

# A conceptual framework for the Greenwashing strategy research

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**Abstract:** *Greenwashing arises from the companies' need to address the trade-off between the increasing importance of environmental compliance and their real and supportable efforts toward this objective. This paper aims to contribute with a theoretical analysis of greenwashing strategy, starting from a design of its conceptual vision. Our contribution is the development of a conceptual framework, able to represent a solid background for future empirical testing of the research question arising from the analysis of greenwashing in a business economic perspective. In doing so, we adapted the most important theories belonging to socio-political perspectives (i.e., legitimacy and stakeholder theories) and those related to voluntary disclosure (signaling theory) to the greenwashing strategies. We aim to illustrate how corporate theories can support the role of corporate disclosure in greenwashing strategies and how these strategies may be applied through a (mis)use of disclosure. Furthermore, our path of analysis aims to seize the link between greenwashing strategies and the creation of economic and social value, enlightening possible future research areas.*

**Contents:** 1. Introduction - 2. The greenwashing strategy: a literature review – 3. Theoretical background - 3.1. Theoretical reasons behind greenwashing strategies - 3.2. In search for an explanation of greenwashing: main theories - 3.2.1. The legitimacy theory - 3.2.2. The stakeholder theory - 3.2.3. The signaling theory and a quick look at the competitive altruism theory – 3.3 Predictable consequences of greenwashing behaviours - 4. Corporate disclosure as the main tool for greenwashing strategies - 5. Greenwashing between shareholder value and social value - 5.1 The role of reputational and relational capital - 6. Conclusions - References.

## 1. Introduction

In the last several years, there has been an increasing perception of the role played by ecological issues for companies, due to their performances and global financial stability (Webster, 2020). Today's companies accept that environmental risks are a threat for their survival and competitiveness, so they are defining the role they play in order to build their accountability. This has contributed to assigning an essential role to corporate voluntary disclosure, in order to engage and legitimise company behaviours, and to emphasise the

need for introducing and developing a mandatory body of requested information, thus highlighting the institutional setting as a crucial determinant of the effectiveness of company environmental responsibility.

Greenwashing is a phenomenon arising from the companies' need to "resolve" the trade-off between the increasing importance of environmental compliance and their real and supportable efforts toward this objective. By examining/analysing the lexicon, the word «greenwashing» comes from the combination of «green» and «brainwashing» (Mitchell and Ramey, 2011): a brainwashing relating to the environment.

The role of environmental sustainability, actually, is not uniquely defined. Scholars (e.g. Bini et al., 2018) question if this is the most important challenge in the current socio-economic context or a "matter" to be managed in order to maintain a competitive advantage, by making limited efforts throughout the use of misleading communication, since stakeholders cannot identify real company behaviour and pay for asymmetric information (Zharfpeykan, 2021).

In this current scenario, this work aims to present a theoretical analysis on greenwashing, starting from a design of its conceptual vision. We aim to contribute with a conceptual framework that can represent a solid background for a future empirical testing of the research question arising from the analysis of greenwashing in a business economic perspective. In doing so, we adapted the most important theories belonging to a socio-political perspective and those related to voluntary disclosure (Uyar, 2020; Mahoney et al., 2013) to greenwashing strategies.

Theories help in understanding or predicting how companies commit to green issues and their strategic motivations in order to create value. The legitimacy theory states that companies seek legitimacy by demonstrating compliance with a system of social values, to which environmental efforts belong. Stakeholder theory views environmental communication as an answer to stakeholder pressure (Gray et al., 1995) and as a form of stakeholder engagement (Rabaya and Saleh, 2021). In fact, environmental responsibility belongs to the set of stakeholders' demands. Consistently, the signaling theory suggests that disclosure helps to create a good image and reputation of the company, with a positive effect on the corporate and social value (Michelon and Parbonetti, 2012).

Starting from these highlights, this work aims to discuss some emerging and relevant issues in a qualitative perspective. We aim to illustrate how corporate theories can support the role of corporate disclosure in

greenwashing strategies and how these strategies may be realised through a (mis)use of disclosure. Furthermore, our path of analysis intends to seize the link between greenwashing strategies and the creation of economic and social value, enlightening possible future research issues.

In section 2, we review the greenwashing concept theoretically. In section 3, the theories involved within the academic greenwashing analysis are illustrated together with a definition of some theoretical reasons behind the greenwashing strategies. Finally, we show some of the consequences of greenwashing behaviours. Section 4 is devoted to the description of corporate disclosure as the main tool for greenwashing strategies, while section 5 analyses greenwashing from an economic and social value-based perspective. Finally, section 6 presents our complete framework of analysis, suggesting an agenda for future research.

## **2. The greenwashing strategy: a literature review**

The concept of greenwashing can be framed into the field of corporate sustainability (Schaltegger et al., 2013) that involves environmental, social and economic issues. The European Commission (2001, p. 6) defined CSR (Corporate Social Responsibility) as «a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis».

According to a narrower view, greenwashing refers specifically to the environmental responsibility of a company (Pearson, 2010), emerging from its interaction with the natural environment and fostered by the difficulties encountered by stakeholders in a direct evaluation of the company's environmental performance. Therefore, firms can afford to communicate non-transparent information about their environmental performance.

Research on greenwashing is growing, thus several greenwashing-related issues will be developed. However, the meaning of greenwashing is variously portrayed by scholars (Walker and Wan, 2012; Seele and Gatti, 2017; Zharfpeykan, 2021) and a generally accepted definition does not currently exist (Torelli et al., 2020). There are several definitions of greenwashing and they are grounded on different perspectives. This is due also to its multifaceted character (Lyon and Montgomery, 2015) that fosters its interdisciplinary perspective (Seele and Gatti, 2017; Torelli et al., 2020; Zharfpeykan, 2021).

