OPEN ACCESS

Volume: 11

Special Issue: 3

Month: February

Year: 2024

E-ISSN: 2582-0397

P-ISSN: 2321-788X

Received: 19.12.2023

Accepted: 04.02.2024

Published: 28.02.2024

Citation:
Jain, Disha, et al. "The Art of Camouflaging: Unravelling the Motives and Consequences of Greenwashing." *Shanlax International Journal of Arts, Science and Humanities*, vol. 11, no. S3, 2024, pp. 192–99.

DOI:
https://doi.org/10.34293/sijash.v11iS3-Feb.7260

The Art of Camouflaging: Unravelling the Motives and Consequences of Greenwashing

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Abstract
Current trends are driving the youth to fanaticize organic and eco-friendly products. These demands, along with the current situation of the depleting planet, have paved the way to encourage producers to produce sustainable and planet-friendly products. But has this been for the good? The companies claim to be sustainable and gain consumers while not doing what they claim to do. This is called greenwashing. In other words, greenwashing is a destructive and dishonest method of falsely representing a company's sustainability. Companies should be held liable if they make fraudulent statements. This research has been done tounderstand what greenwashing is, what companies and their ways of following this menace, their impacts on the environment, society, governance and consumers, what ESG is and a detailed case study of companies like Apple, Tesla and Volkswagen. The study also had a few suggestions on what we, regulatory authorities and companies,can do to gain control over greenwashing and make this planet a better place to live.
Keywords: Greenwashing, Sustainability, SDG, ESG, Carbon Emissions.

Introduction

Humans are said to have been a part of Earth for thousands of years, and in the name of development, man has only exploited it. Instead of replenishing it, humans continue to pollute and degrade the planet, be it forests, mountains, natural resources, flora, or fauna. Many of today's challenges, such as climate change, resource depletion, and deforestation, require international collaboration and cooperation. Thus, in 1987, the United Nations Brundtland Commission came up with the idea of sustainable development and defined sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."

In 2015, the United Nations adopted the Sustainable Development Goals (SDGs), also known as the Global Goals, as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. With the rise and expansion of responsible and sustainable investing in recent years, Environmental, social, and governance (ESG) investing is one of the categories that has gained momentum and is a relatively new concept for investors and companies. Due to responsible investing and the rising social and environmental issues, such as modern slavery, unsustainable consumption, and climate change, investors and businesses are giving ESG a higher priority in their decision-making. Policymakers and regulators devised pertinent legislation and regulations to help local businesses align with ESG activities. ESG measures sustainability and ethical impact in three key areas, including gender inequality, labour, product responsibility, corruption, bribery, social development, and poverty, as well as shareholder rights, institutional investors, stakeholders, disclosure and transparency, board responsibility, and management diversity. These areas are all covered by ESG. ESG generally refers to the basic principles of doing business sustainably. The E (Environmental) in ESG refers to a company's proactive approach to the environment, which includes adherence to current legal frameworks and thought about potential long-term repercussions. The combination of the governance environment, governance structure, governance mechanism, and governance behaviour results in G (Governance). The system's governance environment serves as its foundation, its governance structure serves as its carrier, and its governance behaviour or process serves as the operational mechanism for interactingwith its components in a continuous improvement process.

Unfortunately, the trend of green demand and pressure from the government and shareholders has probably increased pressure on corporations, making them inevitably more prone to sustainability fraud, often known as Greenwashing. Additionally, the rise in lawsuits resulting from greenwashing has been an intriguing trend that has caused people to start doubting the accuracy and legitimacy of the "Environmental Label" applied to particular goods and activities. In addition to the government's roles, performance, and compliance in verifying the appropriateness of the green or environmental label, this understanding is later applied to how the policy framework responds to greenwashing and protects the public from this wrongdoing.

Literature Review

Poorvi Rai states in her 'Greenwashing and its Impact on Consumers and Environment' ", Greenwashing is the essence of 'anti-sustainable'. Wolniak says that greenwashing is corporate behaviour that releases false information to relieve external pressure by exaggerating social responsibilities such as charitable giving, treatment of employees, and social funds. Pengyu Chen and Abd Alwahed Dagestani in 'Greenwashing behaviour and firm value – From the perspective of board characteristics' state "that greenwashing refers to "attempts by companies with poor ESG performance to create a credible public image through ESG disclosure." According to Alves, 2009; Bazillier&Vauday, 2013, another set of academics, greenwashing also involves making assertions that aren't supported by proof or a reliable third-party certification. Due to this, the selective perspective maintains that greenwashing is not equivalent to having a bad track record of environmental performance because "a firm can have a poor record without presenting any positive information about itself, or can have a relatively good record while simultaneously promoting its positive actions publicly and failing to discuss its (few) negative environmental impacts" Thus, this research aims at increasing awareness among consumers to prevent greenwashing practices.

