| „Management and Business Administration. Central Europe" Vol. 21, No. 4(123): p. 132–138, ISSN 2084–3356, Copyright by Kozminski University

Greenwashing – Myth or Reality in the World of Business?

Wojciech Przychodzeń[1]

Primary submission: 22.02.13 |Final acceptance: 14.09.13

Abstract

Purpose: The purpose of this paper is to explore the concept of corporate posturing and deception in the area of social and environmental responsibility, its main types and causes and to assess the actual scale of the problem.

Methodology: The paper discusses major issues with references to existing literature and practical examples.

Findings: The main finding of this paper is that environmental and social responsibility statements accurately represent corporate commitment in the majority of cases. There are a number of reasons for this state of affairs. The most important of them are: easy consumer and investor access to various sustainability ratings, the rising scale of external verification of social responsibility reports by independent third parties and stakeholder groups, and the rising liability for corporate social responsibility frauds.

Research limitations: The paper explores issues related to the problems and challenges of fair and accurate corporate social reporting. Many questions remain to be addressed.

Practical implications: Social and environmental branding could give companies competitive advantage as a growing number of consumers become more sustainability-conscious. It could also help overcome the increasing skepticism of consumers towards corporate social responsibility practices.

Originality: The paper raises the importance of the different conditions of corporate disinformation in the field of social and environmental responsibility and adds value to the existing body of literature on corporate greenwashing.

Keywords: greenwashing, corporate social responsibility, environmental management, community and stakeholder relations

JEL: G30, L14, M14

1 Kozminski University

Correspondence address: Kozminski University, Jagiellonska 59 St., 03-301 Warsaw, e-mail: wojciechp@kozminski.edu.pl.

DOI: 10.7206/mba.ce.2084-3356.85

Introduction

Currently we are dealing with a number of processes that affect the growth of interest on the part of the business sector in running a socially responsible business. This applies to the same extent to social as well as environmental issues, and is associated with making certain investments in this area. It should be remembered that these are usually voluntary and stem from the desire to meet the expectations expressed by stakeholders (Pisz and Rojek-Nowosielska, 2009; Bartkowiak, 2011).

Profound changes in the behavior and expectations of major market participants, associated with the growing social, economic and environmental imbalances that we are currently witnessing, make building a sustainable competitive advantage increasingly more difficult and increasingly dependent on the company's ability to generate a so-called *win-win benefit* for its stakeholders. There are new sources of competitive advantage, associated in particular with effective management of the environment, economical use of natural resources, the reduction of poverty in the environment of the company, ensuring equal gender participation in management and control, creating a safe working environment, managing the supply chain, supporting the education of employees and their skills development, and a proper management of company growth.

Creating advantages in the mentioned areas is becoming a more and more popular way for companies to create value for themselves and their shareholders through achieving measurable financial benefits in the long term, and not through purely charitable activities, which are selfless and largely dependent on personal preference or the utility function of the management. It is also a way to increase savings, for example by reducing energy costs, recycling waste, eliminating unnecessary logistics costs, and reducing the costs of treating employees and neutralizing accidents. Therefore, business entities properly using new sources of competitive advantage constitutes a huge opportunity for the creation of win-win added value.

Social and environmental reporting is perceived by many observers as conditioned by strategic considerations only. This is because more often than not it does not require any formal verification by third parties. It is often referred to as ordinary public relations, aimed only at manipulating the public opinion, without being incorporated into the actual business activities.

The above point of view is opposed by those who believe in constantly expanding opportunities of eliminating corporate disinformation regarding social responsibility and environmental management on the part of the stakeholders themselves. According to the proponents of this approach, social trust deficit generates measurable costs for companies, thus making fraud unprofitable and undesirable.

An attempt to verify to what extent the operations described by companies in their reports regarding corporate social responsibility fail to match reality, and to what extent they actually

DOI: 10.7206/mba.ce.2084-3356.85

represent the operating activities, appears to be necessary. Such verification should expand the knowledge regarding sectors that are particularly exposed to social and environmental disinformation, its determinants and solutions facilitating its reduction.