The origins of greenwashing may be established in a study of the environmentalist and biologist Jay Westervelt published in 1986 (De Freitas

Netto, 2020), when the first environmental controversies began to arise. In his essay, Westervelt accused some companies operating in the hospitality sector of encouraging the recycling of towels in order to promote green policies, while at the same time failing to promote serious environmental policies (Pearson, 2010; Seele and Gatti, 2017).

Before starting the analysis on the framework of the widely accepted definitions proposed by scholars, we will try to offer an outlook of the greenwashing interpretations in non-academic contexts. Greenwashing, in fact, can also be found in the linguistic field. Not only is the definition found in dictionaries but also in the literature of NGOs. The Oxford English Dictionary describes greenwashing as «disinformation disseminated by an organisation so as to present an environmentally responsible public image; a public image of environmental responsibility promulgated by or for an organisation, etc., but perceived as being unfounded or intentionally misleading», while Webster's New Millennium Dictionary of English views greenwashing as the «practice of promoting environmentally friendly programs to deflect attention from an organisation's environmentally unfriendly or less savoury activities».

Two of the most important environmental NGOs, *Greenpeace* and *TerraChoice*, in their definition of greenwashing, emphasise the relational aspect of greenwashing that involves the customers and the products. In fact, *Greenpeace* defines greenwashing as «a public relation tactic that's used to make a company or product appear environmentally friendly without meaningfully reducing its environmental impact» (Greenpeace, 2021), while *TerraChoice* defines greenwashing as «the act of misleading consumers regarding the environmental practices of a company or the environmental performance and positive communication about environmental performance» (TerraChoice, 2007).

Academic scholars have proposed several greenwashing perspectives (Torelli et al., 2020; Yu et al., 2020) as well as different ways of measuring it. Despite the differences in the interpretation, literature considers the definition that scholars formulated as consistent with each other (Zharfpeykan, 2021). Notwithstanding the foregoing dispute, scholars underline that a review of the greenwashing concept is needed (Lyon and Montgomery, 2015). In order to foster a broader vision of the concept of greenwashing, framed in an academic perspective, we propose a vision organised according to the most acknowledged features of the above concept.

A first perspective looks at *omissions* in reporting the facts. Literature

recognizes this as «selective» disclosure. Selective disclosure is represented by two possible kinds of behaviour in reporting the company's activity: to preserve information about negative environmental performances and/or to enhance disproportionately the positive environmental performances (Lyon and Maxwell, 2001; Guo et al., 2017, Torelli et al., 2020; Delmas and Burbano, 2011; Du, 2015). One of the most widely recognized definitions is by Lyon and Maxwell (2011), who describe greenwashing as «the selective disclosure of positive information about a company's environmental or social performance, without fully disclosing the negative information on these dimensions, so as to create an overly positive corporate image» (p. 9). In other words, this perspective interprets greenwashing as asymmetric communication, which aims to divulgate the environmental successes of a company while hiding poor commitments or negative behaviours (Ferrón-Vílchez et al., 2021).

Not so far from the aforementioned concept of selective disclosure is the one of *misleading* disclosure. CSR disclosure, to which environmental performance and initiatives disclosure belong, is described by Laufer (2003) as devious and not sincere. This suggests that greenwashing does not spring only from «omissions» but also from «lies», consisting in the falsity of the green reporting (Seele and Gatti, 2017), showing a false image of the green behaviour of a company (Mitchell and Ramey, 2011).

Referring to both selected and false disclosure, literature emphasises that greenwashing can be assessed if this kind of environmental reporting is intentional (Torelli et al., 2020; Ferrón-Vílchez et al., 2021). Moreover, some scholars (e.g. Seele and Gatti, 2017) pointed out that greenwashing should be linked to an explicit accusation made by the media, society and stakeholders. Therefore, accusations are crucial. In that sense, greenwashing depends on both a company-related factor, identified by the level of misleading information given by the company itself, and on a relational factor, represented by the accusation made by the stakeholders due to their perception of some misleading intention.

Another perspective focuses on the gap between what companies report and what they do. This approach sees greenwashing as a lack of substance with respect to what has been accomplished (Siano et al., 2017). Consistently with this view, Walker and Wan (2012, p. 231) define greenwashing as «symbolic information emanating from within an organization without substantive actions. Or, in other words, discrepancy between the green talk and green walk». Following Walker and Wan (2012),

the concept of greenwashing diverges from «green highlighting», because, while the former stems from the gap between actions and reporting (Lyon and Montgomery, 2015), the latter is backed with substantive acts, even if only good performances are selected for reporting. However, both of them may produce several stakeholder reactions, potentially resulting in reputational damage or an increase in reputational risk (Gatzert, 2015).

Considering the selective and misleading disclosure, on one hand, and the symbolic green disclosure, on the other, an important issue emerges: can the green communication also involve unethical or illegal behaviours? (Siano et al., 2017). Indeed, the fact of considering greenwashing as a result of a selective or deceptive form of communication, opens this concept also to the possibility of including criminal or irresponsible environmental behaviours. At the same time, by adopting an interpretation of greenwashing as a merely symbolic disclosure, the matter of the inconsistency of companies' reporting is pointed out.

These considerations give room to a further interpretation of greenwashing that places it between «decoupling» and «attention deflection» (Siano et al., 2017).

