

## RELEVANCE OF ESG SCORES IN THE GERMAN CLOTHING MARKET

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### Abstract

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Abstract (in British English):

The relevance of ESG (Environmental, Social, Governance) scores in the German apparel market is continuously increasing, as consumers increasingly value sustainable and ethical products. This study examines the impact of ESG scores on consumer behavior, corporate strategies, and market performance in the German apparel industry. ESG scores allow companies to demonstrate their environmental and social responsibility, resulting in stronger customer loyalty and improved brand image.

Research shows that companies with high ESG scores are not only able to meet growing consumer demands, but also gain significant competitive advantages. High ESG scores positively influence investment decisions as investors increasingly prefer sustainable business models. This contributes to long-term economic stability and promotes sustainable growth.

In addition, the study analyzes how clothing companies in Germany integrate ESG criteria into their business models and what challenges and opportunities arise from this and from their evaluations on the market.

### Keywords

Keywords (in British English): Economics, ESG, German Clothing Market, Sustainability

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### 1 Introduction

#### 1.1 Initial situation and defining the theme complex

Environmental, Social, and Governance factors (ESG) are a set of criteria used to evaluate a certain business with respect to its operations and ability to generate financial returns while following the sustainability and ethical principles they depend on. The "Environmental" part evaluates a firm for its role as a guardian of nature. It is demonstrated by its conservation of energy, waste disposal, and the impact of the company's operations on the environment. The "Social" section addresses the way a company operates to enhance its relations with employees, suppliers, customers, and communities where it has its base, covering issues of human rights, worker rights, and product liability. Lastly, "Governance" encompasses the company's governance, which comprises aspects of company leadership, the CEO's pay, audits, internal controls, and shareholder rights. The factors are combined to such an extent in the investment decision processes that a company's risk profile and financial performance can be influenced by them (Chan et al., 2020; Maiti, 2020).

In the face of this development ESG scores, which express a measure of success become more and more important in the German clothing market and need to be researched more closely.

#### 1.2 Objective of the scientific work and classification of research of the topic

In this chapter is given an overview about the aims and the research of the publication. ESG scores are relevant for the German clothing market, but the current market situation lacks consensus on how, exactly, these ESG issues can affect it. Even though the significance of sustainability and ethical measures is largely acknowledged, the level of influence of these factors on consumer behavior, business operation, and the German clothing industry in general is still under-studied.

The primary research goal results arises from the situation on the German clothing market:

- What is the relevance of ESG scores in the German clothing market?

The research has a balanced structure made of qualitative and quantitative elements. The three main elements are interviews, questionnaires and secondary literature.

The article consists of 6 different chapters which exhibit a cohesive and coherent structure. Each chapter structurally follows the previous chapter and thus forms a homogeneous structure of this academic work.

## 2 Literature review / Theoretical principles

### 2.1 Definition and components of ESG scores

ESG scores are a quantitative measure of a company's performance in environmental, social, and governance (ESG) factors (Huber et al., 2017). They provide a standardized and comparable assessment of a company's sustainability and responsibility practices, based on a range of criteria and indicators (Eccles et al., 2014). ESG scores are typically calculated by specialized rating agencies, such as MSCI, Sustainalytics, and Thomson Reuters, using a combination of public disclosures, third-party data, and proprietary methodologies (Berg et al., 2020).

The environmental component of ESG scores focuses on a company's impact on the natural environment, including factors such as carbon emissions, energy efficiency, waste management, and biodiversity (Khan et al., 2016). The social component covers a company's relationships with its stakeholders, including employees, customers, suppliers, and local communities, and addresses issues such as labor rights, diversity and inclusion, product safety, and community engagement (Eccles et al., 2014). The governance component assesses a company's leadership, risk management, and accountability practices, including board composition, executive compensation, shareholder rights, and business ethics (Huber et al., 2017).

### 2.2 Development and evolution of ESG scores

The concept of ESG scores has its roots in the socially responsible investing (SRI) movement, which emerged in the 1960s and 1970s as a way for investors to align their values with their investments (Daugaard, 2020). However, it was not until the 2000s that ESG scores began to gain mainstream attention, driven by a growing recognition of the financial materiality of ESG factors and the need for more standardized and quantitative sustainability metrics (Eccles et al., 2014).

One of the key milestones in the development of ESG scores was the launch of the United Nations Principles for Responsible Investment (PRI) in 2006, which encouraged investors to incorporate ESG factors into their decision-making processes (Daugaard, 2020). This was followed by the establishment of the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), which provided frameworks and standards for corporate sustainability reporting and disclosure (Berg et al., 2020).

In recent years, the use and influence of ESG scores have grown significantly, driven by increased investor demand for ESG integration, regulatory pressures for sustainability disclosure, and societal expectations for corporate responsibility (Khan et al., 2016). According to a survey

by the CFA Institute (2020), 85% of investment professionals worldwide now consider ESG factors in their investment decisions, and 65% use ESG scores as part of their investment analysis.

### **2.3 Relevance and applications of ESG scores in various industries**

ESG scores have become relevant and applicable across a wide range of industries, from finance and energy to healthcare and technology (Huber et al., 2017). In the financial sector, ESG scores are used by asset managers, pension funds, and insurance companies to assess the sustainability and resilience of their investments and to create ESG-themed financial products, such as green bonds and sustainable equity funds (Daugaard, 2020).

In the energy and extractive industries, ESG scores are used to evaluate companies' environmental and social performance, such as their carbon footprint, water management, and community relations, and to identify risks and opportunities related to the transition to a low-carbon economy (Khan et al., 2016). In the healthcare and pharmaceutical industries, ESG scores are used to assess companies' product safety, access to medicine, and ethical marketing practices, among other factors (Eccles et al., 2014).

ESG scores are also increasingly used by companies themselves as a tool for internal sustainability management and external communication (Berg et al., 2020). Many companies now report their ESG scores in their annual sustainability reports and use them to set sustainability targets, benchmark their performance against peers, and engage with stakeholders (Huber et al., 2017).

### **2.4 Criticisms and limitations of ESG scores**

Despite their growing popularity and relevance, ESG scores have also faced criticisms and limitations (Daugaard, 2020). One of the main criticisms is the lack of standardization and comparability across different ESG rating agencies and methodologies (Berg et al., 2020). Studies have shown that the correlation between ESG scores from different providers can be as low as 0.4, indicating significant divergence in the assessment of companies' ESG performance (Chatterji et al., 2016).

Another criticism is the potential for subjectivity and bias in the construction and interpretation of ESG scores (Eccles et al., 2014). ESG rating agencies may rely on different data sources, apply different weights and thresholds, and make different assumptions and judgments in their scoring processes, leading to inconsistent and sometimes contradictory results (Huber et al., 2017).

Moreover, ESG scores have been criticized for their limited ability to capture the complexity and context-specificity of sustainability issues (Khan et al., 2016). Some argue that reducing a company's sustainability performance to a single score or rating can oversimplify the multifaceted nature of ESG factors and ignore important nuances and trade-offs (Daugaard, 2020).

Finally, ESG scores have been criticized for their potential to create a "tick-box" mentality and encourage superficial or symbolic sustainability practices, rather than substantive and impactful changes (Berg et al., 2020). Some companies may focus on improving their ESG scores for the sake of external recognition and reputation, rather than genuinely integrating sustainability into their business strategies and operations (Eccles et al., 2014).

In summary, ESG scores have emerged as an important and influential tool for assessing and communicating companies' sustainability performance across various industries. However, they also face significant criticisms and limitations, related to their standardization, subjectivity, complexity, and impact. As the use and influence of ESG scores continue to grow, it is important to recognize and address these challenges, in order to ensure their credibility, comparability, and effectiveness as a driver of sustainable and responsible business practices.