Greenwashing – Its Essence and Main Types

The phenomenon of *greenwashing* consists in companies deliberately misinforming various groups of stakeholders, aiming to present false qualities of a given product or to hide violations of existing regulations in various areas of their business operations, associated with social and environmental issues. Thus, we are dealing here with environmental, social and financial declarations that have little or nothing to do with the actually implemented policies of these companies (Deegan, 2002; Laufer, 2003; Aluchna, 2008).

Corporate disinformation regarding social responsibility is designed solely to attract more consumers, to improve the image of the company or to attract external investors. It does not involve any violations of the existing regulations or the socially acceptable ethical standards. In this case, reports on environmental or social activities are drawn up mainly as a response to the growing social pressure.

Another form of greenwashing is undertaking positive activities in a certain area in order to cover up others, which are clearly negative and harmful, both socially and environmentally. The aim of this is to change the way of perceiving the entire company as a socially responsible business. A good example are the problems of the company Nike, which sought to conceal the violations of international conventions on labor rights and the exploitation of cheap labor in their production facilities in Asian countries in the 1990s under the umbrella of responsible activities in the field of environmental protection, such as abandoning the use of polyvinyl chloride in the production of footwear (Beder, 2002). Another example is the attempt of the company Enron to hide financial fraud through creating the image of a socially responsible corporation that operates on many levels to protect workers' rights and to improve the living conditions of the employees (Healy and Palepu, 2003). Therefore, in this case, greenwashing involves both a positive and a negative impact on the environment.

The third main type of corporate disinformation in the field of social responsibility is creating a socially and environmentally friendly image that has nothing to do with reality, while at the same time conducting business activities that are clearly harmful to the environment. An example could be the transfer of highly pollution-generating, referred to as "dirty", technologies to less developed countries (characterized by high levels of corruption and the lack of capital, and with more lenient regulations on the protection of the natural environment) by Western corporations (such as Royal Dutch Shell in Nigeria) or a complete absence of real action in the field of social and environmental responsibility, which would stretch beyond the applicable law (Boyce, 2004; Debashish and Priya, 2005; Lange and Washburn, 2012).

Greenwashing in Business Practice

In the case of companies that are included in the Standard & Poor's 500 Index (S&P 500), which brings together 500 of the largest U.S. companies in terms of capitalization, in 2010 as much as 92.8% of them published comprehensive reports in the field of corporate social responsibility and documented a wide range of their pro-social activities, which have been awarded by a number of external institutions or NGOs. This percentage for companies forming the Financial Times Stock Exchange 350 (FTSE 350), bringing together 350 of the largest British companies in terms of capitalization, amounted to 76.9%, and for the Warsaw Stock Exchange Index (WIG), which brought together 427 listed companies on the main market, only to 22.3%. Taking into account activities in the field of the protection of the natural environment would reduce this percentage to 52.4% for the S&P 500 Index (Przychodzeń and Przychodzeń, 2013), 60.3% for the FTSE 350 Index (Przychodzeń and Przychodzeń, 2012) and 9.1% for the WIG Index. Consequently, a clear division between developed economies and developing economies is becoming visible. In the first case, disinformation in the field of corporate social responsibility seems less likely. Additionally, it is also limited by activities conducted in several areas simultaneously.