Consistently with the previous concept of symbolic environmental disclosure, «decoupling» (Siano et al., 2017; Walker and Wan, 2012; Guo et al., 2017) occurs when companies communicate good environmental actions, in order to satisfy stakeholders' needs and expectations, without having adequate, structured and organised activities, or in order to get their own objectives (Meyer and Rowan, 1977; Bromley and Powell, 2012). Instead, «attention deflection» aims to conceal irregular or unethical environmental behaviours (Marquis and Toffel, 2012) while reporting about symbolic «green behaviours». Decoupling and deflection are both strategies that make communication play a predominant role over action.

To frame the concept of greenwashing, scholars have identified some cornerstones of its definition (e.g. Bowen, 2014; Seele and Gatti, 2017; Ferrón-Vílchez et al., 2021). Following Delmas and Burbano (2011), greenwashing occurs when a company engages in both poor environmental performance and positive environmental disclosure. However, later on, some scholars identified the following three determinants (Bowen and Aragon-Correa, 2014): (1) corporate disclosure is selective; (2) greenwashing is a deliberate behaviour (Mitchell and Ramey, 2011), therefore, determining an intentional deceit for stakeholders (Nyilasy et al., 2012); (3) greenwashing starts from the willingness of the company that manages this strategy.

Afterwards, another crucial determinant of greenwashing was identified with the stakeholders' perception of it (Seele and Gatti, 2017). This aspect allows us to see beyond the company's behaviour, enlightening the active role of the external environment to identify the extent of greenwashing effect and, at the same time, allows identifying its motivations. According to Seele and Gatti (2017), in fact, greenwashing occurs if disclosure is misleading and if stakeholders accuse the company of being deceptive. The above pillars of greenwashing enlighten some crucial aspects to be investigated so as to manage the environment-focused research.

First, disclosure is considered the main tool to activate greenwashing strategies, which are deliberated and managed by companies. Moreover, as Seele and Gatti (2017) pointed out, greenwashing implies two perspectives for observing the phenomenon. The first is related to the information that a company desires to disclose and to the extent of its potential misleading effect. The second perspective is related to the external perception of this information that may result in an accusation of falsity or omission.

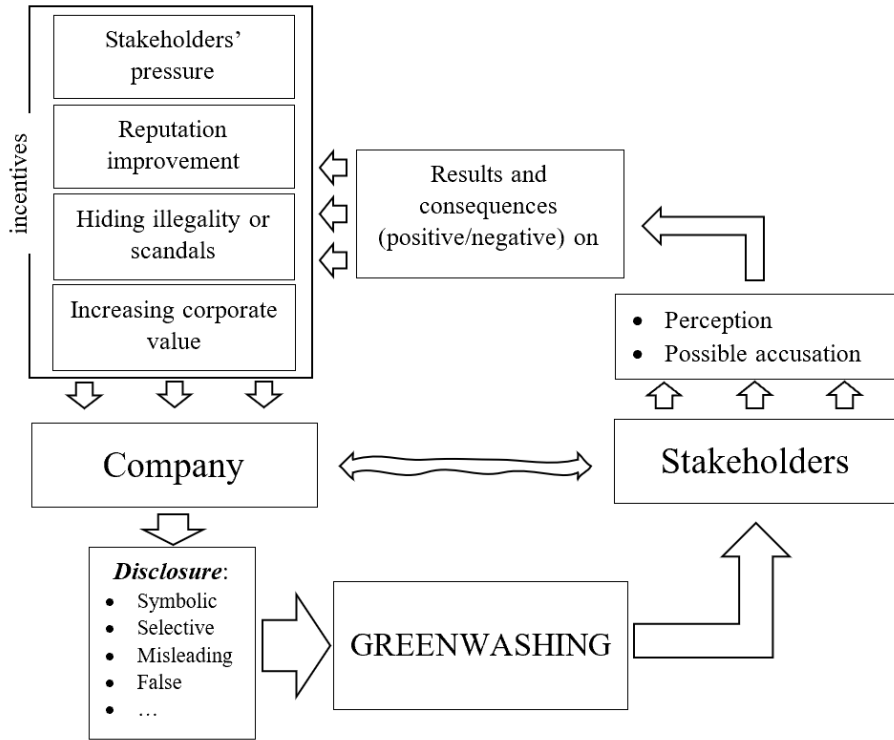
The above considerations deserve further clarification. As highlighted, greenwashing is a strategy based on the company's relationship with its stakeholders. However, Ferrón-Vílchez et al. (2021) pointed out that greenwashing always stems from a company initiative and enlighten the role of the large set of stakeholders interested in companies' environmental responsibility (i.e., the compliance with legal obligations or the need to achieve environmental certifications). In that perspective, greenwashing may be interpreted, not only as a company-pushed strategy, but also as a stakeholders'-pulled effect. Consistently with this second view, Ferrón-Vílchez et al. (2021, p. 862) define greenwashing as «a group of symbolic environmental practices started in response to the stakeholders' pressure».