Scope of Study

Greenwashing is one of the greatest threats to the planet and can be reduced by spreading awareness to consumers and thus preventing the green from turning black. Consumers, if provided awareness, can take steps on an individual level, and thus, this combined effort might as well change these ongoing malpractices. The consumers with adequate knowledge might question the producers on their green claims and therefore companies would have to be accountable to them. Therefore, if the researchers try their level best to spread awareness regarding these environmental issues, it might lead to the betterment of the planet and form a custom for future generations to follow.

Objective

This research paper's objective is to critically analyse the phenomenon of "greenwashing" in corporate sustainability practises, with a particular emphasis on identifying the misleading business practises, examining the effect on consumer perceptions and behaviours, and suggesting methods for effective communication and regulation to counteract greenwashing in order to promote true environmental sustainability.

Statement of Problem

Given the intricate nature and wide-ranging effects of "greenwashing," it is essential to approach this issue methodically. Exploring methods for accurately identifying, assessing, and thwarting greenwashing practices will require more study. Standardised frameworks and regulatory measures are needed to encourage openness, responsibility, and true environmental sustainability in corporate practices.

Research Method

This study draws on a literature survey that includes reports, books, articles from reliable journals, and other pertinent sources. A critical examination of the policy framework is also conducted. The collected data is subsequently analysed and interpreted to show the captivating problems with greenwashing and the associated legal framework.

Understanding Greenwashing

A. History

The rise in environmental awareness among customers and businesses began in the middle of the 1960s, which prompted businesses worldwide to adopt green marketing techniques. Environmental catastrophes like the Bhopal gas tragedy in 1984, the Chernobyl nuclear power plant disaster in 1986, the Exxon Valdez oil spill in 1989, etc., led businesses to engage in greenwashing to repair their damaged reputations.

"greenwashing" refers to when a company invests more time and resources in promoting its environmental friendliness than in actually reducing it. It's a dishonest marketing technique used to deceive customers who prefer to purchase goods and services from companies who care about the environment.The irony of the "save the towel" movement in hotels that had little impact beyond saving hotels money in laundry costs inspired Environmentalist Jay Westerveld of the United States to coin the term Greenwashing in his essay in 1986.

B. Misinterpretations Through Various Terminologies

Whitewashing is when a company presents a skewed version of the facts to conceal or gloss over controversial information. Historically, greenwashing was derived from the words green and whitewash, which means making false or inaccurate environmental claims about certain products or services. In other words, greenwashing needs positive communication skills or a good ability to communicate environmental issues when, at the same time, a corporation has bad environmental performance. When discussing greenwashing within the fraud context, it is easier to contextualize the drivers in the fraud triangle. It is simply because the fraud triangle shows the conditions that produce fraud in three clusters, namely pressure, opportunities, and rationalization.

Companies use Green Marketing as a toolto compete in the international market. The phrase "green is the new black" is used frequently in today's world of sustainability. Companies abuse the "green marketing" technique to create a fictitious "green brand image" in the eyes of customers and investors. The line between greenwashing and green marketing is hazy. As opposed to "greenwashing," Green Marketing refers to businesses promoting their goods and services as environmentally beneficial. Green marketing is typically a sensible, ethical, and open method of producing goods and services. However, when a company doesn't adhere to sustainable business practices, green marketing can easily turn into greenwashing. Some of the commonly used names that may confuse and mislead consumers include "eco-friendly," "organic," "natural," and "green."

Recent Participants of Greenwashing

Nestle: In a statement from 2018, Nestlé stated that it had "ambitions" for all of its packaging to be recyclable or reusable by 2025. Environmental organisations and other detractors criticised the corporation for failing to set specific goals, provide a deadline for achieving its objectives, or make further measures to encourage customer recycling. Greenpeace, in response, made its statement, claiming that Nestlé's announcement on plastic packaging was just another example of the company "greenwashing" its way out of a problem it had helped create. As the world's biggest food and beverage corporation, it sets an exceedingly low bar and won't truly make a significant dent in the usage of single-use plastics.Greenpeace, together with the #breakfreefromplastic coalition, conducted a beach clean-up activity and brand audit on Freedom Island in the Philippines, with the goal of naming the brands most responsible for the plastic pollution happening in our oceans, as depicted in the figure above.