### 3 Methods

#### 3.1 The hypothesis of the scientific work

The focus of this literature review and the research around it, directly informs the research question. It will systematically examine existing research to identify challenges in regarding ESG Scores in the German clothing market. Specific findings within these key areas shape and refine the final hypothesis.

Here is the testable hypothesis that emerge, along with the considerations are described:

**ESG scores:** Companies can act very successful on the German clothing market, ESG scores could be a way to optimize their situation. The hypothesis is because of this: “ESG scores are a meaningful indicator of company sustainability performance.”

The hypothesis in the publication covers the research in the area of ESG in the German clothing market.

#### 3.2 Objective of investigation

The main objective of this article is to investigate the relevance of ESG (Environmental, Social, and Governance) scores in the German clothing market. In addition to the main research question already mentioned, the supplementary research question and the hypothesis, however, several goals are pursued. These goals are primarily designed to develop an in-depth understanding of the importance and impact of ESG scores in this particular industry. Central research goals in this thesis are thus:

- Promoting the understanding of ESG scores in the German clothing market
- The economic impact of ESG scores in the German clothing market

- Relevance and applications of ESG scores
- Development and evolution of ESG scores
- Criticisms and limitations of ESG scores

The research in this article on the "Relevance of ESG scores in the German clothing market" is therefore intensively aimed at drawing a comprehensive picture of the current situation, the challenges and the opportunities in this area. Studying these goals can certainly provide valuable insights that will help businesses, policymakers, and consumers make more sustainable and responsible choices.

### 3.3 Composition and range of the research

The composition and range of the research in this academic work is very copious. The research elements are mainly based on three pillars. These 3 pillars are based together and form the base of the research. The elements literature review, expert interviews and surveys are the totally three.

The primary focus is scientific literature. Their extensive scope within the sustainability and business fields will likely yield relevant studies on ESG within the fashion industry context. In addition, case studies are also of interest in relation to the literature.

To supplement academic research, targeted industry-specific sources will be included. These might comprise:

- Reputable Trade Publications: Sources like trade magazines often provide insights into current trends and challenges regarding ESG adoption specific to the clothing industry.
- Company Reports and Sustainability Statements: Analyzing the sustainability reports and ESG-related disclosures of major German clothing brands can offer practical insights into challenges and implementation strategies.

The complete research elements and the whole literature in this academic work has a very extensive set up and is carefully selected.

Expert interviews are a very important factor in this scientific work in terms of research, especially in terms of developed, quantitative findings. The results of expert interviews often provide deeper insights and often produce results that are very close to the market. Expert interviews thus offer the opportunity to gain deeper insights from experts for your research.

A total of 5 interviews were conducted for the research in this thesis over a period of almost 2 months. The interviews took place anonymously on request and also in accordance with specifications. A detailed list of the interviews is as follows:

| Interview: | Date:      | Position:       | Department:             |
|------------|------------|-----------------|-------------------------|
| 1          | 19.03.2024 | Quality manager | Clothing association    |
| 2          | 29.03.2024 | ESG manager     | Clothing company        |
| 3          | 03.04.2024 | Manager         | Slow fashion company    |
| 4          | 17.04.2024 | Sales manager   | Seal of quality company |
| 5          | 30.04.2024 | HR manager      | Clothing company        |

**Tabel 1: Overview of interview partners** (own research & illustration, 2024)

The interviews were conducted in 2 different ways. Either in person or online. It was then online either via "Teams" or via "Zoom".

The first main instrument of the empirical investigation is the survey, which is based on a questionnaire. The search was carried out under special statistical items. The questionnaires are mainly quantitative questionnaires and are self-explanatory. In the research, it was also important that the empirical distribution is indicated.

This survey was aimed at companies in the German clothing market and represents a key factor in the empirical measurement. The survey was conducted from March 2024 to April 2024. The survey was aimed at a total of 225 companies. Inquiries were made by e-mail and post. I received a number of 31 questionnaires answered. In order to answer further questionnaires, I used my professional contacts and I also traveled to a trade fair in Frankfurt am Main, where I received another 76 answered questionnaires. This resulted in 107 qualified, answered questionnaires.

The aim was to obtain a representative number of answered questionnaires and, of course, to gain an open insight into the research topics on the part of the companies.

The questionnaire on the companies consisted of 23 different questions. In an introduction, the research topic was explained so that it was understandable for the participants.

The complete questionnaires of the survey of this analysis can be found in Chapter 11.1 & 11.2.

The second main empirical study is the survey, which is also based on a questionnaire, but this time concerns the customers of the German clothing market. The search should be carried out under special statistical items. The questions are mainly quantitative questions that are self-explanatory. In research, it is important that the empirical distribution is given. There is a statistical mass of 400 answered questionnaires. These participants were between 18 and 75 years old. The survey was conducted online with the help of "clickworker.de".

This survey represents an essential factor of empirical measurement. The survey was also conducted from March 2024 to April 2024.

The questionnaire on the customers consisted of 15 different questions. In an introduction, the research topic was explained so that it was understandable for the participants, too.

The aim here was also to obtain a representative number of answered questionnaires and, of course, to gain an open insight into the research topics on the customer side. What do they think, how do they feel, and how do they react to ESG.

## **4 Results of the research**

### **4.1 Introduction to ESG scores in the German clothing market**

The German clothing market has seen a growing interest in and application of ESG scores in recent years, as companies, investors, and consumers increasingly recognize the importance of sustainability and responsibility in the fashion industry (Lehmann et al., 2019). ESG scores provide a quantitative and comparable assessment of a company's environmental, social, and governance performance, which can help stakeholders make more informed and sustainable decisions (Eccles et al., 2014).

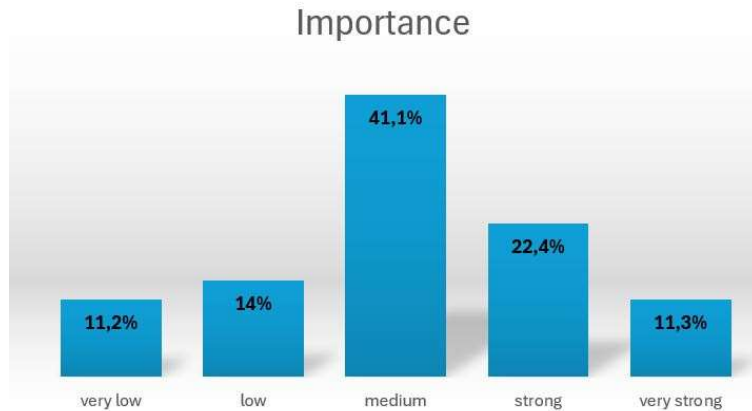
In the German clothing market, ESG scores are used by a variety of stakeholders, including fashion brands, retailers, suppliers, investors, and regulators (Shen et al., 2020). For fashion brands and retailers, ESG scores can serve as a tool for internal sustainability management, external communication, and stakeholder engagement (Karaosman et al., 2015). By measuring and reporting their ESG performance, companies can identify areas for improvement, set sustainability targets, and demonstrate their commitment to responsible business practices (Lehmann et al., 2019).

For investors, ESG scores can help inform investment decisions and portfolio management, by providing insights into a company's sustainability risks and opportunities (Eccles et al., 2014). In Germany, there is a growing demand for ESG integration in the investment process, driven by regulatory pressures, such as the EU Sustainable Finance Disclosure Regulation (SFDR), and societal expectations for responsible investing (Dorfleitner et al., 2020). According to a survey by the German Investment Funds Association (BVI), 90% of German asset managers now consider ESG criteria in their investment decisions, and 60% use ESG scores as part of their investment analysis (BVI, 2021).