Different levels of greenwashing actions stem from the above definition. In a first step, scholars (e.g. Delmas and Burbano, 2011) defined two greenwashing levels (Yu et al., 2020; Zharfpeykan, 2021) and in a further development of the analysis, Torelli et al. (2020) added another two levels. The company-level greenwashing is grounded on symbolic (Wong et al., 2014), selective or misleading (Torelli et al., 2020) environmental disclosure, regarding the company's mission, the certifications and other corporate-related issues capable of influencing its reputation. When the misleading «green communication» regards the intentions of the companies for future strategies, the level of greenwashing is defined as strategic and may consist in the disclosure of the long-medium term objectives regarding the

environmental aspects of the company's activities. Some scholars (Torelli et al., 2020) also identified a dark level of greenwashing, which occurs when misleading or selective environmental disclosure aims to conceal illegal behaviours. In our opinion, this form of communication can be referred to all levels of greenwashing, when the company aims to hide illegal actions by investing in several strategic or operational activities. Finally, the product-level greenwashing relates to the information that a company discloses to promote its products and their environmental peculiarities. Product-level greenwashing occurs when this information is not fully truthful or complete (Delmas and Burbano, 2011).

The above considerations suggest that greenwashing can be viewed as a deliberate strategy, involving different aspects of the companies' activity, obtained by using different kinds of corporate disclosure (selective, misleading, false) and, among other things, aiming at improving or repairing the company's reputation and image, as perceived by stakeholders (Bowen and Aragon-Correa, 2014; Delmas and Burbano, 2011; Ferron-Vilchez et al., 2021). The aim is to hide illegal actions or corporate scandals (Torelli et al., 2020) or to foster financial and market performances and companies' evaluations (Yu et al., 2020) (see Picture 1). However, scholars enlighten that greenwashing strategies may be perceived by external stakeholders, thus generating scepticism and undermining the company's reputation (Bowen and Correa, 2014).

**Figure 1 – Greenwashing: a conceptual vision**



### 3. Theoretical background

#### 3.1. Theoretical reasons behind greenwashing strategies

The reasons leading to greenwashing strategies are not yet as fully explored as the procedures emerging from their implementation (Seele and Gatti, 2017). Guo et al. (2017) recognize external and internal motivations for greenwashing. External determinants refer to the regulatory setting and may be identified, for example, with the uncertainty of the regulations, the role of the media, and the pressure of NGOs. External determinants may also be referred to the actors of the market (i.e. competitors, customers or investors). The reasons behind greenwashing can be found both as companies’ reactions and as companies’ actions. In the first case, misleading information is produced because of the pressure of external stakeholders. In the second case,

greenwashing aims to advance to competitive positions by improving companies' financial value and their reputational capital (Siano et al., 2017; Aras and Crowther, 2009; 2011). Institutional characteristics, such as weak financial markets, could help greenwashers to raise market financing as these companies could be classified as “green”, without having fully and reliably assessed their environmental responsibility (Lashitew, 2021).

### *3.2. In search for an explanation of greenwashing: main theories*

The observation of greenwashing drivers is not fully possible without considering both the theories supporting and explaining these companies' behaviours and the role of disclosure as the main tool that companies use to actualize the above strategies.

In business economics studies, theories arise from several disciplines belonging to the social sciences and help us to understand particular human and corporate behaviours as well as define the framework for studying such behaviours.

The reasons behind the companies' motivations to promote greenwashing strategies can be related to some theories belonging to business economics research. Several scholars (Walker and Wan, 2012; Laufer, 2003; Zharfpeykan, 2021; Seele and Gatti, 2017; Uyar et al., 2020; Ferrón-Vílchez et al., 2021; Dye et al., 2021; Mitchel and Ramey, 2011) defined a theoretical framework including, among other things, legitimacy theory (Oliver, 1991), signaling theory, stakeholder theory and competitive altruism theory (Barclay, 2004; Hardy and Van Vugt, 2006) in the context of greenwashing strategies.

#### *3.2.1. The legitimacy theory*

Legitimacy theory (Deegan et al., 2002) is based on the concept of legitimacy (Cuganesan et al., 2007), which, according to a broad definition, may be viewed as «a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions» (Suchman, 1995, p. 574). Walker and Wan (2012) enlighten that legitimacy stems from the assumption that the socially accepted rules or values represent the setting in which corporate behaviours should be considered appropriate (Suchman 1995) in the perceiving or judging the actors of this social setting (Bitektine, 2011). In other words, legitimacy theory defines a contract between the company and its stakeholders (Deegan, 2002; Deegan and Unerman, 2011).

On one hand, the above contract requires a proper response by the companies and, on the other hand, it gives legitimation to those companies that appear to be compliant with social rules (Zharfpeykan, 2021). To this regard, some scholars (Roberts, 1992) consider legitimacy not only as a tool to improve financial or social performances (Deephouse, 1999) and a company's value but also as a condition of survival. In fact, stakeholders' legitimation gives companies greater opportunities to acquire resources and financing, and facilitates the relationships within the competitive system (Walker and Wan, 2012; Seele and Gatti, 2017).

Since corporate social responsibility initiatives, including the environmental efforts, should be considered as new determinants of legitimacy (Seele and Gatti, 2017), greenwashing strategies can be defined within the legitimacy theory as a form of legitimation search grounded on misleading disclosure.

Legitimacy studies (Scherer et al., 2013; Bitektine, 2011; Suchman, 1995) identify several types of legitimacy. Among the different interpretations, we briefly recall some possible classifications and aspects that can help interpret the phenomenon of greenwashing (Bowen, 2019; Seele and Gatti, 2017). Suchman (1995) made a classification of legitimacy as: cognitive, pragmatic and moral. Cognitive legitimacy occurs when environmental culture is taken for granted. Moral legitimacy stems from normative approval (Zyglidopoulos, 2003) and is related to the evaluation of the company's behaviour by society (Bitektine, 2011). Pragmatic legitimacy is based on self-interest evaluations of the company's stakeholders and on their perceptions of the advantages they could obtain from the activities of the companies (Seele and Gatti, 2017; Shuman, 1995).

