

## GREEN ECONOMY – CUSTOMERS’ CHOICE?

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### Abstract

*This paper interlinks the concept of the Green Economy with consumer behavior with the goal to answer the question whether the consumer is in the position to push the actual market towards sustainability.*

*At first the authors give a brief outline of the concept, its relevance and targets. Subsequently the theory of consumer behavior is explained with a focus on the basic factors of purchase decisions of users. The theory is based on a literature review. As conscientious consumerism is not a novelty but already in progress, the authors show the status quo for Europe. Lastly, the fields are interlinked in order to prove false the public opinion that the industry is the promoter of the Green Economy.*

*The consumer has the power to change the market towards more sustainability, although this approach is faced by certain challenges to set the ball rolling. The conclusion includes opportunities to eliminate these difficulties and provide further research approaches.*

**Key words:** *Green Economy; conscientious consumerism; sustainability; consumer behavior; consumer economics*

**JEL Classification:** *E21, D11, Q5*

### I. INTRODUCTION

Today the Green Economy has become the new megatrend. Besides a sound environment, continuous economic development in order to fulfill the requirements of an increasing world population is more important than ever.

The concept of the Green Economy, coined by the United Nations Environmental Programme (UNEP) at the Rio+20 Conference in 2012, connects economical and ecological objectives on a global basis. This idea provides general guidelines for all member states of the United Nations (UN), which shall be implemented in national governance. Due to released publications, the industry is the driver of the Green Economy, however the authors consider the consumers as driver, as the economy is based on supply and demand and companies orient their products towards the demand.

This research deals with the question why and to what extent the consumer’s behavior is the push factor for the Green Economy. Furthermore, the authors are engaged in research regarding the value of sustainability for consumers and why sustainability is worth a more expensive investment.

At first, the authors give an abstract outline about the concept of the Green Economy and consumer behavior regarding key factors for a purchase decision based on literature review. Afterwards, the authors show the status quo of conscientious consumerism in Europe. Lastly the two scientific fields are connected in order to answer the question if and to what extent the consumer could be a promoter of the Green Economy.

### II. LITERATURE REVIEW

The term “Green Economy” was relaunched by the UNEP at the Rio+20 Conference held in 2012 as an economy “that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities” (UNEP, 2012a, p.3). Although the definition is not new, not before then had it called worldwide political attention:

Green Economy is the basis for the concept of the Green Growth Strategy developed by the international Organization for Economic Co-operation and Development (OECD), which is “fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies” (OECD, 2011a, p.9). At a national level, exemplary Germany transforms its economy into a Green Economy “[...] that is both environmentally and socially compatible. This concept forges a real link between ecology and economy, with the Green Economy increasing social welfare and combating poverty while striving for social justice.” (Federal Ministry of Education and Research, 2014, p. 3). With German government guidelines in place, companies, the sciences, politics and society are in charge of the transformation, although enterprises take the leading role (Federal Ministry of Education and Research, 2014).

The objectives of the concept are sustainable growth of the global economy within environmental limits through green cities, transport systems, clean energy, decreasing pollution, well-paid employment, education as well as an efficient waste- and resource management (UNEP, 2012b). An important factor is the aspired worldwide cooperation by all member states of the UN in order to head for one direction (UNEP, 2012b). Basically, the Green Economy takes environmental externalities into the national accounts: Pollution will be factored into the costs. More concrete arrangements are to stop “ecologically perverse subsidies” (UNEP, 2011a, p.8), investing in sustainable agriculture and technologies, water conservation, ecotourism, a sound waste- and resource management (UNEP, 2011a).

Released publications regarding the Green Economy refer to the UNEP’s definition (Cortés, 2015; Morgera and Savaresi, 2013), therefore this paper refers to the above-mentioned definition as well.

Consumer behavior “is a [...] multidimensional process [...] influenced by a host of factors including demographics, lifestyle, and cultural values” (Mothersbaugh and Hawkins, 2016, p.6). Furthermore, consumer behavior is “the study of the processes involved when individuals or groups select, purchase, use, or dispose of products, services, ideas, or experience to satisfy needs and desires” (Solomon, 2015, p.28). Thus, the field of consumer behavior deals with the question of why customers choose a certain product or service. In theory, a purchase decision is based on external and internal effects. External influences include (sub-) culture, demographics, social status and peer groups. Meanwhile internal effects involve “perception, learning, memory, motives, personality and values, emotions and attitudes” (Mothersbaugh and Hawkins, 2016, p.34).

Culture includes core values of a certain society that specify what’s desirable: At first, Mothersbaugh and Hawkins classify “other-oriented” values, which mean an individual has to assimilate to the society. Norms and values of the society differ from the culture. Furthermore, “environment-oriented” values include what’s desirable for the society, e.g. a traditional versus an innovative society. Both have variable needs (Solomon, Bamossy et al, 2016, p.224). Lastly, “self-oriented” values reflect what “the individual members of society find desirable” (Mothersbaugh and Hawkins, 2016, p.43).

