportunities, thereby negatively impacting brand perception. Furthermore, investors might interpret high governance scores as a sign of management focusing excessively on compliance rather than strategic brand development or customer engagement. It's also possible that the market perceives these high scores as an indicator of internal problems, suggesting the need for strict controls due to past or anticipated issues.

5. Discussion

Environmental, social, and governance (ESG) criteria are increasingly integrated into the evaluation process when assessing company brands. It is assumed that companies adhering to their ESG responsibilities –reflected in their ESG scores—are likely to have higher brand values. This perspective is widely discussed in the literature, particularly through the lens of stakeholder theory, with numerous empirical studies supporting the positive relationship between ESG performance and brand value. However, there is also a body of research presenting contrary findings, suggesting either a negative relationship or no significant connection between ESG and brand value. These studies often align with shareholder theory, which traditionally emphasises financial metrics over broader stakeholder considerations. In the literature, the value of the firm is typically measured using financial metrics alone. However, brand value—though more challenging to quantify financially – encompasses perceptions held by various stakeholders, including consumers, investors, and suppliers. Recent financial studies indicate that brand value significantly influences a company's financial performance and overall firm value. Consequently, research that elucidates the relationship between ESG scores, brand value, and firm value would offer a valuable contribution to the literature.

In addition to divergence from existing literature that predominantly focusses on firm value, this study makes several noteworthy contributions to academic discourse. First, it evaluates brand value by focussing on a sample of 500 companies recognised globally for their strong brands. These companies, identified by Brand Finance's Global 500 list, are considered the most representative of brand value. This approach enables a comprehensive analysis of the relationship between brand value and ESG performance, using a robust, global dataset. Furthermore, by incorporating S&P Global's ESG data from S&P Global for the period 2013-

2023, the study offers a realistic and current assessment, grounded in the most recent available data.

Another significant contribution of this study lies in its findings, which diverge from the prevailing literature. Numerous researchers, such as Cowan and Guzman (2020), Ajour El Zein et al. (2020), and Kim et al., (2021), have posited a positive relationship between brand value and ESG performance. They argue that companies with high ESG scores experience increased brand value due to improved customer loyalty, mitigation of future social, environmental, and governance risks, improved credibility, and the resultant improvements in financial statements. It is commonly believed that by maintaining high ESG scores, companies not only elevate their brand value, but also enhance overall firm value through better financial performance and investor perception. However, our study presents findings that challenge this perspective, particularly when considering the ESG score as a whole through the lens of stakeholder theory (Freeman, 1984). Contrary to the prevailing view, our results indicate that a holistic approach to ESG can reduce brand value. This outcome aligns with the shareholder primacy theory (Friedman, 1970), suggesting that prioritising stakeholders over shareholders can lead to increased agency costs, which outweigh the potential benefits. ESG practices that prioritise stakeholder interests, rather than enhancing brand value, can divert the company from its core business, reduce operational efficiency, and ultimately alienate investors. The perception that ESG practices are merely additional costs, rather than value-adding investments, may lead stakeholders to view these initiatives unfavourably, thus diminishing their positive impact on brand value. These findings are consistent with the results of Yang and Basile (2019), Flores-Hernández et al. (2020), and Zampone et al., (2021).

This study examines the relationship between the ESG score, its subcomponents and brand value, focusing on the distinct channels through which these factors interact. The relationship between brand value and the dimensions of ESG is inherently complex, as both concepts encompass multiple dimensions that vary according to their interactions. Each dimension of ESG (Environmental, Social, Governance) influences different aspects of a company's operations and is perceived uniquely by various stakeholders, including consumers, investors, and others. This variation arises because stakeholders prioritise ESG factors differently, and the impact of these dimensions may evolve. To unravel the complexities reflected in the study findings, it is essential to consider each dimension of ESG separately. Therefore, the analysis distinguishes between the overall ESG score and its dimensions to provide a clearer interpretation of the results.