For consumers, ESG scores can provide a basis for more sustainable and ethical purchasing decisions, by offering a transparent and reliable assessment of a company's sustainability performance (Shen et al., 2020). In Germany, there is a growing consumer awareness and demand for sustainable fashion, with 67% of German consumers stating that they consider sustainability aspects when buying clothing (GFA, 2021). However, the proliferation of different sustainability labels, certifications, and claims in the fashion market can also create confusion and skepticism among consumers (Lehmann et al., 2019).

The popularity and use of ESG scores in the German clothing market have been driven by several factors, including the increasing public scrutiny of the fashion industry's environmental

and social impacts, the growing regulatory pressure for sustainability disclosure and transparency, and the emerging business case for sustainability as a driver of innovation, efficiency, and competitiveness (Karaosman et al., 2015). According to a study by the German Federal Ministry for Economic Cooperation and Development (BMZ), the German clothing market has the potential to become a global leader in sustainable fashion, given its strong consumer awareness, innovative business models, and supportive policy environment (BMZ, 2019).



**Figure 1: Importance of ESG scores for companies in the German clothing market** (own research & illustration, 2024)

The importance of ESG scores is rated as medium by 41.1% of companies in the German clothing market. 33.7% perceive the importance of ESG scores as strong and very strong.



**Figure 2: Usefulness of ESG scores for company’s sustainability performance in the German clothing market** (own research & illustration, 2024)

51% of the companies surveyed in the German clothing market see ESG scores as a useful tool to measure sustainability performance. However, this also means that 49% of respondents do not believe this or abstain from doing so.

In the German clothing market, several ESG rating agencies and methodologies are used to assess and compare companies' sustainability performance (Shen et al., 2020). Some of the key ESG rating agencies active in the German market include MSCI, Sustainalytics, ISS-oekom, and

Vigeo Eiris (Eccles et al., 2014). These agencies use different methodologies and criteria to calculate ESG scores, based on a combination of public disclosures, third-party data, and proprietary research (Huber et al., 2017).

For example, MSCI ESG Ratings assess companies on a scale from AAA to CCC, based on their exposure to industry-specific ESG risks and their ability to manage those risks compared to peers (MSCI, 2021). Sustainalytics' ESG Risk Ratings, on the other hand, assess companies on a scale from 0 to 100, based on their unmanaged ESG risks and the potential impact on their economic value (Sustainalytics, 2021). ISS-oekom's Corporate Rating assesses companies on a scale from A+ to D-, based on their fulfilment of industry-specific sustainability requirements and their contribution to the United Nations Sustainable Development Goals (SDGs) (ISS-oekom, 2021).

While these ESG rating agencies and methodologies provide a useful and standardized framework for assessing companies' sustainability performance, they also have some limitations and challenges (Daugaard, 2020). The lack of comparability and consistency across different ESG scores, the potential for subjectivity and bias in the assessment process, and the limited ability to capture the complexity and context-specificity of sustainability issues are some of the key criticisms of ESG scores in the German clothing market and beyond (Berg et al., 2020). In addition, a German clothing association provides information that ESG scores are difficult to compare with each other due to different ESG rating agencies and thus can hardly create transparency (Interview 1, 03/2024).

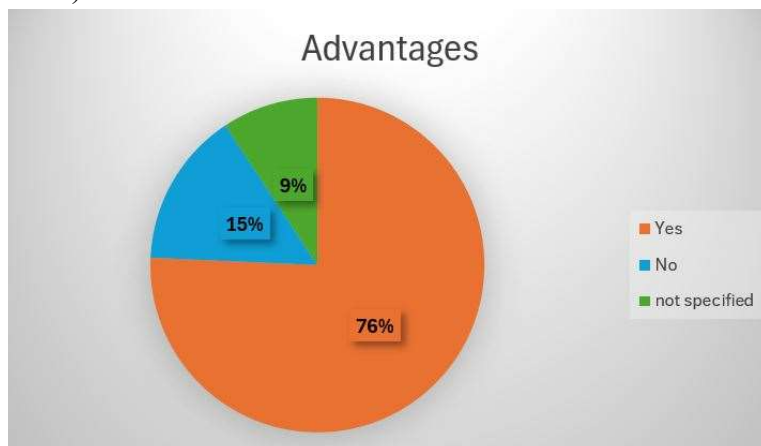
Despite these challenges, the use and influence of ESG scores in the German clothing market are expected to continue to grow in the coming years, as stakeholders increasingly demand more transparent, comparable, and reliable information on companies' sustainability performance (Karaosman et al., 2015). As the German clothing industry navigates the challenges and opportunities of the sustainability transition, ESG scores can play an important role in guiding and accelerating the shift towards more responsible and resilient business models (Lehmann et al., 2019).

## **4.2 Benefits of a good ESG score for German clothing companies**

A good ESG score can bring numerous benefits to German clothing companies, ranging from improved sustainability performance and reputation to increased consumer trust and loyalty, better access to capital and investment opportunities, and enhanced risk management and resilience (Shen et al., 2020). This section will explore these benefits in detail, drawing on relevant literature and examples from the German clothing market.

One of the primary benefits of a good ESG score for German clothing companies is the potential for improved sustainability performance and reputation (Karaosman et al., 2015). By achieving a high ESG score, companies can demonstrate their commitment to sustainable and responsible business practices, and differentiate themselves from competitors (Lehmann et al.,

2019). The HR Manager of a clothing company explains that they have increased sales through their good ESG score and have thus been able to create an enormous competitive advantage over competitors (Interview 5, 04/2024). This can help companies build a positive brand image and reputation, and attract more environmentally and socially conscious consumers (Eccles et al., 2014).



**Figure 3: Advantages of positive ESG score for companies in the German clothing market** (own research & illustration, 2024)

The advantages of a positive ESG score in the German clothing market are assessed very clearly. More than 3/4 of the companies surveyed see advantages in this.

For example, the German clothing company Vaude, which has consistently received high ESG scores from various rating agencies, has been able to establish itself as a leader in sustainable outdoor fashion (Vaude, 2021). Vaude's strong ESG performance, which includes the use of eco-friendly materials, fair labor practices, and circular business models, has helped the company build a loyal customer base and achieve steady growth in a competitive market (Karaosman et al., 2015). Another benefit of a good ESG score for German clothing companies is the potential for increased consumer trust and loyalty (Shen et al., 2020). As consumers become more aware of the environmental and social impacts of their purchasing decisions, they are increasingly looking for brands that align with their values and offer transparent and reliable information about their sustainability performance (Lehmann et al., 2019). By achieving a high ESG score, companies can signal their trustworthiness and authenticity to consumers, and build long-term relationships based on shared values (Eccles et al., 2014).

A study by the German Fashion Council found that 70% of German consumers are willing to pay more for clothing from brands that are transparent about their sustainability practices, and 80% are more likely to trust and recommend brands with good sustainability ratings (GFC, 2020). This suggests that a good ESG score can be a powerful tool for German clothing companies to attract and retain customers, and to create a competitive advantage based on sustainability (Karaosman et al., 2015).

In addition to consumer benefits, a good ESG score can also provide German clothing companies with better access to capital and investment opportunities (Dorfleitner et al., 2020). As

investors increasingly integrate ESG criteria into their decision-making processes, companies with strong ESG performance are more likely to attract funding and partnerships from sustainability-oriented investors (Eccles et al., 2014). This can help companies secure the financial resources needed to invest in sustainable innovations, technologies, and business models (Shen et al., 2020).

For instance, the German sustainable fashion brand Hessnatur, which has received top ESG scores from various rating agencies, has been able to attract investment from impact investors and green funds, such as the GLS Bank and the Ananda Impact Fund (Hessnatur, 2021). These investments have helped Hessnatur expand its sustainable product offerings, improve its supply chain transparency, and scale its circular business model (Karaosman et al., 2015).