Moreover, legitimacy has been classified as internal, when it regards company insiders, or external, when it regards an external audience (Bitektine, 2011; Kostova and Roth, 2002). In a greenwashing analysis, an external perspective of legitimacy could be more useful.

Adopting the lens of the legitimacy theory in order to analyse greenwashing, as previously defined, implies a focus on pragmatic legitimacy. This is consistent with Seele and Gatti's (2007) framework of analysis, which links the research of pragmatic legitimacy with the intentional misleading scope of green disclosure and adopts a strategic approach (Scherer et al., 2013) to legitimacy (Pfeffer, 1981). Following the above framework, Seele and Gatti (2007) recognise that disclosure regarding green and environmental issues is a strategy aimed at gaining legitimacy, improving

legitimacy or recovering compromised legitimacy (Laufer, 2003; Deegan et al., 2002). The strategic approach sees legitimacy as an operational resource that companies may achieve from the cultural setting where they operate (Suchman, 1991).

Legitimacy is also interpreted by institutional studies (Suchman, 1991), which consider it as a set of «constitutive beliefs» (Suchman, 1988). In this perspective, legitimacy is not seen as a resource extracted from the social environment but as something that arises from an «external institutions construct» (Suchman, 1991, p. 576). As Bowen (2019) states, an institutional approach suggests that the company's behaviour aims to reach social approval. Moreover, the change observed in the stakeholders' expectation pushes companies to adapt their strategy and their disclosure in order to comply with the current societal expectations (Cuganesan et al., 2009). In that sense, the increased consciousness of environmental issues and the related disclosure may be considered as a form of adaptation of the company's behaviour so as to comply with the perceptions and the expectations of the actors of the social system. In the theoretical setting we are describing, greenwashing consists in a legitimation strategy, adopting environmental disclosure in order to «legitimate social and environmental values which may or may not be substantiated» (Mahoney et al., 2013, p. 352).

### *3.2.2. The stakeholder theory*

As with legitimacy theory, another socio-political theory (Gray et al., 1995; Uyar et al., 2020) adopted by scholars to explain the greenwashing practices is the stakeholder theory (Freeman, 1994). Stakeholder theory recalls the concept of stakeholder engagement, which is defined by Sharma and Vredenburg (1998) as «the ability to establish trust-based collaborative relationships with a wide variety of stakeholders» (p. 735). Stakeholder theory indicates that the stakeholders' involvement in the companies' decisions has a dual purpose. The first is a fulfillment of the ethical requirements to the societal norms and the second is to strategically manage the relational capital (Edvinson and Malone, 1997; Stewart, 1997). Both of the above purposes are instrumental in achieving a competitive advantage (Cennamo et al., 2009).

The stakeholders' engagement fosters the overcoming of the boundaries of the financial performance to also include the achievement of social performance. In that sense, accountability includes both of them (Guthrie et al., 2004), extending the concept of financial value towards that

of social value (Dumay, 2016).

Corporate environmental performance fits in the perspective of both legitimacy and stakeholder theories because the societal expectations about the “green behaviours” of a company are increasing over time, which encourages companies to reach legitimacy and satisfy the stakeholders’ requirements. Thus, the environmental efforts may be seen also as an adaptive behaviour of the company towards the above-mentioned requirements and to the stakeholder pressure (Ferrón-Vílchez et al., 2021; Murillo-Luna et al., 2008). Disseminating information regarding green activities is considered a way to enhance corporate reputation (Seele and Gatti, 2017; Baum, 2012) in addition to revenues and other financial performances (Deephouse, 1999). However, the search for external legitimacy within a pragmatic approach and the stakeholders’ pressure for compliance with environmental issues (Ferrón-Vílchez et al., 2021) could lead companies to use disclosure in order to gain both legitimacy and stakeholders’ engagement.

The perspective of the legitimacy theory (Deegan, 2002) considers disclosure as a tool for improving the stakeholders’ accountability and reputation (Macias and Farfan-Lievano, 2017). Consistently, voluntary «green disclosure» is considered an instrument to engage relevant stakeholders by divulging contents that are congruent with their values and expectations (Dye et al., 2021; Mahoney et al., 2013). As Seele and Gatti (2017) state, the role of disclosure becomes crucial especially when environmental scandals occur and companies have to repair their reputation and rebuild trust in corporate behaviours.

The search for pragmatic legitimacy, as well as stakeholder pressure (Gray et al., 1995), can generate strategic use of disclosure, which impacts on stakeholders’ perception, generating information asymmetries. This is the case of greenwashing, which is a phenomenon that may be interpreted in a socio-political theoretical perspective, to which legitimacy and stakeholder theories belong (Deegan, 2002). In fact, legitimacy theory justifies such communication habits, considering that symbolic, selective, misleading or false disclosure is useful to conceal events that could threaten corporate legitimacy or cover them with misleading or symbolic information (Zharfpeykan, 2021). Stakeholder theorists (e.g., Ferrón-Vílchez et al., 2021) explain the use of misleading disclosure about green actions as the answer to the stakeholders’ need of being involved in and informed about the companies’ activities and, at the same time, as a tool to manage said stakeholders as strategic resources (Cennamo et al., 2009).