The study confirms that positive environmental practices, such as reducing harmful emissions, conserving natural resources, lowering the carbon footprint, utilising renewable energy, and producing environmentally friendly products, effectively mitigate environmental risks, capture the attention of investors and consumers, enhance brand loyalty and commitment, improve financial performance and, consequently, elevate brand value. The findings reveal a positive relationship between environmental ESG and brand value, supporting this assertion.

In alignment with stakeholder theory, improvements that benefit all stakeholders positively influence both firm value and brand value. There are many possible reasons for this positive relationship. Consumers who prioritise ecological values may base their purchasing decisions on the company's favourable environmental reputation. A positive brand image can increase the company’s attractiveness to investors by providing protection against potential crises. Companies with increasing market values can access cheaper and more stable resources due to enhanced financial credibility (Henisz et al., 2019; Chen et al., 2023). Improved efficiency in energy or raw material use can lead to lower production costs; and companies that invest in ecological technologies tend to be more innovative, enabling them to better adapt to changing market conditions.

The study also explored the relationship between socially responsible and employee-focused activities and brand value, revealing varying results in this area of research. While some scholars have identified a positive relationship between these factors, others have observed either a negative or non-existent relationship (Abdi et al., 2020; Bakri et al., 2022). Similarly, this study did not find a statistically significant relationship between social ESG and brand value. Several factors may explain this outcome. Social initiatives, which are less directly related to financial performance, may affect firm value and brand value differently than other ESG components. The inherently complex nature of social issues means that their influence on brand value is not as straightforward. Social aspects of ESG, such as employee well-being, community participation, and diversity, are generally less tangible and more challenging to quantify compared to environmental or governance factors. As a result, these activities may not significantly influence the value of the brand due to their limited visibility in the perceptions of consumers and investors. Although environmental initiatives can yield immediate benefits for branding, the positive effects of social improvements may manifest over the long term and may not be immediately apparent. Consequently, the analyses may not capture a discernible impact on brand value. This outcome could be attributed to the dispersed effects of social initiatives, which impact a broad range of stakeholders rather than a specific group, thus diluting their influence on brand perception. Additionally, because many businesses engage in similar socially beneficial activities, it becomes difficult for any company to distinguish itself within the industry or to gain a competitive advantage through these initiatives.

Corporate governance, defined as the set of rules, mechanisms, and processes that regulate a company's operations and govern the relationships among its organs, shareholders, and other stakeholders, was analysed under the governance component of ESG. Interestingly, the study found that corporate governance negatively impacts brand value. Although corporate governance aims to ensure transparency, accountability, and operational efficiency, its relationship with brand value was expected to be positive; however, the findings suggest otherwise. Several factors may explain this unexpected outcome. Although strong ESG governance frameworks may appear beneficial on the surface, there are instances where investors and customers may lose trust if they suspect that a company is withholding or distorting information about its activities. For example, financial scandals or the concealment of negative environmental impacts can lead to significant trust deficits. In addition, when short-term objectives dominate and boards of directors or audit committees prioritise immediate profits over the long-term sustainability of the company and its stakeholders, risky decisions can be made that ultimately diminish company value. Conflicts of interest also pose a risk; if members of the board or audit committee have personal interests that conflict with the company's interests, they can make decisions that are detrimental to the company and its shareholders (Espinosa-Méndez et al., 2023; Arayssi et al., 2019). Additionally, the absence of effective internal control systems can result in fraud, inefficiency, and financial losses. A lack of diversity within management and audit committees can limit the range of perspectives and ideas, leading to suboptimal decision making. Furthermore, governance efforts, unlike environmental or social initiatives, may be perceived primarily as internal controls rather than value-adding activities. For brand equity, environmental initiatives are often more visible and easier to market, whereas governance practices might be viewed as necessary but not directly contributing to brand image. This perception could explain the negative relationship between corporate governance and brand value.