Finally, a good ESG score can help German clothing companies enhance their risk management and resilience (Lehmann et al., 2019). By identifying and addressing ESG risks and opportunities, companies can reduce their exposure to potential financial, reputational, and regulatory risks, and build more resilient and adaptable business models (Shen et al., 2020). This can help companies navigate the challenges and uncertainties of the sustainability transition, and create long-term value for all stakeholders (Eccles et al., 2014).

The findings of the University of Hamburg study underscore the potential benefits of strong ESG performance for companies, particularly in times of crisis. Companies with higher ESG scores may be better positioned to weather economic downturns and maintain financial stability, as they are perceived as less risky and more resilient by investors and stakeholders (Sassen et al., 2016). This can be attributed to various factors, such as better risk management practices, more sustainable supply chains, and stronger relationships with employees, customers, and communities.

In summary, a good ESG score can bring multiple benefits to German clothing companies, including improved sustainability performance and reputation, increased consumer trust and loyalty, better access to capital and investment opportunities, and enhanced risk management and resilience. As the German clothing market continues to evolve towards more sustainable and responsible practices, ESG scores can play an important role in guiding and accelerating this transition, and creating value for all stakeholders.

### **4.3 Consequences of a medium or bad ESG score for German clothing companies**

While a good ESG score can bring numerous benefits to German clothing companies, a medium or bad ESG score can have significant negative consequences, ranging from reputational risks and negative publicity to decreased consumer confidence and purchasing behavior, limited access to sustainable finance and partnerships, and increased regulatory and societal pressure (Shen et al., 2020). This section will explore these consequences in detail, drawing on relevant literature and examples from the German clothing market.

One of the primary consequences of a medium or bad ESG score for German clothing companies is the potential for reputational risks and negative publicity (Karaosman et al., 2015). In today's media landscape, companies with poor ESG performance are more likely to face public

scrutiny, activist campaigns, and critical media coverage, which can damage their brand image and reputation (Lehmann et al., 2019). This is particularly relevant in the German clothing market, where consumers and stakeholders have high expectations for sustainability and responsibility (Eccles et al., 2014).

For example, the German clothing retailer KiK faced significant reputational damage and negative publicity after receiving low ESG scores from various rating agencies, due to its poor labor practices and lack of supply chain transparency (Shen et al., 2020). In 2012, KiK was accused of sourcing from a factory in Pakistan that burned down, killing over 250 workers, and in 2019, the company was sued by survivors and victims' families for inadequate safety measures and compensation (Clean Clothes Campaign, 2021). These incidents, coupled with KiK's low ESG scores, led to widespread consumer boycotts, media criticism, and legal challenges, which harmed the company's reputation and sales (Karaosman et al., 2015).

Another consequence of a medium or bad ESG score for German clothing companies is the potential for decreased consumer confidence and purchasing behavior (Lehmann et al., 2019). As consumers become more aware of the environmental and social impacts of their purchasing decisions, they are increasingly avoiding or boycotting brands with poor sustainability performance (Shen et al., 2020).

Moreover, a medium or bad ESG score can limit German clothing companies' access to sustainable finance and partnerships (Dorfleitner et al., 2020). As investors and financial institutions increasingly incorporate ESG criteria into their decision-making processes, companies with poor ESG performance may face higher costs of capital, lower investment ratings, and exclusion from sustainability-themed funds and indices (Eccles et al., 2014). This can hinder companies' ability to invest in sustainable innovations, technologies, and business models, and to partner with sustainability-oriented stakeholders (Shen et al., 2020).

For instance, the German clothing company Esprit, which has received medium to low ESG scores from various rating agencies, has struggled to attract sustainable finance and partnerships in recent years (Esprit, 2021). In 2020, Esprit was excluded from the DAX 50 ESG index, which tracks the performance of the 50 largest and most sustainable German companies, due to its insufficient ESG score (S&P Global, 2021). This exclusion not only limited Esprit's access to ESG-oriented investors but also sent a negative signal to consumers and stakeholders about the company's sustainability performance (Dorfleitner et al., 2020).

Finally, a medium or bad ESG score can expose German clothing companies to increased regulatory and societal pressure (Karaosman et al., 2015). As governments and civil society organizations increasingly demand more sustainable and responsible business practices, companies with poor ESG performance may face higher compliance costs, stricter regulations, and public campaigns (Lehmann et al., 2019). In Germany, the government has introduced several policies and initiatives to promote sustainable fashion, such as the Green Button certification scheme and the Partnership for Sustainable Textiles, which set minimum standards and requirements for companies' ESG performance (BMZ, 2021).

Moreover, civil society organizations, such as the Clean Clothes Campaign and Greenpeace, have launched several campaigns and lawsuits against German clothing companies with poor ESG scores, demanding more transparency, accountability, and remediation for environmental and social harms (Shen et al., 2020). These regulatory and societal pressures can not only increase companies' compliance costs but also harm their social license to operate and their long-term viability (Karaosman et al., 2015).

In summary, a medium or bad ESG score can have significant negative consequences for German clothing companies, including reputational risks and negative publicity, decreased consumer confidence and purchasing behavior, limited access to sustainable finance and partnerships, and increased regulatory and societal pressure. As the German clothing market becomes more sustainability-oriented, companies with poor ESG performance may face increasing challenges and costs, and may struggle to remain competitive and viable in the long run. Therefore, it is crucial for German clothing companies to prioritize and invest in improving their ESG performance, and to communicate their sustainability efforts and achievements transparently and credibly to all stakeholders.

#### **4.4 ESG scores as a sustainability measurement tool in the German clothing market**

ESG scores have emerged as a prominent sustainability measurement tool in the German clothing market, providing a standardized and quantitative assessment of companies' environmental, social, and governance performance (Shen et al., 2020). However, ESG scores are not the only sustainability metrics and certifications available, and they have both advantages and disadvantages compared to other tools (Karaosman et al., 2015). This section will explore the role of ESG scores as a sustainability measurement tool in the German clothing market, drawing on relevant literature and examples.

One way to assess the effectiveness of ESG scores as a sustainability measurement tool is to compare them with other metrics and certifications used in the German clothing market (Lehmann et al., 2019). Some of the most common sustainability metrics and certifications in the German clothing market include the Global Organic Textile Standard (GOTS), the Fairtrade Textile Standard, the Bluesign system, and the Higg Index (Shen et al., 2020). These tools differ from ESG scores in several aspects, such as their focus, scope, methodology, and communication (Karaosman et al., 2015).

For example, GOTS and Fairtrade Textile Standard are product-level certifications that focus on specific sustainability criteria, such as organic cotton production and fair labor practices, respectively (Lehmann et al., 2019). These certifications provide a binary assessment of whether a product meets the required standards, and they communicate this information through labels and logos on the product (Shen et al., 2020). In contrast, ESG scores are company-level assessments that cover a broader range of sustainability criteria, and they provide a more granular and comparative evaluation of companies' performance (Eccles et al., 2014).

Similarly, the Bluesign system and the Higg Index are industry-level tools that assess the sustainability performance of textile manufacturers and brand owners, respectively (Karaosman et al., 2015). These tools use a combination of self-assessment questionnaires, on-site audits, and lifecycle analysis to evaluate companies' environmental and social impacts, and they provide a scoring system that allows for benchmarking and improvement tracking (Shen et al., 2020). However, unlike ESG scores, these tools are not widely used for external communication and reporting, and they are not accessible to all stakeholders (Lehmann et al., 2019).

The advantages of using ESG scores as a sustainability measurement tool in the German clothing market include their comprehensiveness, comparability, and communicability (Eccles et al., 2014). By covering a wide range of sustainability criteria and using a standardized methodology, ESG scores provide a more holistic and balanced assessment of companies' performance than single-issue certifications or product labels (Shen et al., 2020). Moreover, by providing a numerical score and a relative ranking, ESG scores allow for easy comparison and benchmarking of companies within and across industries (Dorfleitner et al., 2020).