The motivation towards the implementation of greenwashing policies also depends on the features of the institutional context where companies operate, such as pollution sensitivity, the field of work (De Vries et al., 2015), legislative measures and the legal enforcement of the context of a given country. More stringent regulations regarding environmental behaviours result in stronger pressure (Kim and Lyon (2015)) on companies. The institutional context, seen both as a set of regulations and as the result of activist groups, is considered a variable capable of impacting on greenwashing practices (Delmas and Montes-Sancho, 2010; Marquis et al., 2016).

Within the above conceptual framework, Ferrón-Vílchez et al. (2021) identify both a proactive and a reactive motivation of greenwashing behaviours, arising from a search for legitimation or from a response to the stakeholder's external pressure. The aim is to generate an external representation of the company that is better than the real one, improving the company's reputation and ultimately its competitive advantage (Lyon and Montgomery, 2015).

What we said confirms the pivotal role of disclosure. In fact, disclosure represents an answer to the stakeholders' need to be informed about corporate activities (Ullmann, 1985), with the intent of reducing information asymmetries and, at the same time, disclosure represents therefore a strategy of legitimation (Deegan, 2002). In fact, misleading disclosure deliberately generates information asymmetries in order to induce a positive perception from the shareholders and to preserve legitimacy (Uyar et al., 2020).

### *3.2.3. The signaling theory and a quick look at the competitive altruism theory*

The crucial role of disclosure is also underlined by the signaling theory, which is widely used to explain greenwashing strategies. Moving from the voluntary disclosure theory, signaling theory (Mahoney et al., 2013) underlines that, since corporate disclosure reduces information asymmetries, it can contribute to increasing corporate evaluations, considered both from a financial and a social aspect (Michelon and Parbonetti 2012; Dumay, 2016). In fact, disclosure regarding environmental responsibility is a sign of commitment of the companies to these issues, which makes stakeholders aware that the company's behaviour is congruent with their expectations. However, in a greenwashing declination of the signaling theory, the signaling

power of the voluntary disclosure stems from information asymmetries.

Seele and Gatti (2017) give particular importance to signaling theory in order to explain greenwashing because it is capable of observing how the message is sent and how it is received and interpreted, containing information asymmetries. In that perspective, the above said scholars explain why misleading «green disclosure», finalised to show a commitment to environmental issues, can «signal» positive corporate social values (Connelly et al., 2011). They assume that disclosing positive information regarding green behaviours is convenient both for good and bad environmental performers. According to the perspective of signaling theory, every company can choose whether to disclose truthful information about its «green» performance (Connelly et al., 2011; Yekini and Jallow, 2012). In light of the above, the willingness to gain legitimacy represents a strong incentive for bad environmental performers that can use information asymmetries to signal a misleading message in terms of good environmental behaviours, thus acting as greenwashers. According to the signaling theory, companies with superior environmental performance show a higher propensity to voluntarily divulgate that environmental behaviour, in comparison with bad performers (Mahoney et al., 2013). In this way, the signaling theory differs from legitimacy and stakeholder theories because the latter assume that disclosure may be used as a tool to actualize greenwashing strategies (Hahn and Lülfs, 2014).

Nevertheless, the signaling theory, consistently with a voluntary disclosure perspective (Mahoney et al., 2013), is grounded on the reduction of information asymmetries, scholars claim that external stakeholders do not have the tools to distinguish true or false information regarding environmental issues (Carlson et al., 1993). In that frame, information asymmetries between companies and stakeholders allow greenwashers to signal a positive company's perception, thus improving its reputation. Moreover, legitimacy and stakeholder theories suggest that external stakeholder pressure induces bad environmental performers to produce voluntary disclosure regarding «green behaviours» (Patten, 2002; Uyar et al., 2020).

Greenwashing has also been explained with the competitive altruism theory (Barclay, 2004; Hardy and Van Vugt, 2006; Mitchel and Ramey, 2011), according to which companies (as well as individuals) compete to be considered altruistic- because conveying the value of altruism to the public elevates their perception of trustworthiness.

The above theories expect stakeholders to punish companies that show negative environmental behaviour and, at the same time, aim to state that

divulging information is costly (Mahoney et al., 2013; Uyar et al., 2020). For these reasons, observing the consequences of greenwashing behaviours is crucial.

### *3.3. Predictable consequences of greenwashing behaviours*

Starting from the assumption that greenwashing strategies originate from a company's response to stakeholder pressure about environmental actions and aim to achieve legitimacy and a good corporate reputation (Lyon and Montgomery, 2015), it is useful contemplating the possible effects it may produce for the companies. Several scholars state that greenwashing is a short-term strategy, which can be useful until stakeholders perceive the gap between what companies do and what companies say (Ferron-Vilchez, 2021; Torelli et al., 2020). Stakeholders may doubt the truthfulness of companies' environmental claims and may investigate the companies' real intent. In fact, as Torelli et al. (2020) state, greenwashing can tarnish companies' reputation or generate scandals in some cases.

As stated previously, Seele and Gatti (2017) conceive the existence of greenwashing only when an accusation in the eyes of the beholder is made. In our opinion, external accusations should not be considered necessary to define greenwashing, but it is crucial to identify the possible consequences of greenwashing. The Seele and Gatti's (2017) conceptual framework shows the possible output of companies' environmental claims, observed through theories belonging to a socio-political perspective, such as the legitimacy and stakeholder theories, and also through a disclosure-grounded theory, such as the signaling theory. Companies are really senders of green information. Green information is a signal for the stakeholders, who are the receivers. When companies send their disclosure, they decide whether to be «fair green communicators» or not. The latter behaviour is the origin of greenwashing strategies.