Demographics involve a society’s size and composition: Besides the size of the population, the stratification shall not be neglected as the society offers a variety of different consumers with diverging social statuses and types of households, income and behavior (Mothersbaugh and Hawkins, 2016, pp.108-129).

The peer group or the social network of a certain consumer depends on his or her status in the society, e.g. colleagues, friends, neighbors, family members and sport clubs (Mothersbaugh and Hawkins, 2016, p.217).

Perception as an internal factor is divided in exposure, attention and interpretation (Mothersbaugh and Hawkins, 2016; Solomon, 2015). Exposure provides the resources needed to get the consumers’ attention by noticing or realizing the message through a stimulus. A successful exposure leads to the consumer paying attention to the message by activating “receptor nerves” (Mothersbaugh and Hawkins, 2016, p.279), which “sensations go to the brain for processing” (Mothersbaugh and Hawkins, 2016, p.279). Interpretation means the consumer has to take in the message of the commercials in order to memorize it during the purchase and consumption process.

Basically, consumer behavior is learned behavior (Mitchell, 1983) “caused by experience” (Solomon, 2015, p.229) and all learning experiences accumulated result in memory (Mothersbaugh and Hawkins, 2016, p.315), which influence the purchase decision. If a consumer remembers a proper product in a certain shop, the likelihood is high, the person will buy again this product, as he knows his requirement will be satisfied and he can trust this label. Learning is also strongly influenced by the social network and the media (Solomon, 2015).

Motivation or the motives answer the question of why a consumer decides to buy certain products. In theory the “consumer feels a gap between a desired state and his or her actual current state” (Mothersbaugh and Hawkins, 2016, p.354).

Furthermore, the consumer’s personality plays a decisive role as it is “an individual’s characteristic response tendencies across similar situations” (Mothersbaugh and Hawkins, 2016, p.365). Therefore, two persons with similar needs, i.e. both are hungry, will behave in different ways to fulfill their needs, i.e. eating out versus buying food in the supermarket. In addition, a consumer’s value system has a strong influence on the purchase decision. A value is “a belief about some desirable end-state that transcends specific situations and guides selection of behavior” (Solomon, Bamossy et al, 2016, p.223).

Lastly, emotions, which “are strong, relatively uncontrolled feelings that affect behavior” (Bagozzi, Gopinath and Nyer, 1999), have to be considered in consumer behavior as they are closely connected to requirements, motivation and personality. A fulfilled requirement leads to positive emotions, so if a brand induces a positive emotion, the consumer will be satisfied and possibly loyal to the label (Phillips and Baumgartner, 2002).

### III. CONSUMER BEHAVIOR REGARDING SUSTAINABLE PRODUCTS AND SERVICES

Sustainable consumption was introduced as a global challenge in 1992 by the United Nations and during the last decade the topic has become more important for consumers’ purchasing decisions. Although sustainable consumption is not explicitly defined, the scientific world has defined sustainable “patterns of consumers’ behavior” (Lorek, 2015, p.117). As an example the Natural Marketing Institute divides consumers into five different segments. One segment is consumers who practice LOHAS, an acronym for a “lifestyle of health and sustainability” (Natural Marketing Institute, 2014a). Environmental and ecological criteria have wide influence on the purchasing decision of LOHAS consumers and affect all areas of their lives (Dahlstrom, 2011). According to the Natural Marketing Institute (2014b), 49 million consumers belong to this segment in Europe, which leads to a great market potential and influence regarding marketers and retailers.

This trend towards “conscientious consumerism” (Solomon, Bamossy et al, 2016, p.234) finds favor with more and more customers in Europe due to the following study: Regarding the market potential within Europe, over 80 percent of the respondents buy environmentally friendly products (European Commission, 2013). Reasons for their purchase decisions of green products “are good value for money” (European Commission, 2013, p.14), “make a real difference to the environment” (European Commission, 2013, p.17), “are as effective as regular products” (European Commission, 2013, p.17) and “it is the right thing to do” (European Commission, 2013, p.22).

Although a great portion of the consumers buy eco-friendly products regularly, the positive environmental impact is not the decisive factor during the purchasing decision. The quality and the price of the products are still the major considerations, but the importance of the environment has increased (European Commission, 2013, p.52; European Commission, 2009, p.11). In this connection it is notable that most Europeans would pay a premium for green goods: 65 percent are willing to pay up to ten percent more (European Commission, 2013, p.55). Sackett, Shupp and Tonsor (2016) too, found that basically consumers are willing to pay more for sustainably produced goods which offers opportunities for companies. The industry has already responded to this consumer behavior by introducing organic or vegetarian versions of products and by integrating “sustainability” into their business strategy.