Coca-Cola: When the business declared in 2020, after the company came under fire, that it would not stop using plastic bottles since they were popular with customers, it drew criticism. The business insists,though, that it is making strides in the fight against packaging waste. At the time, a spokesperson stated, "Globally, we have a commitment to get every bottle back by 2030 so that none of it ends up as litter or in the oceans, and the plastic can be recycled into new bottles. Bottles with 100% recycled plastic are now available in 18 markets worldwide, and this is continually growing." Then, in June 2021, environmental organisation Earth Island Institute filed a lawsuit against the beverage giant for falsely advertising that it is sustainable and eco-friendly despite being the largest plastic polluter in the world.

Starbucks: As part of their environmental initiative, Starbucks introduced a "straw-less lid" in 2018, yet this lid had more plastic than the previous lid and straw combination, as stated by the rightwing Reason Foundation. However, the business asserted that it is made of polypropylene, a widely recognised recyclable material that "can be captured in recycling infrastructure." The corporation shouldn't presume that all of the lids would be recycled, critics pointed out, given only 9% of the world's plastic is recycled. Furthermore, the US just transfers responsibilities to less developed nations because it exports nearly one-third of its recycling to these nations.

H & M: 2019 saw the launch of H&M's own "green" apparel line, "Conscious." The business states thatit uses recycled polyester and "organic" cotton. The line is only used as a marketing gimmick to appear more ecologically conscious. H&M's "Conscious" brand from H&M has the following mission: "Shop our selection of sustainable fashion pieces that make you both look and feel good." However, marketing-friendly terms like "sustainable," "green," or "environmentally friendly" do not have a single legal definition. The Norwegian Customer Authority then reprimanded H&M for "misleading" sustainability information provided in their Conscious Collection marketing because “the information given regarding sustainability was insufficient, especially given that the Conscious Collection is advertised as a collection with environmental benefits.”

ESG & ESG Investing

Environmental, Social, And Governance (ESG) evaluates an organization’s operations and performance on many ethical and sustainable concerns. It also offers a tool to gauge the opportunities and hazards for businesses in certain fields. ESG investing is a technique used by certain investors in capital markets to assess businesses and inform their investment decisions.

An ESG programme aims to ensure accountability and the implementation of systems and processes to manage a company’s impact, such as its carbon footprint and how it treats employees, suppliers, and other stakeholders. Sustainability, ethics, and corporate governance are typically considered to be non-financial performance indicators.

Environmental variables consider an organization’s overall environmental impact as well as any possibilities or hazards that may arise due to environmental problems like climate change and actions to conserve natural resources. Social factors address how a company treats different groups of people: employees, suppliers, customers, community members and more. Governance factors examine how a company polices itself, focusing on internal controls and practices to maintain compliance with regulations, industry best practices and corporate policies.

The number of investors using environmental, social, and governance (ESG) data as a significant investment consideration has increased during the past decade. Companies with high ESG ratings have a higher sense of ethics and are less likely to engage in financial fraud, making ESG investment an effective risk management strategy. Companies benefit from sharing ESG data by improving their brand image, which attracts funding, lowers financing costs, and increases valuation. Corporate performance and competitive edge can be increased by ESG by fostering more green innovation. ESG businesses may make their goods and services more appealing while reducing production costs, which improves operational efficiency.

Customers’ behaviour has frequently been modified to emphasise more environmentally friendly practices. More and more customers want to recycle, reduce waste, choose environmentally friendly items, and reward ethical companies. These objectives also play a role in ESG investing when deciding which investments to make. Individual and institutional investors that take into account ESG problems frequently seek to utilise their funds to support businesses that share their own beliefs about social responsibility and environmental sustainability. Due to cheaper costs, lowered business risks, and new marketing opportunities, these businesses may also have superior long-term financial performance than other companies, which could enable them to beat the stock market. As a result, ESG investing has grown significantly.

Impact of Greenwashing

Consumers

Reputational Damage

Consumer Backlash: Customers who feel duped may react negatively when businesses are exposed for greenwashing. The company's reputation may suffer due to bad press, social media campaigns, and boycotts. For instance, Volkswagen experienced a massive controversy in 2015 when it was revealed that the corporation had inserted software in its cars to evade emission tests, seriously harming the business's reputation.