To evaluate the possible effects of disclosure strategies, it is necessary to analyse a key-moment that is to say, the “receiving process”, which generates the stakeholders' perception of the green message. If the message is not consistent with their true actions, the effects on the company's legitimacy will depend on whether this strategic manipulation is perceived or not by the receivers. In the first case, as mentioned previously, greenwashing generates reputational damage. When greenwashing is not perceived by the receivers, companies benefit from a reputational advantage without investing in green/environmental actions because greenwashing is not visible. This is

the case of green disclosure as a tool to achieve pragmatic legitimacy. In this regard, Cho et al. (2009) showed that engaging in «green talk» without being consistent with a «green behaviour», especially when companies act only in a symbolic, misleading green way, may counterbalance the risk of stakeholders accusations that may lead to a legitimacy crisis. In this case, the achievement of legitimacy goals is due to the information asymmetries arising between the sender and the receiver and can be interpreted in the signaling theory perspective (Torelli et al., 2020). Indeed, Walker and Wan (2012) state that symbolic environmental actions, in the managers' opinion, may be considered more convenient than effective behaviours because they exert a signaling power without forcing companies to the internal rigidity that is necessary when substantial actions are taken (Suchman, 1995). However, companies should evaluate for how long this strategy will be effective. When stakeholders become aware of the greenwashing intent of the company, the signaling strategy fails and legitimacy is undermined.

Moreover, legitimacy crises and reputational losses may also arise when companies do not divulgate misleading messages and stakeholders generate a distorted perception of the signal, formulating a false accusation (Seele and Gatti, 2017).

The above considerations enlighten that the conceptualization emerging from the theories analysed in this section systematically converges toward a consideration of disclosure offered throughout several tools as a key-resource for the greenwashing strategy.

#### **4. Corporate disclosure as the main tool for greenwashing strategies**

As we said in the previous section, greenwashing can be explained in a socio-political perspective according to which environmental disclosure (and sustainability reporting in general) is capable of influencing stakeholders' opinions regarding companies' adequacy to social beliefs and norms (Mahoney et al., 2013; Lyon and Maxwell, 2011).

Literature suggests that greenwashing belongs to the category of the environmental management practices that consists in communication (González Benito and González Benito; 2006; Ferrón-Vílchez et al., 2021). Despite the fact that requirements regarding mandatory disclosure have been increased in recent years, literature claims that mandatory environmental disclosure is still scant (Mahoney et al., 2013). Among the few cases of mandatory requirements, we can highlight the Task Force on Climate-related

Financial Disclosures (TCFD), established by the Financial Stability Board in 2015, which aims to create a set of voluntary disclosure indications regarding climate-related risks in absence of conventional international climate-related reporting standards (Brooks and Schopohl, 2020). TCFD drives companies to give answers regarding risks and opportunities related to climate change (Dye et al., 2021). Although originally issued as a voluntary information set, TCFD became mandatory in the UK in 2020 (starting from 2021) for the financial services sector (Reilly, 2021). Moreover, in the European context, a new Sustainability-related Financial Disclosure Regulation came into force in the second quarter of 2021, requiring fund managers (AIFM) to mandatory disclose how they integrate sustainability into investment processes and potential adverse impacts of investments on sustainability. The Regulation also introduced the distinction between «products» that simply promote environmental or social characteristics (Article 8) and «products» that target sustainable investments (Article 9).

Starting from March 2021, fund managers have to observe the new Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector. This is an effort by the EU to mitigate climate change by financing sustainable development, as indicated by the European Commission’s Action Plan of 8 March 2018.

In addition, since 2017, mandatory reporting is in force for some categories of Italian companies within the non-financial disclosure. This document is required to present finalised contents so as to promote understanding of the business, its performance and impacts produced on non-financial issues, such as environmental, social, personnel issues, the respect for human rights and corruption contrasting.

The standard-setters are promoting the development of a sustainability disclosure (Bini et al., 2018; Laufer, 2003). For example, the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI)<sup>1</sup> create and divulgate a set sustainability accounting standard. However, at a country-level, with some limited exceptions, specific mandatory requirements and enforcement are still needed. For this reason,

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<sup>1</sup> The mission of GRI is to «[e]levate sustainability reporting practises worldwide to a level equivalent to financial reporting; design, disseminate, and promote standardised reporting practises, core measurements, and customised, sector specific measurements; [and] ensure a permanent and effective institutional host to support such reporting practises worldwide» (Global Reporting Initiative, 2002).

stakeholders are not fully able to assess the quality and the truthfulness of companies' environmental claims (Yu et al., 2020). The SASB framework emanates specific guidelines for climate risk and also for materiality disclosure (Dye et al., 2021; Lashitew, 2021).

Despite these recent improvements, scholars assert that environmental disclosure is widely unaudited (Yu et al., 2020). At the same time, voluntary disclosure can be strategically managed in order to communicate misleading environmental claims (Zharfpeykan, 2021). This facilitates the onset of information asymmetries and, consequently, fosters greenwashing strategies (Gugerty, 2009).

Voluntary disclosures regarding environmental commitment is disseminated throughout several sources, such as annual reports, corporate social responsibility reports (i.e., sustainability reports, environmental reports and so on), mass-media or websites (Dye et al. 2021; Mahoney et al., 2013). In fact, as Mahoney et al. (2013) found, in absence of mandatory environmental disclosure, the amount of information voluntarily disclosed depends also on the pressure exerted by stakeholders on the companies. However, when mandatory requirements are scant or weak, stakeholders are not able to understand if a company is really committed to environmental issues.