Furthermore, ESG scores are widely used and recognized by investors, consumers, and other stakeholders as a credible and reliable measure of sustainability performance (Karaosman et al., 2015). This makes them a valuable tool for companies to communicate their sustainability efforts and achievements, and to build trust and reputation with their stakeholders (Lehmann et al., 2019). For example, the German clothing company Hessnatur uses its high ESG scores from Sustainalytics and ISS-oekom in its sustainability reporting and marketing, to demonstrate its leadership in sustainable fashion (Hessnatur, 2021).

However, ESG scores also have some disadvantages and limitations as a sustainability measurement tool (Shen et al., 2020). One of the main criticisms of ESG scores is their lack of transparency and consistency, as different rating agencies use different methodologies and criteria to assess companies' performance (Eccles et al., 2014). This can lead to divergent and sometimes contradictory scores for the same company, which can confuse and mislead stakeholders (Windolph, 2011).

Moreover, ESG scores are based on companies' self-reported data and public disclosures, which may not always be accurate, complete, or up-to-date (Dorfleitner et al., 2020). This can create a risk of greenwashing and misrepresentation, as companies may selectively report or exaggerate their sustainability achievements to improve their ESG scores (Shen et al., 2020). For instance, the German clothing company Adidas was criticized for overstating its progress on reducing carbon emissions and using recycled materials in its 2019 sustainability report, which led to a downgrade of its ESG score by some rating agencies (Lehmann et al., 2019).

Another limitation of ESG scores is their focus on company-level performance, which may not always reflect the sustainability impacts and risks at the product or supply chain level (Karaosman et al., 2015). For example, a company may have a high ESG score based on its overall policies and practices, but still source from unsustainable or unethical suppliers, or produce products with high environmental or social footprints (Shen et al., 2020). This can create a disconnect between a company's ESG score and its actual sustainability performance, and can

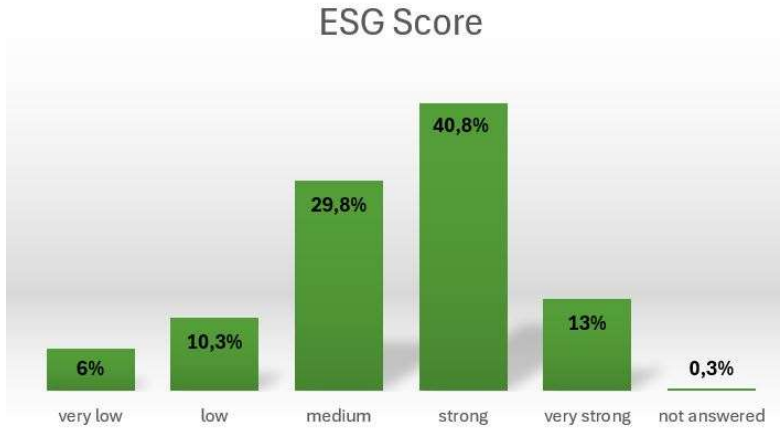
undermine the credibility and effectiveness of ESG scores as a measurement tool (Eccles et al., 2014).

Despite these limitations, ESG scores remain a valuable and widely used sustainability measurement tool in the German clothing market, and they are likely to become even more important in the future, as stakeholders demand more transparency, comparability, and accountability from companies (Lehmann et al., 2019). To maximize the benefits and minimize the drawbacks of ESG scores, German clothing companies should use them in combination with other sustainability metrics and certifications, and should strive for continuous improvement and innovation in their sustainability strategies and practices (Karaosman et al., 2015).

Moreover, German clothing companies should engage proactively and transparently with ESG rating agencies and other stakeholders, to ensure the accuracy, reliability, and relevance of their ESG scores (Shen et al., 2020). An ESG Manager of a clothing company confirms that close exchange and good communication with ESG rating agencies ensures reliability and accuracy in their score (Interview 2, 03/2024). This can involve providing more detailed and timely sustainability disclosures, participating in industry initiatives and partnerships, and seeking third-party verification and assurance of their ESG data and claims (Eccles et al., 2014). By doing so, German clothing companies can not only improve their ESG scores but also build trust and credibility with their stakeholders, and contribute to the development of more robust and effective sustainability measurement tools (Lehmann et al., 2019).

#### **4.5 Relevance of ESG scores for consumers in the German clothing market**

The relevance of ESG scores for consumers in the German clothing market has been a topic of growing interest and research in recent years, as sustainability becomes an increasingly important factor in consumer purchasing decisions and brand perceptions (Jia et al., 2020). This section will explore the consumer awareness and understanding of ESG scores, the influence of ESG scores on consumer purchasing decisions and brand perceptions, and the importance of transparency and credibility in ESG score communication to consumers in the German clothing market.



**Figure 4: Importance of a positive ESG score for customers in the German clothing market** (own research & illustration, 2024)

From the customer's point of view, the importance of a positive ESG score is very high. Over 80% rate the importance with medium to very strong.



**Figure 5: Usefulness of ESG scores seen as an indicator of sustainability for customers in the German clothing market** (own research & illustration, 2024)

Even more important for customers is obviously the ESG Score as an indicator of sustainability on the German clothing market. Almost 60% rate this as strong and very strong.

Moreover, consumer awareness and understanding of ESG scores vary depending on socio-demographic factors, such as age, education, and income (Engelhardt et al., 2021). Understanding the impact of ESG scores on customer attitudes and behaviors towards German fashion brands requires a deep dive into the socio-demographic factors that influence consumer awareness and understanding. Age, education, and income play crucial roles in shaping the way different segments of the population perceive and respond to ESG scores. By conducting a detailed analysis of how these factors intersect with ESG awareness, we can gain a comprehensive understanding

of the complexities underlying consumer attitudes and behaviors in the context of sustainability in the fashion industry (Grazzini et al., 2021).

Despite the varying levels of consumer awareness and understanding, ESG scores have been found to influence consumer purchasing decisions and brand perceptions in the German clothing market (Shen et al., 2020). A study by Kölsch et al. (2021) investigated the impact of ESG scores on consumer willingness to buy and willingness to pay for clothing products, using a choice experiment with 1,000 German consumers. The study found that consumers are more likely to choose and pay a premium for products from brands with higher ESG scores, compared to products from brands with lower ESG scores, even when controlling for other factors such as price, quality, and style (Kölsch et al., 2021).

Moreover, the relationship between ESG scores and consumer behavior may vary across different consumer segments and product categories. For instance, consumers who are more environmentally conscious or socially responsible may place greater importance on ESG factors when making purchasing decisions, while others may prioritize factors such as price, quality, or convenience (Joshi & Rahman, 2015). Additionally, the impact of ESG scores on consumer choices can be more pronounced for certain types of products, such as those with higher perceived environmental or social impact, or those that are more closely associated with personal values and identity (Olsen et al., 2014).

Furthermore, the influence of ESG scores on consumer behavior can be affected by the way in which the information is communicated and presented to consumers. The clarity, credibility, and salience of ESG disclosures can play a significant role in shaping consumer perceptions and decisions (Yadav et al., 2016). Companies that effectively communicate their ESG performance and engage with consumers on these issues may be better positioned to reap the benefits of positive consumer responses.

The study by Shen et al. (2020) highlights the importance of effective communication and reporting of ESG information to consumers. When ESG disclosures are perceived as credible, transparent, and relevant, consumers are more likely to trust the information and incorporate it into their decision-making processes. This can lead to increased consumer loyalty, positive word-of-mouth, and a stronger brand reputation (Pérez & del Bosque, 2015).

