RESEARCH BRIEF • JANUARY 2024

How Do Consumers Use Firm Disclosure? Evidence from a Randomized Field Experiment

Based on BFI Working Paper 2024-04 "How Do Consumers Use Firm Disclosure? Evidence from a Randomized Field Experiment," by Sinja Leonelli, NYU Stern; Maximilian Muhn, Chicago Booth; Thomas Rauter, Chicago Booth; and Gurpal Sran, NYU Stern

New evidence suggests that consumers have preferences for firms that partake in ESG activities, but they face significant frictions in applying information from disclosures to their preferences and purchases.

Recent research from UChicago economists has shown that corporations are increasingly likely to showcase their good behavior by highlighting their **environmental, social, and governance (ESG)** activities through disclosures to the public. While evidence suggests investors and jobseekers change their behavior in response to firms' ESG activities, it is unclear whether consumers use corporate disclosures to inform their purchase decisions. In this paper, the authors study this question, asking which disclosures consumers use, what their underlying motives are, which **information frictions** they face, and how firm disclosures compare to other information sources.

The authors use a large-scale survey combined with a **randomized information experiment** to examine how consumers respond to different types of disclosures. They administer the survey experiment in collaboration with Numerator, a large marketing research firm. The authors begin by asking participating consumers a set of descriptive questions about their preferences, information frictions, and information acquisition behaviors. They find the following:

- Survey respondents indicate that ESG activities of the producing company matter, especially working conditions (S) and carbon footprint (E),

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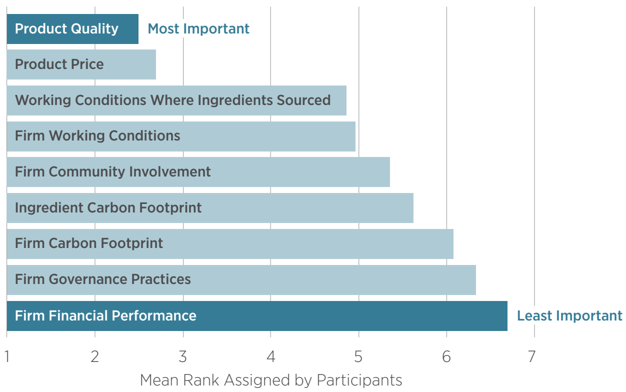
Environmental, social, and governance (ESG): Shorthand for environmental, social, and governance, "ESG" refers to a set of standards often used by investors to evaluate companies' activities related to sustainability, social good, and corporate governance.

Information frictions: The barriers or challenges in the flow of information, which can result from factors like complexity, inaccessibility, lack of transparency, or inefficient communication channels

Randomized information experiment: A research method where participants are randomly assigned to receive different types or amounts of information, allowing researchers to observe and analyze how variation in information impact the participants' perceptions, decisions, or behaviors in a controlled, unbiased manner.

Figure 1 · Ordered Preference Ranking Purchase Considerations by US Consumers



Note: This figure captures the relative importance of product or firm attributes that respondents consider when making their purchase decision. The data stem from the question "How important are the following characteristics when you are making a purchase decision about a product?" where respondents rank topics according to relative importance from 1 (most important) to 9 (least important). The figure presents the order based on the mean rank for each attribute.

though to a much lesser extent than product quality and price, which are by far the two more important purchase considerations.

- A firm's financial performance is the least important consideration for consumers when making their purchase decisions.

- To inform their purchase decisions, consumers primarily use referrals by friends/family (69% of responses) and customer reviews (62%). The most frequently consulted company disclosure is the firm's website (18%). In contrast, only 9% of consumers directly use ESG reports as an information source and annual reports (3%) are practically irrelevant for consumers' information gathering. This result is supported by the fact that 78% (63%) of consumers are unaware of the existence of ESG reports (annual reports).

Building on these descriptive facts, the authors next examine how the randomized provision of firm-disclosed ESG and financial information affects consumers' purchase intentions. They show consumers 15 profiles of actual products and ask for their intent to purchase each product over the next six months. For each participant, the authors measure the effect of ESG and financial information on their intended purchases relative to other products for which the individual received a product profile without ESG and financial information. They find the following:

- Consumers increase their purchase intent when presented with firm-disclosed positive signals about environmental, social, and—to a lesser extent—governance activities. This result is modest in terms of magnitude, but comparable to providing consumers with positive product review information.

- Providing links to firms' ESG reports only impacts the consumers who choose to view them. Consumers with strong ESG preferences, stock portfolios, and/or a general distrust of firms' ESG disclosures are more likely to view the provided reports. In contrast, there is no significant effect for firms' *financial* information, irrespective of whether consumers receive a link to a report or information about (positive or negative) earnings surprises.

- Younger and politically liberal consumers and consumers who are financially sophisticated (those who are aware of corporate reporting and engage in retail investing) respond more strongly to the provision of firm-level ESG information.

Although these results provide insights on how firm-disclosed information—if directly delivered—affects purchase *intentions*, they do not necessarily shed light on how this information maps onto real purchase behavior. In the third and final part of their paper, the authors examine whether and how their randomized information experiment changes actual purchase decisions. They assess data on consumers' product purchases using the Numerator panel following their experiment, and find the following:

- Social information and viewed ESG reports have a positive effect on consumers' actual purchase decisions. However, this effect is economically small and vanishes within a few weeks.

- The provided information does not have any meaningful impact on the purchase of other products from the same firm.

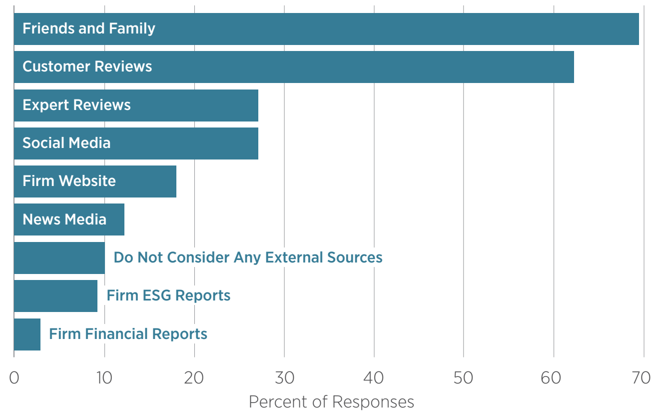
To better understand the modest results from this field experiment, the authors then conduct a follow-up survey among the respondents of the original survey. They find the following:

- Although 70% of the 16,350 follow-up respondents recall participating in the original survey experiment, 65% of these consumers convey that the survey experiment did not change their shopping behavior. When asked why, these respondents primarily point to not remembering the provided information and not having the time to consider firm-level information in product purchase decisions.

- As for the remaining respondents who indicate they *did* change their behavior, 73% convey that the information provided in the experiment helped them increase their understanding and awareness of product and firm characteristics or improved their purchase planning.

This evidence—from descriptive insights to elicited purchase intentions and real consumption behavior—paints the picture of an average consumer who has preferences for select firm-level characteristics (especially ESG activities), but faces significant frictions in directly applying firm-disclosed information to those preferences and into their everyday product purchases. These results suggest it may be in corporations' best interests to explore new ways to advertise their ESG activities to consumers.

Figure 2 · Information Sources Used to Make Product Purchases



Note: This figure captures the external information sources participants consider when purchasing a product. The data stem from the question "Which of the following sources of information do you reference when considering purchasing a product? Select all that apply." The figure captures the percentage of respondents considering a given external information source.

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NO. 2024-04 · JANUARY 2024

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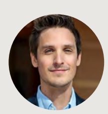

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