As demonstrated by the carried out research, which included companies from all over the world operating in various sectors of the economy, the phenomenon of greenwashing applies to a much greater extent to sectors with a low potential impact on the natural environment, where the actual implementation of environmentally and socially responsible policies is associated with a lower probability of a potential positive impact on the financial condition and operational efficiency of individual entities (Ramus and Montiel, 2005). Companies that actually incorporate aspects associated with the protection of the natural environment and corporate social responsibility into their decision-making processes are usually concentrated in sectors with a high capital intensity and a high negative impact on the natural environment, although also here differences can be seen between developed economies and developing economies. In the first case, their distribution is much more even. Mature markets are characterized by their relatively higher share in less capital-intensive industries, such as consumer goods and the food industry. This entails a much greater actual willingness of consumers to purchase products offered by socially and environmentally responsible companies, which in turn means that also companies in sectors with far less pressure on the natural environment consciously decide to undertake real action in this regard and at the same time it reduces the possibility of corporate disinformation.

However, regardless of the sector in question, currently there are at least a few trends that significantly reduce disinformation in the field of corporate social responsibility and environmental management. The first one is broad consumer access to sustainability ratings evaluating the effectiveness of the activities of companies in various areas of social and environmental responsibility, published by independent institutions (Balmer, Fukukawa and Gray, 2007). Being at the far end of these lists jeopardizes the brand image and decreases revenues (Fan, 2005; Parguel, Benoît-Moreau and Larceneux, 2011). This is also reflected in the decisions of institutional

DOI: 10.7206/mba.ce.2084-3356.85

investors, who increasingly more often look for additional information based on which they can properly assess the fundamental value of the shares of the acquired companies, thereby avoiding investing in companies that are socially and environmentally irresponsible.

Another trend is the growing popularity of using the services of external auditors to analyze the reliability of the published social and environmental reports. According to a recent report by KPMG (KPMG 2011, p. 30) in 2011 the above solution was implemented by more than 46 percent of the 250 largest in terms of turnover multinational corporations (in 2002 this was only 29 percent). This results in a widespread use of external controlling in reports in the field of social and environmental responsibility also by smaller companies, often not listed on the stock market. The lack of it is being perceived by stakeholders more and more as moving away from the best practices (Swift, 2001). It also entails a socially noticeable lack of a proper transparency of the publicized information, thus reducing its credibility, and it may indicate a lack of willingness on the part of the organization itself to continuously improve reporting and control processes. However, at this point it should be noted that there is a significant monopolization of the external audit market by the companies of the so-called "Big Four" – PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG, which virtually control the international market.

Also the amount of possible voluntarily obtained by companies environmental and social marks, awarded by external institutions, extends from year to year, having an increasing importance in business strategy (Preisner and Turek, 2005). Some of the most common ones in the business practice include: Fairtrade, Blue Angel, Eco Mark, Eco Logo, Energy Star, Environmental Choice, EU Flower, Green Label, Green Star as well as The Leadership in Energy and Environmental Design. The main factors that distinguish the respective certificates are their credibility, the evaluation criteria adopted by the institutions that grant them and their compliance verification process.

The third trend limiting the scale of possible corporate disinformation in the field of social responsibility and environmental management is associated with the increasing inclusion of various groups of stakeholders in the process of drawing up reports. Their opinions and suggestions become an integral part of them (Morsing and Schultz, 2006). The actual involvement of companies in pro-social and pro-environmental activities requires them to implement a more sophisticated approach than they did several years ago. Submitting the reported activities to multilateral verification conducted by various groups of external and internal stakeholders improves the flow of information at all levels of the organization and between them. Their actual support also makes the organization more reliable, and hence the scale of possible fraud and manipulation in the field of socially and environmentally responsible activities is reduced.

The fourth trend is directly linked to the possibilities arising from the existing legal order. As demonstrated by the example of the explosion on the Deepwater Horizon drilling rig of the oil company BP, deliberately misleading the public opinion when it comes to compliance with environmental standards and occupational health and safety legislation opens up the possibility to use the provisions of the Commercial Code (unfair commercial practice relating to providing false information on the qualities of a product or its impact on the environment) and the Law on Trading in Financial Instruments (the dissemination of false or misleading information or rumors through mass media, Internet included, or in any other way, which gives, or could give false signals as regards financial instruments) by entities directly or indirectly affected by greenwashing in order to assert their rights (Cherry and Sneirson, 2011). This is an important warning signal for the corporate sector, making fraud both in the social and the environmental field more risky and more costly.