Despite the upward trend of consumers taking environmental aspects into consideration, customers also deal with certain problems, whereby a continuous rising tendency can be set back: the majority does not feel well informed about a product’s impact on the environment (European Commission, 2013, p.74) due to deceptive information or the lack of information on the product itself (European Commission, 2013, p.80). This leads to mistrust among almost half of the consumers regarding the product and the eco-friendly performance of the companies themselves (European Commission, 2013, p.83-86). Lorek (2015) has found similar result as consumers do not feel well informed or distrust producers concerning “the nature of their products” (Lorek, 2015, p.121).

### IV. CONSUMER BEHAVIOR – PROMOTER OF THE GREEN ECONOMY?

Within the concept of the Green Economy politics assigns the industry as the promoter, the authors advance the view that the consumer has the potential to become the promoter.

Basically, an economy is based on supply and demand: the cheaper the price of a certain good the higher the demand. Conversely, a rising price decreases the demand. The concept puts the focus on enterprises to be innovative, to rethink their business models and play a proactive part in changing the economy. The market-based approach assumes that enterprises react on an increasing or decreasing demand. An increasing market for ecologically friendly products influences the supply to exploit new sales potential. A falling demand for non-green goods decreases the sales volume. Therefore, the company has to adjust its offer and this influence can be the promoter of the Green Economy as the concept supports the driving effect of the consumers and their behavior. Where the greenest company can fail due to poor demand and incentives for companies won’t necessarily lead to sustainable operations. So, in practice, a company serves a demand competing with other companies. Changing a running good or service into an eco-friendly one bears risks and opportunities. In general, it is assumed, that green innovations are connected to investments. In addition, sustainable use of resources could lead to higher market prices of the product or service as, for example, compensation payments are included. On the one hand the consumer could realize a benefit, as eco-friendly products sustain the environment and the consumers should be interested in a healthy ambience. Therefore, presumably the

customers would prefer the nonpolluting options. But on the other hand it could lead to competitive disadvantages, as ecological aspects are not prioritized in consumer behavior. In comparison to quality and price the prioritization at the purchase of the environment is lower. So producing the green product must not accompany a reduction in quality and a high rise in price, although even a small price increase can discourage highly price sensitive customers, especially if other competing companies don't go along with the Green Economy and sell their goods for a cheaper price. While "being sustainable" can be a marketing instrument increasing the sales potential, it is not guaranteed. Furthermore, according to a study by the Boston Consulting Group (2009), most of the companies are afraid of rising prices due to a more sustainable product which could discourage consumers from buying, even though certain companies could already offer their green alternatives on a lower or equal price level because of reducing packaging, resource efficiency, just-in-time or less transport cost by local supply.

Therefore, a company has no overwhelming motivation to change its running processes by itself, only the demand towards green products could set that impulse.

As mentioned above consumer behavior is affected by (sub-) culture, demographics, social status and peer groups as well as perception, learning, memory, motives, personality and values, emotions and attitudes. These factors play a decisive role in the process of changing the actual market towards a Green Economy. The following example is based on the theory that sustainable products require an increase in prices:

In fact, the culture and subculture of people have a strong influence on their purchase decisions as consumers, but as long the culture does not change towards a sustainable and green lifestyle it won't influence the consumer to change his or her habits. Europe includes lots of heterogeneous cultures, raising the question of how different cultures could be affected by sustainability. This applies to the peer group as well. In Europe the composition of demographics has changed towards an older society. This causes an increased health-conscious behavior including a demand for healthy products. The eco-friendly factor is circumstantial for these users. Social status has a bearing on the purchase decision of the consumer: a higher social status involves a substantial income and a demand for high quality.

At first, changing one's own behavior by internal factors must depend on certain occasions like new information or experiences relating to the consumer or his environment.

A consumer's perception regarding ecological destruction is based on learning and memory. All three internal factors are based on information. Information regarding non-sustainable goods, their environmental impact and the negative effects on humans is the crucial factor to changing consumers' behavior. New findings are learned and by memorizing them during the purchase decision, the information could change the behavior towards greener alternatives. However, this change depends on the personality, values and attitude of the user as the information regarding the environmental impact of non-sustainable behavior has to attach great importance to the consumer. Otherwise he or she will be informed but will not care. That means information about a specific topic will be processed without changed behavior. Reasons for the neglect could be that the problem noticed is not perceived as serious enough, the environmental destruction is too far away and, lastly, timing is an important factor: unsustainable behavior leads to consequences in the future. If the timeframe of the consequences is too long, people cannot establish a reference to their influence on the environment. Furthermore, a long timeframe does not emphasize importance to act presently.