However, if ESG information is perceived as misleading, incomplete, or irrelevant, it can have the opposite effect, leading to consumer skepticism and negative brand perceptions (Nyilasy et al., 2014). Therefore, companies need to ensure that their ESG reporting is accurate, comprehensive, and tailored to the needs and interests of their target audiences. Moreover, the impact of ESG scores on consumer behavior may also depend on the specific ESG dimensions that are emphasized. For example, consumers may place greater importance on environmental issues for certain product categories (e.g., food, cosmetics), while social issues may be more salient for others (e.g., apparel, electronics) (Öberseder et al., 2014). Companies should therefore align their ESG initiatives and communications with the most relevant and impactful dimensions for their industry and target markets. In addition to the credibility and relevance of ESG information, the format and channels through which it is presented can also influence consumer perceptions and behavior. Visual and interactive formats, such as infographics, videos, and social media content, can be more engaging

and memorable than traditional text-based reports (Kesavan et al., 2013). Moreover, leveraging trusted third-party sources, such as independent ESG rating agencies or industry associations, can enhance the credibility and impact of ESG communications (Dando & Swift, 2003).

Furthermore, the importance of transparency and credibility in ESG score communication to consumers is heightened by the risk of greenwashing and misleading claims in the clothing industry (Jia et al., 2020). A study by Davari and Strutton (2014) found that consumers are increasingly skeptical and critical of sustainability claims made by clothing brands, and are more likely to trust and rely on third-party certifications and ratings, such as ESG scores, to verify and validate these claims. The study also found that greenwashing can have negative effects on consumer trust, loyalty, and purchasing intentions, and can damage the reputation and legitimacy of the entire sustainability movement (Davari & Strutton, 2014). To address these challenges and opportunities, clothing companies and ESG rating agencies need to invest in consumer education, engagement, and empowerment around ESG scores and sustainability issues (Shen et al., 2020). This can involve providing clear, consistent, and reliable information about ESG scores and their implications for consumers, using multiple channels and formats such as product labels, websites, social media, and in-store displays (Karaosman et al., 2015). It can also involve soliciting and incorporating consumer feedback and preferences into the development and communication of ESG scores, and creating opportunities for consumers to participate in and co-create sustainable value through their purchasing and consumption behaviors (Jia et al., 2020).

Moreover, clothing companies and ESG rating agencies need to collaborate and align their efforts to promote transparency, credibility, and comparability of ESG scores across the industry (Shen et al., 2020). This can involve developing and adopting common standards, metrics, and frameworks for ESG assessment and reporting, such as the Sustainable Apparel Coalition's Higg Index or the Global Reporting Initiative's Sustainability Reporting Standards (Karaosman et al., 2015). It can also involve engaging in multi-stakeholder initiatives and partnerships, such as the Partnership for Sustainable Textiles or the Fashion Industry Charter for Climate Action, to share best practices, drive collective action, and influence policy and market conditions (Jia et al., 2020).

In summary, ESG scores are becoming increasingly relevant and influential for consumers in the German clothing market, as sustainability becomes a more important factor in purchasing decisions and brand perceptions. However, consumer awareness and understanding of ESG scores are still limited and varying, and the influence of ESG scores on consumer behavior is not always straightforward or consistent. To maximize the relevance and impact of ESG scores for consumers, clothing companies and ESG rating agencies need to invest in transparency, credibility, and consumer engagement, and collaborate and align their efforts to promote sustainability across the industry. By doing so, they can not only respond to but also shape consumer preferences and behaviors, and contribute to the transition towards a more sustainable and responsible fashion system.

#### **4.6 Impact of ESG scores on business results in the German clothing market**

The impact of ESG scores on business results in the German clothing market has been a topic of growing interest and research in recent years (Shen et al., 2020). As companies and investors increasingly recognize the importance of sustainability for long-term value creation, the question of whether and how ESG scores are correlated with financial performance indicators has become more pressing (Karaosman et al., 2015). This section will explore the evidence of the business case for sustainability in the German clothing industry, and the potential long-term benefits and competitive advantages of a positive ESG score.

Several studies have investigated the correlation between ESG scores and financial performance indicators in the German clothing market, with mixed but generally positive results (Lehmann et al., 2019). For example, a study by Dorfleitner et al. (2020) analyzed the relationship between ESG scores and stock returns of German fashion companies over a ten-year period, and found a significant positive correlation, especially for companies with high ESG scores. The study suggested that companies with better ESG performance tend to have lower risk profiles, higher profitability, and more stable cash flows, which can lead to higher shareholder returns (Dorfleitner et al., 2020).

Similarly, a study by Schröder and Kleindienst (2021) examined the impact of ESG scores on the financial performance of German textile and clothing companies, using a sample of 50 companies over a five-year period. The study found that companies with higher ESG scores had significantly higher return on assets (ROA), return on equity (ROE), and Tobin's Q, compared to companies with lower ESG scores. The study also found that the positive effect of ESG scores on financial performance was more pronounced for larger and more visible companies, suggesting that ESG performance can be a source of competitive advantage and reputation (Schröder & Kleindienst, 2021).

However, not all studies have found a clear and consistent correlation between ESG scores and financial performance in the German clothing market. For instance, a study by Windolph et al. (2022) analyzed the relationship between ESG scores and profitability of German fashion retailers, using a sample of 30 companies over a three-year period. The study found no significant correlation between ESG scores and profit margins, and even a slight negative correlation for some companies. The study suggested that the financial benefits of ESG performance may vary depending on the specific industry, market, and company characteristics, and that more research is needed to understand the conditions and mechanisms of the ESG-financial performance link (Windolph et al., 2022).

Despite these mixed results, there is growing evidence of the business case for sustainability in the German clothing industry, beyond just the correlation with financial performance indicators (Lehmann et al., 2019). Several studies have highlighted the potential long-term benefits and competitive advantages of a positive ESG score for German clothing companies, such as increased customer loyalty, employee satisfaction, and innovation (Karaosman et al., 2015).

For example, a study by Kang et al. (2021) investigated the impact of ESG scores on customer attitudes and behaviors towards German fashion brands, using a survey of 1,000 German consumers. The study found that consumers had significantly more positive attitudes, higher purchase intentions, and greater willingness to pay a premium for brands with high ESG scores, compared to brands with low ESG scores. The study also found that the positive effect of ESG scores on customer attitudes and behaviors was mediated by perceived brand trust, authenticity, and responsibility (Kang et al., 2021).

Similarly, a study by Meijerink and Schutten (2022) examined the relationship between ESG scores and employee satisfaction and retention in German textile and clothing companies, using a sample of 20 companies over a three-year period. The study found that companies with higher ESG scores had significantly higher levels of employee satisfaction, engagement, and retention, compared to companies with lower ESG scores. The study also found that the positive effect of ESG scores on employee outcomes was mediated by perceived organizational support, values alignment, and purpose (Meijerink & Schutten, 2022).

Furthermore, a study by Weiss et al. (2021) explored the impact of ESG scores on innovation and sustainability performance of German fashion companies, using a case study approach. The study found that companies with high ESG scores tend to have more proactive and ambitious sustainability strategies, more collaborative and inclusive innovation processes, and more positive and impactful sustainability outcomes, compared to companies with low ESG scores. The study also found that the positive effect of ESG scores on innovation and sustainability performance was driven by factors such as leadership commitment, stakeholder engagement, and organizational learning (Weiss et al., 2021).

These studies suggest that the business case for sustainability in the German clothing industry goes beyond just the financial benefits, and includes a range of strategic, operational, and reputational advantages (Lehmann et al., 2019). By achieving a positive ESG score, German clothing companies can not only improve their financial performance but also enhance their customer and employee relationships, their innovation and sustainability capabilities, and their long-term resilience and competitiveness (Karaosman et al., 2015).