Due to the described trends it is also becoming more difficult to transfer "dirty" technologies to less developed countries. Existing research studies on regions offering *pollution haven*s do not give a clear answer regarding their actual existence or their contribution to the increasing environmental degradation. Wagner and Timmins (2009) used econometric models to demonstrate the flow of foreign direct investment in various industrial sectors in Germany, which confirmed the existence of a pollution haven for the chemical industry. Kahn and Yoshino (2004) in their research study covering 128 countries and 34 industrial sectors in the years 1980–1997 indicate that these exist primarily outside groups of countries that have a common trade agreement. These authors also demonstrate that with an increase in national income the export of pollution-generating products decreases and they are replaced by "clean" technologies. Perkins and Neumayer (2008) come to a similar conclusion, arguing that "dirty" economies increase their environmental performance more rapidly, because they adopt technological and political solutions similar to those that are applicable in "clean" economies, and international ties accelerate the diffusion of eco-innovation, while increasing environmental performance. Harrison and Eskeland (2003) demonstrate that although some multinationals actually locate their production plants in countries with lower standards in terms of environmental protection, their pollution generation is still much lower and their energy efficiency higher than that of local companies.

Summary

Despite the growing interest of the business sector in operating in a socially and environmentally responsible way, we are still dealing with scandals associated with fraud and violations of environmental regulations, occupational health and safety regulations, or deliberate corporate disinformation in this field of various groups of stakeholders. This raises the question about the extent to which companies actually implement the measures described in their reports in the field of corporate social responsibility.

The in this paper presented reasoning seems to confirm the theory that the corporate sector manipulating information about social and environmental activities is a phenomenon that occurs in a small minority of cases. This is mainly due to the broad and increasingly easy access of consumers and investors to sustainability ratings evaluating the effectiveness of company operations in various areas of social and environmental responsibility published by independent

 DOI: 10.7206/mba.ce.2084-3356.85

institutions and non-governmental organizations, the growing popularity of using environmental and social marks in business strategies, the increasing extent to which external audit as well as the opinions of stakeholders are used in the reports that are published, and the possibility for greenwashing victims to use the existing legislation to assert their rights. The likelihood of information in the field of corporate social responsibility to be manipulated also decreases with increasing levels of socio-economic development in the country in which the business operates as well as increasing levels of capital intensity and the negative impact on the natural environment in the sector concerned.

References

Aluchna, M. (2008). Oszustwa korporacyjne. Geneza, skala i zagrożenia. *Studia i Prace Kolegium Zarządzania i Finansów SGH*, *86*: 60–74.

Balmer, J., Fukukawa, K. and Gray, E. (2007). The nature and management of ethical corporate identity: A commentary on corporate identity, corporate social responsibility and ethics. *Journal of Business Ethics*, *76*(1): 7–15.

Bartkowiak, G. (2011). *Społeczna odpowiedzialność biznesu w aspekcie teoretycznym i praktycznym*. Warszawa: Difin.

Beder, S. (2002). Environmentalists help manage corporate reputation: Changing perceptions not behavior. *Ecopolitics: Thought & Action*, *1*(4): 60–72.

Boyce, J. (2004). Green and brown? Globalization and the environment. *Oxford Review of Economic Policy*, *20*(1): s. 105–128, DOI: 10.1093/oxrep/grh007.

Cherry, M. and Sneirson, J. (2011). Beyond Profit: Rethinking Corporate Social Responsibility and Greenwashing After the BP Oil Disaster. *Tulane Law Review*, *85*(4): 983–1038.

Debashish, M. and Priya, K. (2005). Imperializing spin cycles: A postcolonial look at public relations, greenwashing, and the separation of publics. *Public Relations Review*, *31*(4): 513–520.