In case a consumer is able to establish a relationship between his or her personality or values and the information, the consumer will be influenced, e.g. a person's favorite country is affected by ecological destruction. The person will react with more concern and integrate this knowledge into the purchase decision. However, the information can have an effect on the consumer and it is possible the new motive to choose sustainable alternatives fails at the supermarket due to a potential higher price. In this case the concern does not prevail the willingness to pay a premium or old habits die hard.

Another case arises if information reaches the emotions of a consumer, e.g. information about a scandal in industrial meat productions including footage of cruelty to animals can lead to emotional reactions on the part of the user. But even in this case the first reaction could be forgotten by potentially higher prices.

These possible conflicts illustrate that consumer behavior basically provides possibilities to change the demand when the relevant factors are influenced. However, the price of the product must not be neglected as an important factor for the purchasing decision. The question, as the authors are aware of the market failure, is start changing towards a Green Economy. How can the ball be set rolling?

If the green alternative is as costly as the non-sustainable good, even consumers won't sidestep for price reasons anymore. But consistent price levels cannot be guaranteed for all products. Furthermore, trust in these goods in relation to quality and sustainability must be built.

Therefore politics have to support the concept by setting a proper framework in order to set the ball rolling through mandatory standards and providing information:

As most companies wouldn't have the impulsion to promote the Green Economy, politics have to set standards for the entire market with reference to emission, pollution and waste. These standards have to be concretely expressed against the "SMART"-criteria (Bohinc, 2010, p.49). "SMART" means specific,

measurable, achievable, realistic and time-bound. A specific standard could be a certain recycling quota for plastic waste until a fixed date, like 31<sup>th</sup> of December 2020. All market participants would have to stick to the requirements and failing this would lead to a monetary penalty. By this, all enterprises would have to change their waste management, which consumers could not sidestep.

In addition to particular standards, politics can use supportive instruments, such as incentive schemes for actual green enterprises, like tax reductions or loan support to stimulate the market. The question remains as to what extent monetary impulsion would have an impact and if it would be feasible for the government to provide capital.

Furthermore, the consumer should be provided with information and transparency regarding the environmental impact of certain goods and how a green alternative could make a difference. Moreover, those consumers not taking the environment into consideration, could be persuaded by information about downstream cost-savings, like fewer pollutants, less waste, efficiency in use or incentives like tax reductions. Even the other way around, information regarding consequences of non-green products in connection to increasing costs or health risks could make consumers rethink their habits. The authors expect an initial change by political influence, so the market gets an impulse to set the ball rolling.

But this approach deals with the problem of trust due to green washing. Detached companies have already reacted to the demand for green goods by being officially sustainable or introducing sustainable products successfully, but there is no definition of sustainability. Therefore, every enterprise can call its portfolio sustainable. This opens the floodgates to green washed companies offering pretend green products including misleading or exaggerating information. Consequently, green washing leads to decreasing credibility and mistrust into green goods. Providing information and making green washed companies public to the consumer may regulate this factor to build trust and confirm a possible beginning trend towards a green consumption.

## V. CONCLUSION

The theoretical research regarding conscientious consumerism challenges the approach of the concept of the Green Economy that states the industry will promote the concept by innovation and green technologies. The authors scrutinize why enterprises shall invest in green technologies in good market conditions and how companies shall invest in bad market situations. The authors opine that the industry orient their business strategy towards the demand, following the theory of supply and demand. Thus a demand for sustainable products will have an impact on the industry to satisfy. Investments in green technologies will become unpreventable.

Therefore, the demand involving the consumer should be focused. But even the consumer won't change his or her habits without any impulse. Of course, released reports about ecological destruction, personal experiences or the cultural environment could change the consumer behavior, but doesn't apply to the bulk of users. The research regarding the factors of consumer behavior has shown the importance of politics to intercede in order to build trust in green products and enterprises. The standards are important to accomplish the first green milestones. All enterprises have to change their strategies so green companies won't deal with competitive disadvantages. Providing information could consist of labels on products and reports on television regarding the consequences of certain goods. These two factors shall set the momentum for the change towards a green economy.

This approach deals with the problem that politics often avoid intervention into the market, as those consequences could be very complex and connected with resistance from voters. Beyond that, resistance accompanies change, companies and lobbies won't accept environmental standards, as investments have to be made.

Further research has to examine the consequences of the political framework and its influence on the consumer. How can mandatory standards be enforced without an economic slowdown? Moreover, how does the user react to a new label and how is consumer behavior influenced by labels? Further research deals with the problem of short-term reactions on consumers: A certain occasion may influence the consumer behavior, but as shown most users fall back into old habits. However, the user shall be influenced on a long-term basis as the trend towards conscientious consumerism in the context of the Green Economy shall be sustainable.

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