Brand Dilution: A company's brand value and equity may be affected through greenwashing. A brand's reputation and trustworthiness developed over time are damaged if it is connected to bogus environmental claims. For instance, Fiji Water came under fire for portraying its product as environmentally beneficial while omitting its substantial carbon footprint and adverse ecological effects.

Legal and Regulatory Consequences

Regulatory Penalties: If businesses are discovered to violate advertising and consumer protection regulations, greenwashing may result in legal repercussions, including fines and penalties. The Federal Trade Commission (FTC) in the United States penalised the cosmetics firm Sunday Riley in 2019 for using dishonest marketing techniques by creating fictitious favourable reviews of its goods online.

Lawsuits and Class Actions: Companies participating in greenwashing may be sued by consumers, advocacy groups, or rival businesses for deceptive advertising or making false statements. For instance, a class action lawsuit was filed against Walmart in 2012 for misrepresenting the biodegradability of its MobiAir eco-friendly disposable batteries.

Loss of Consumer Trust

Diminished Customer Loyalty: Greenwashing damages customer loyalty and trust. Consumers who learn that misleading environmental promises have duped them may switch to rival brands or stop buying the company's goods. Some customers questioned the company's dedication to sustainability after H&M came under fire for making false statements about its activities in sustainable fashion.

Negative Word-of-mouth: Consumers who have experienced greenwashing negatively may spread the word about it by sharing their stories and raising awareness of the practice. The reputation of a business and its efforts to attract customers may suffer as a result.

Financial Consequences

Decreased Sales and Revenue: Consumers' increased scepticism and reluctance to buy products with dubious environmental claims can lead to declining sales and revenue. The well-known outdoor clothing brand Patagonia sets itself apart by emphasising sustainability and open communication, which draws customers looking for genuinely eco-friendly items.

Increased Costs: Companies may incur higher costs due to rebranding, trust-repair marketing initiatives, or adoptingsincerely sustainable practices. A company's financial resources may also be put under additional stress by the costs of litigation and settlements brought on by claims or governmental investigations.

Managing Greenwashing

"We must have zero tolerance for net-zero greenwashing," said UN Secretary-General Antonio Guterres, launching the report at the COP27 climate summit in Sharm el-Sheikh, Egypt. The UN panel recommends a few measures to tackle greenwashing. Firstly, it suggests that the organisation's leadership should publicly make a net zero pledge and include targets for 2025, 2030 and 2035. It should demonstrate that it will help achieve a 50% cut in global emissions by 2030 and sustain net zero after 2050. It continues by saying that non-government entities' information about pledges, targets and plans is hard to find, often hidden behind paywalls. Organizations must publish all the details so everyone can see what they are doing.For people to understand how well each organisation is doing in comparison to other entities, the study also advocates for the annual publishing of each organization's greenhouse gas emissions combined with baseline data. They also note that the data should be in open formats for cross-country comparisons. According to the research on "greenwashing," businesses and municipal governments should stop creating new fossil fuel reserves and instead concentrate on investing in renewable energy sources. Plans for the transition should include goals for expanding the usage of renewable energy sources. The group adds that switching from fossil fuels to renewable energy must also be adequately funded. "The transition away from fossil fuels must be just for affected communities, workers, and all consumers to ensure access to energy," the panel states. Lastly, voluntary carbon credits compensate for emissions by paying someone else to cut their own. According to the panel, it can be a successful strategy for decarbonising developing economies when the receiver is in a developing country. To ensure that credits result in demonstrable reductions in global emissions, they argue that there needs to be stronger regulation. Organisations that reach their intermediate goals are "strongly encouraged" to use credits to offset the remaining emissions as best practices advance.

Conclusion

In conclusion, greenwashing has become a practice followed by a majority of companies across the globe, and this calls for an alarming need to emphasise this and take proper measures to prevent this menace. This study has highlighted the complexity of this greenwashing issue and the demand for encompassing solutions. The attention towards this issue has given rise to many new techniques, such as ESG investing, which requires a business to be ethical and sustainable besides just being profitable. The findings of this research highlight the urgent need for robust measures to combat greenwashing effectively.

An additional study is required to investigate novel approaches for identifying and quantifying greenwashing practices, including applying advanced technology and data analytics. To reduce greenwashing, legislative actions, consumer awareness efforts, and business sustainability programmes can all be evaluated.In addition to protecting consumers, addressing the issue of "greenwashing" is essential to creating a more sustainable and ethical business environment. By battling greenwashing tactics, we can encourage real environmental care, advance sustainable development, and work towards a greener future for future generations.

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