This research is significant for its analysis of the ESG-brand value relationship, a relatively new area in the literature. However, the inherent complexity of the concepts of brand value and ESG, along with the varying measurement approaches employed by different institutions, poses challenges for analysing this relationship. In this study, S&P Global's ESG data from S&P Global and Brand Finance Global 500 were used. A key limitation of the research is the methodologies adopted by these companies, which may influence the findings. Different results could likely be obtained if the study was replicated using data from companies employing alternative methodologies. Future research should consider this issue and compare different methodologies to gain a more complete understanding. Additionally, it would be valuable to perform analyses with varying lag lengths, as the impact of ESG components on brand value can evolve over time.

6. Conclusions

Brand value is not only an abstract concept but also a tangible asset that offers numerous advantages to a company. Accurate measurement of brand value allows a clearer understanding of its market position and facilitates the implementation of effective marketing strategies. It is widely recognised as one of the most critical factors that influence the overall value of a company. Building a strong brand is a long-term strategic investment that accounts for the tangible benefits to all stakeholders. In today's environment, stakeholders, including consumers, investors, employees, and governments, are increasingly aware of the environmental, social, and governance (ESG) improvements that companies undertake, and they shape their perceptions of a brand accordingly. ESG is known to improve financial performance, elevate company value, and contribute to brand equity.

This study investigates the impact of ESG on brand value, both holistically and through its dimensions, using data from Brand Finance Global 500 companies and S&P Global ESG scores for the period 2013-2023. The research contributes to the existing literature with its nuanced findings and comprehensive analysis. The results reveal a complex relationship. Although a company's overall ESG score negatively correlates with brand value, the relationships within the individual dimensions vary. Specifically, a positive relationship was found between environmental ESG and brand value, while governance ESG exhibited a negative relationship. No statistically significant relationship was identified between social ESG and brand value.

This study's findings carry significant social and practical implications. Socially, they highlight the potential for misleading ESG reporting and the need for greater public scrutiny of corporate sustainability claims, potentially fostering a more discerning consumer base and driving demand for authentic ESG practices. Practically, corporations are urged to re-evaluate their ESG strategies, focusing on transparency and genuine impact, particularly in governance, while investors should exercise due diligence beyond aggregate ESG scores and advocate for improved metrics. Regulatory bodies are prompted to strengthen ESG reporting standards and oversight, ensuring that market incentives align with genuine sustainable development rather than superficial brand enhancement.

These findings, which enrich the emerging literature, can be attributed to the differential perceptions stakeholders have about each ESG dimension, the evolving impact of these factors over time, and their varying levels of visibility and measurability. The study results can be further interpreted through the lens of shareholder theory, stakeholder theory, and agency cost theory. This research not only contributes to academic discourse but also offers valuable insights for ESG practitioners, financial managers, and brand managers. Understanding the differentiated effects of ESG dimensions on brand value -particularly in the areas of environmental, social, and governance factors - will be crucial in guiding companies on which social responsibility projects to prioritise.

To strengthen the reliability and effectiveness of ESG evaluations, governing bodies and rating organizations need to emphasize consistency and openness. Establishing uniform reporting standards and requiring precise, sector-specific performance indicators would facilitate meaningful comparisons and minimize misleading sustainability claims. Trust and responsibility can be fostered by demanding that rating organizations reveal their assessment procedures, including where they obtain their information and how they prioritize different factors. Rigorous third-party reviews and confirmation of ESG data, along with governmental supervision and enforcement, are crucial for preserving the accuracy of the information. Additionally, making data easily accessible through public platforms and providing educational resources for both investors and businesses regarding ESG principles will enable more informed choices. By placing importance on these critical elements, regulators and rating agencies can cultivate a more dependable and impactful ESG environment.

Future research, expanding on the obtained results, will focus on the differences between continents in terms of the impact of ESG on brand value. The authors believe that market and cultural conditions may generate differences in the strength and direction of the examined relationships.

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