However, realizing these benefits requires a systematic and integrated approach to ESG management, that goes beyond just the measurement and reporting of ESG scores (Shen et al., 2020). German clothing companies need to embed ESG considerations into their core business strategies, processes, and cultures, and engage proactively and transparently with their stakeholders to understand and meet their expectations (Eccles et al., 2014). They also need to invest in the necessary skills, technologies, and partnerships to drive continuous improvement and innovation in their ESG performance, and to create shared value for all stakeholders (Karaosman et al., 2015).

Moreover, the business case for sustainability in the German clothing industry is not without its challenges and limitations (Lehmann et al., 2019). The costs and resources required to implement and maintain a high level of ESG performance can be significant, especially for small and medium-sized enterprises (SMEs) that may lack the scale and capabilities of larger companies

(Shen et al., 2020). The complexity and dynamism of the sustainability landscape, with its multiple and sometimes conflicting stakeholder demands and regulations, can also create uncertainty and risk for companies that seek to balance their ESG and financial goals (Eccles et al., 2014).

Despite these challenges, the evidence suggests that the business case for sustainability in the German clothing industry is strong and growing, and that a positive ESG score can be a valuable asset and differentiator for companies that seek to create long-term value and impact (Karaosman et al., 2015). As the expectations and pressures for sustainability continue to rise, from consumers, investors, regulators, and other stakeholders, German clothing companies that prioritize and excel in their ESG performance are likely to be better positioned to thrive and lead in the future (Lehmann et al., 2019).

## **5 Discussion**

### **The research question and hypothesis in relation of the research results**

The hypothesis that "ESG scores are a meaningful indicator of the sustainability performance of companies", with the associated question about the significance of the ESG score, is, as we have seen, the subject of growing interest and debate in the academic and practical literature on sustainable finance and corporate sustainability. The literature review and results sections of this chapter provide evidence to support the question and hypothesis, but also highlight some counter-arguments and limitations of ESG scores as sustainability indicators, as well as the conditions and factors that influence their validity and reliability in the German clothing market.

On the one hand, the literature review suggests that ESG scores have become an increasingly popular and influential tool for measuring and communicating the sustainability performance of companies due to their completeness, comparability and communicability. By covering a wide range of environmental, social and governance criteria and using standardized methodologies, ESG scores, as described, provide a more holistic and balanced assessment of companies' sustainability performance than individual topic metrics or certifications. In addition, ESG scores enable informed and sustainable investment and consumption decisions to be made by providing a numerical assessment and relative ranking.

The results sections also provide empirical evidence that supports the relevance and significance of ESG scores as sustainability indicators in the German clothing market. Analyzing the benefits and consequences of good and bad ESG scores for German clothing companies suggests that ESG scores are positively associated with various indicators of sustainability performance, such as consumer reputation, trust and loyalty, access to sustainable finance and partnerships, and risk management. In addition, comparing ESG scores to other sustainability metrics and certifications shows that ESG scores offer some unique benefits, such as their completeness, eventual comparability, and communicability.

In addition, the analysis of the impact of ESG scores on business results in the German clothing market provides evidence of sustainability and the potential long-term benefits and competitive advantages of a positive ESG score. Several studies have found a significant positive correlation between ESG scores and financial performance indicators such as stock returns, profitability and enterprise value, as well as non-financial indicators such as customer attitudes and behaviors, employee satisfaction and retention, and innovation and sustainability outcomes.

On the other hand, the literature review and results sections also highlight some counter-arguments and limitations of ESG scores as sustainability indicators. One of the main criticisms of ESG scores is their lack of transparency and consistency, as different credit rating agencies use different methods and criteria to assess companies' sustainability performance, which can lead to different and sometimes contradictory ratings. In addition, ESG scores are based on companies' self-reported data and public disclosures, which may not always be accurate, complete, or up-to-date, which carries the risk of greenwashing and also misrepresentation.

Another limitation of ESG scores is their focus on performance at the company level, which may not always reflect the impact and risks of sustainability at the product or supply chain level. For example, a company may have a high ESG score due to its general policies and practices, but still source from unsustainable or unethical suppliers. This can lead to a discrepancy between a company's ESG score and its actual sustainability performance, and can even undermine the credibility and effectiveness of ESG scores as a measurement tool.

In addition, as seen, the validity and reliability of ESG scores as sustainability indicators can be affected by various conditions and factors, such as the quality and availability of ESG data, the materiality and relevance of ESG criteria, and credibility. For example, the lack of standardized and mandatory ESG disclosure requirements can lead to gaps and inconsistencies in the data used to calculate ESG scores, while the different priorities and preferences of stakeholders can also lead to different and sometimes conflicting ESG performance requirements.

Despite these limitations and challenges, the researched evidence suggests that ESG scores can be a meaningful and useful indicator of corporate sustainability performance when used and interpreted appropriately and in combination with other tools and approaches. The implications and recommendations for German clothing companies are to integrate ESG considerations into their core business strategies and operations, to report and communicate their ESG performance transparently and consistently, and to use ESG scores as a tool for improvement. To maximize the benefits and disadvantages of ESG scores, German clothing companies should proactively and collaboratively work with ESG rating agencies, investors, consumers, and other stakeholders to ultimately ensure the relevance, reliability, and impact of their ESG scores. This may include providing more detailed and timely ESG disclosures, participating in industry initiatives and partnerships, or third-party verification and assurance of their ESG data.

The future research directions and challenges for ESG scores as sustainability indicators in the German clothing market are, as researched, diverse and complex. On the one hand, there are ways to further explore the relationship between ESG scores and sustainability performance by using more dynamic data. On the other hand, there are challenges in harmonizing and

standardizing ESG scoring methods and disclosures. This is also mainly due to the diversity and complexity of the sustainability landscape.

In addition, the role of policymakers, investors, and consumers in promoting the use and relevance of ESG scores as sustainability indicators is critical. Policymakers can create a more supportive and conducive environment for ESG integration and disclosure by setting clear and consistent standards and regulations, and also by providing incentives and support for sustainable business practices. Investors can use their power and influence to demand and reward companies for better ESG performance and disclosure by integrating ESG criteria into their investment decisions and engagement strategies. Consumers can vote with their wallet and vote by selecting and advocating for companies and products with higher ESG scores and sustainability attributes. In summary, the question and hypothesis that "ESG scores are a meaningful indicator of corporate sustainability performance" is supported by the literature review and the results sections of this chapter, but with some caveats and limitations. ESG scores provide a comprehensive, comparable, and communicable tool for measuring and communicating companies' sustainability performance and are positively linked to various indicators of financial and non-financial performance in the German clothing market. However, ESG scores also face challenges and criticism in terms of their transparency, consistency, and credibility, and their effectiveness as sustainability indicators can be affected by various conditions and factors. To maximize the benefits of ESG scores and minimize the disadvantages, ESG factors must be incorporated into the core business strategies and operations of German clothing companies, report and communicate their ESG performance transparently and consistently, and proactively and collaboratively engage with ESG rating agencies, investors, consumers, and other stakeholders. The future research directions and challenges for ESG scores as sustainability indicators in the German clothing market are diverse and complex, requiring the concerted efforts and actions of policymakers, investors, consumers, and other stakeholders to promote the use and relevance of ESG scores as drivers of sustainable and responsible business practices.

## **6. Conclusions**

### **The conclusions of the results**

The relevance of ESG scores (Environmental, Social, Governance) in the German clothing market was investigated in this scientific paper. Their significance for consumers, businesses and investors was considered. The evaluation clearly shows that ESG scores are becoming increasingly important and make a significant contribution to consumers' purchasing decisions and brand perception.

The study emphasizes that companies that incorporate ESG scores into their corporate strategies not only assume social responsibility, but can also generate long-term economic benefits. The introduction of sustainable methods makes it possible to reduce expenses, minimize risks and open up new market opportunities. In addition, it is clear that investors are increasingly taking

ESG criteria into account when making investment decisions. This puts pressure on companies to pursue sustainable and responsible business models.