Deegan, C. (2002). Introduction: The Legitimising Effect of Social and Environmental Disclosures – A Theoretical Foundation. *Accountability, Auditing and Accountability Journal*, 15(3): 282–311, DOI: 10.1108/09513570210435852.

Eskeland, G. and Harrison, A. (2003). Moving to greener pastures? Multinationals and the pollution haven hypothesis. *Journal of Development Economics*, *70*(1): 1–23.

Fan, Y. (2005). Ethical branding and corporate reputation. *Corporate Communications: An International Journal*, *10*(4): 341–350, DOI: 10.1108/13563280510630133.

Healy, P. and Palepu, K. (2003). *The Fall of Enron. The Journal of Economic Perspectives*, *17*(2): 3–26.

International Survey of Corporate Responsibility Reporting 2011 (2011). London: KPMG.

Kahn, M. and Yoshino, Y. (2004). Testing for pollution havens inside and outside of regional trading blocs. *Advances in Economic Analysis & Policy*, *3*(2): 12–88.

Lange, D. and Washburn, N.T. (2012). Understanding Attributions of Corporate Social Irresponsibility. *Academy of Management Review*, *37*(2): 300–326, DOI: 10.5465/amr.2010.0522.

Laufer, W. (2003). Social Accountability and Corporate Greenwashing. *Journal of Business Ethics*, *43*(3): 253–261, DOI: 10.1023/A:1022962719299.

Morsing, M. and Schultz, M. (2006). Corporate social responsibility communication: stakeholder information, response and involvement strategies. *Business Ethics: A European Review*, *15*(4): 323–338, DOI: 10.1111/j.1467–8608.2006.00460.x.

Parguel, B., Benoît-Moreau, F. and Larceneux, F. (2011). How Sustainability Ratings Might Deter 'Greenwashing': A Closer Look at Ethical Corporate Communication. *Journal of Business Ethics*, *102*(1): 15–28, DOI: 10.1007/s10551–011–0901–2.

Perkins, R. and Neumayer, E. (2008). Fostering environment-efficiency through transnational linkages? Trajectories of CO2 and SO2, 1980–2000. *Environment and Planning A*, *40*(12): 2970–2989, DOI: 10.1068/a4089.

Pisz, Z. and Rojek-Nowosielska, M. (2009). *Społeczna odpowiedzialność biznesu Uwarunkowania, kontrowersje, dobre i złe praktyki*. Wrocław: Wydawnictwo Universytetu Ekonomicznego we Wrocławiu.

Preisner, L. and Turek, I. (2005). *Rola znaków środowiskowych w strategii przedsiębiorstwa*. In: Pindór, T., *Proces wdrażania rozwoju zrównoważonego w przedsiębiorstwie*. Białystok: Wydawnictwo Ekonomia i Środowisko.

Przychodzeń, W. and Przychodzeń, J. (2012). Zrównoważony rozwój brytyjskich przedsiębiorstw i ich wycena przez rynek kapitałowy. *Kwartalnik Nauk o Przedsiębiorstwie*, *24*(3): 79–85.

Przychodzeń, W. and Przychodzeń, J. (2013). Corporate Sustainability and Shareholder Wealth. *Journal of Environmental Planning and Management*, *56*(4): 474–493, DOI: 10.1080/09640568.2012.685927.

Ramus, C. and Montiel, I. (2005). When Are Corporate Environmental Policies a Form of Greenwashing? *Business and Society*, *44*(4): 377–414, DOI: 10.1177/0007650305278120.

Swift, T. (2001). Trust, Reputation and Corporate Accountability to Stakeholders. *Business Ethics: A European Review*, *10*(1): 16–26, DOI: 10.1111/1467–8608.00208.

Wagner, U. and Timmins, C. (2009). Agglomeration Effects in Foreign Direct Investment and the Pollution Haven Hypothesis. *Environmental and Resource Economics*, *43*(2): 231–256.