The results of the research highlight the importance of communicating ESG scores in a transparent and credible manner. This article shows that ESG scores are not just an expected temporary phenomenon in the German clothing market.

In conclusion, the inclusion of ESG scores in the German clothing market makes a significant contribution to the long-term development of the industry while creating economic opportunities. Companies that incorporate ESG principles into their corporate strategy are thus often better positioned to meet the increasing needs of consumers and investors and to gain a successful market share in the long term.

It will continue to be scientifically very interesting to see how the path of the German clothing market will develop taking ESG scores into account.

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## 8 List of abbreviations

|               |  |
|---------------|--|
| BMZ           | German Federal Ministry for Economic Cooperation |
| and           | Development                                      |
| BVI           | German Investment Funds Association              |
| CEO           | Chief Executive Officer                          |
| CFA Institute | Chartered Financial Analyst Institute            |
| DAX           | German stock index                               |
| e.g.          | exempli gratia                                   |
| ESG           | Environmental, Social, Governance                |
| GDPR          | General Data Protection Regulation               |
| GLS Bank      | Community bank for lending and giving            |
| GOTS          | Global Organic Textile Standard                  |
| GRI           | Global Reporting Initiative                      |
| HR            | Human Resources                                  |
| ISS           | Institutional Shareholder Services               |
| KiK           | Customer is king                                 |
| MSCI          | Morgan Stanley Capital International             |
| PRI           | Principles for Responsible Investment            |
| ROA           | Return On Assets                                 |
| ROE           | Return On Equity                                 |
| SASB          | Sustainability Accounting Standards Board        |
| SDGs          | Sustainable Development Goals                    |
| SFDR          | Sustainable Finance Disclosure Regulation        |
| SME           | small and medium-sized enterprises               |
| SRI           | Socially responsible investing                   |
| Tobin's Q     | Tobin's quotient                                 |
| vs.           | Versus   |

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**11 Attachments**

**11.1 Company questionnaire**

**Company – questionnaire:**

**“Relevance of ESG factors in the German clothing market” by Jan Peter Danz**

Environmental, social and governance (ESG) factors are a set of criteria used to evaluate a particular company in terms of its operations and ability to generate financial returns while adhering to sustainability and ethical principles it is instructed to serve. The “environmental” part evaluates a company in terms of the company's business activities on the environment. The „social“ section looks at how a company works to improve its relationships with employees, suppliers and customers. Finally, “governance” includes aspects of corporate management, external and internal audits and, where necessary, the protection of shareholder rights.

This survey complies with the legal requirements of the GDPR, all data is stored anonymously and it is not possible to identify you personally.

Date:

1. Is your company active on the German clothing market?  
 Yes                       No                       Not specified
  
2. How many employees do you employ in your company?  
 1-200       201-1000                       more than 1000
  
3. What is the turnover of your company in EURO per year?  
 1-500.000                       500.001-10.000.000  
 10.000.001-50.000.000                       over 50.000.000
  
4. Does your company/department have an ESG officer?  
 Yes                       No                       Not specified

5. How important do you rate ESG measures for your company?

not important                      1      2      3      4      5      important

6. How complex is ESG implementation for your company?

not complex                      1      2      3      4      5      complex

7. How intensive do you rate the costs of ESG implementation for your company?

not intensive                      1      2      3      4      5      intensive

8. Does your supply chain need to be restructured as part of ESG implementation?

Yes                       No                       Not specified

9. As a result, are you working with new partners in your supply chain?

Yes                       No                       Not specified

10. Do you think that implementing ESG will increase consumer confidence?

Yes                       No                       Not specified

11. If so, are you using this to justify higher prices?

not Intensive                      1      2      3      4      5      intensive

12. To what extent do you believe that the costs of ESG implementation can be offset by greater using this to justify higher prices?

not Intensive                      1      2      3      4      5      intensive

13. Can this also lead to long-term positive effects?

not intensive                      1      2      3      4      5      intensive

14. In which sector do you classify your company?

Fast Fashion sector                       Slow Fashion sector

conservative clothing sector       other clothing sector

15. Do you see ESG as a suitable tool to improve your business performance?

Yes                       No                       Not specified

16. If so, how high do you see the potential in it?

not high                      1      2      3      4      5      high

17. How important are ESG scores for your company?

not important                      1      2      3      4      5      important

18. Are ESG scores a useful indicator of your company's sustainability performance?

Yes                       No                       Not specified

19. Do you see advantages in the consumer market for your company with a positive ESG score?

Yes                       No                       Not specified

20. Do you think ESG factors will become more economically important in the future?

Yes                       No                       Not specified

21. If so, how intensive

not intensive                      1      2      3      4      5      intensive

22. Do you think that the ESG standards on the German clothing market will lead to the establishment of binding industry-wide sustainability standards?

Yes                       No                       Not specified

23. If so, how intensive

not intensive                      1      2      3      4      5      intensive

## 11.2 Customer questionnaire

### Customer - questionnaire regarding:

**“Relevance of ESG factors in the German clothing market”**

**by Jan Peter Danz**

Environmental, social and governance (ESG) factors are a set of criteria used to evaluate a particular company in terms of its operations and ability to generate financial returns while adhering to sustainability and ethical principles it is instructed to serve. The “environmental” part evaluates a company in terms of the company's business activities on the environment. The Social section looks at how a company works to improve its relationships with employees, suppliers and customers. Finally, “governance” includes aspects of corporate management, external and internal audits and, where necessary, the protection of shareholder rights.

This survey complies with the legal requirements of the GDPR, all data is stored anonymously and it is not possible to identify you personally.

Date:

1. How old are you?

I am \_\_\_\_\_ years old.

2. How much money do you spend on clothing each year?

- 0€-250€     
  251€-500€     
  501€-1.000€     
  1.001€-1.500€  
 1501€-2000€     
  more than 2.000€

3. The abbreviation “ESG” stands for Environmental, Social and Governance and describes a comprehensive set of rules for evaluating the sustainable and ethical practices of companies. How familiar are you with this topic?

- not familiar                      1    2    3    4    5    familiar

4. The environmental criterion refers to the environmental impact of companies and their contribution to environmental protection. How important is this to you when buying clothes?

- not important                      1    2    3    4    5    important

5. The social criterion evaluates how a company acts towards its employees, suppliers, customers and the public. How important is this to you when buying clothes?

-

not important      1      2      3      4      5      important

6. Governance refers to sustainable corporate management. These include, for example, topics such as company values or management and control processes. How important is this to you when buying clothes?

             
 not important      1      2      3      4      5      important

7. An ESG score uses a scale value to assess the ability and intensity of companies to act successfully in the area of ESG. How important would it be to you to find a company with a positive ESG score when buying clothing?

             
 not important      1      2      3      4      5      important

8. Do you see the assessment of companies on the German clothing market using ESG scores as a useful indicator of sustainability?

             
 not useful      1      2      3      4      5      useful

9. Does the implementation of ESG factors influence your purchasing behavior in the fast fashion sector?

Yes       No       Not specified

10. If so, how intensive?

             
 not intensive      1      2      3      4      5      intensive

11. Does the implementation of ESG factors influence your purchasing behavior in the slow fashion sector?

Yes       No       Not specified

12. If so, how strong?

not strong                      1      2      3      4      5      strong

13. Do you think that ESG factors will play a more important role in the German clothing market in the long term?

Yes       No       Not specified

14. Do you think that the ESG standards on the German clothing market will lead to the establishment of binding industry-wide sustainability standards?

Yes       No       Not specified

15. If so, how intensive?

not intensive   1      2      3      4      5      intensive