Moreover, the absence of mandatory requirements allows companies to report only useful information that is considered good. As a result, environmental disclosure shows a high quality variance between one company and another, and stakeholders are not fostered in understanding if some information is trustworthy or not. This creates a favourable context for applying greenwashing legitimization strategies since stakeholders rely on the signaling power of disclosure (Yu et al., 2020). As Khan et al. (2021) affirm, disclosure regarding sustainability has been recently criticised because it is considered «opportunistic, “green washing”, implausible, cosmetic, lacking in stakeholder inclusivity, lacking in “authentic effort” and failing to meet users’ expectations» (p. 339) and not reliable. Since environmental voluntary disclosure is a strategic tool for companies to answer to stakeholder pressure and to achieve legitimation, it may be lacking in reliability (Lashitew, 2021).

Both scholars (e.g. Dye et al., 2021; Kinderman, 2019; Jamali and Karam, 2018) and practitioners recognize the strong need for a mandatory environmental disclosure improvement. On one hand, a regulation is supposed indirectly involve companies into a self-regulation process

regarding environmental behaviours (Webster, 2020). On the other hand, a regulated level of reporting quality, harmonisation and transparency is considered as the «end of the “self-regulation” era» (Khan et al., 2021).

Furthermore, considering the increasing importance of the environmental issues within the investment decisions, a wider regulation may also be seen as a fundamental tool to protect investors since sustainability disclosure is a resource for communicating the company’s commitment to green issues to potential stockholders or lenders (Dye et al., 2021).

### **5. Greenwashing between shareholder value and social value**

The relevance of environmental issues is increasing and companies redefine their behaviour in order to comply with this crucial matter and to fulfill the value of accountability (Yu et al., 2020; Lashitew, 2021). However, green behaviours do not follow companies’ ethical values but they are also subordinate to strategic decisions aiming to improve companies’ perception and reputation by manipulating corporate disclosure.

In that sense, companies may rebuild their business models in order to comply with environmental objectives. This effort would require the implementation of adequate investments regarding the organisational, structural and human perspective due to the transverse nature of greenization, which requires an overall rethinking of the business model. However, as we said, companies may communicate about their environmental involvement without really investing in underlying environmental strategies.

Company commitment to environmental issues is widely recognized as a shareholder value driver and it is also identified as a social value driver (Michelon and Parbonetti, 2012). As we explained in the previous sections, reporting regarding companies’ environmental commitment reduces the information asymmetry between companies and stakeholders and contributes to legitimate companies’ behaviour, positively affecting both financial and social dimensions of a company’s value (e.g. Michelon and Parbonetti, 2012) (Dumay, 2016). Greenwashing aims to unethically pursue this objective by disseminating misleading disclosure.

The absence of an effective mandatory framework, regarding the companies’ commitment to environmental issues, gives room to manipulate the information voluntarily disclosed, generating information asymmetries in order to mislead the actors of the social and competitive system and to achieve the above goals, without acting as a «good citizen» (Mahoney et al., 2013). The potential benefits in terms of improvements in relational and reputational

capital, in fund-raising and in financial performance induce companies to show an environmental responsibility without being environmentally committed (Siano et al., 2017).

Misleading disclosure allows companies to legitimate corporate actions that do not correspond to reality. Thus, disclosure assumes the two-fold role of seeking transparency to involve stakeholders in the company's activities and the role of a communication strategy aimed at the establishment of intangible resources, useful for the creation of economic value.

### *5.1 The role of reputational and relational capital*

Recent literature (e.g. Rabaya and Saleh, 2021) enlightens that reputational and relational capital are crucial economic drivers of a company's value, especially in the current era, where invisible assets become distinctive resources. In that sense, environmental disclosure is viewed as a useful instrument to improve reputational and relational capital and, therefore, financial performance and competitive advantage (Cantele and Zardini, 2018). The link between disclosure, competitive advantage and value gets manifested as soon as the former is able to feed the invisible assets which, as mentioned above, are often an effective driver of economic value. Companies' legitimation and stakeholders' engagement facilitate the generation of the reputational capital<sup>2</sup>. Dollinger et al. (1997) are consistent with this view, identifying community and green responsibility as key-dimensions of reputation.

Environmental disclosure, by strengthening the relational capital, is instrumental in gaining legitimation. Nowadays, reporting of environmentally responsible behaviours is considered a crucial determinant for improving the relations with stakeholders, improving corporate reputation and gaining a competitive advantage (Uyan et al., 2020; Rabaya and Saleh, 2021).

As Rabaya and Saleh (2021) enlighten, environmental commitment entails an improvement in financial performance, a reduction in cost of equity and a credit rating increase (La Rosa et al., 2018). All of them positively contribute to improving economic value, which is based on future expected income and risk (Rappaport, 1986; Stewart, 1991) by determining a reduction

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<sup>2</sup> Bitektine (2011, p. 160), proposing a theoretical correlation between legitimacy and reputation, underlines that the two concepts are distinct: «This theorized correlation, however, should not be regarded as a lack of discriminant validity between the measures of the two concepts but, rather, as the effect of an overlap in criteria that evaluators use to make two fundamentally different forms of judgment».

of the discount rates, which are one of the main valuation parameters. However, the above effects on corporate value may become concrete if stakeholders are aware of the environmental commitment. In that sense, environmental disclosure contributes to the creation of the relational capital strictly linked to the reputation of the company (De Castro et al., 2006) and, therefore, with a sustainable competitive advantage. Some scholars (Cantele and Zardini, 2018) considered reputation as a first intermediate objective and view competitive advantage as a second intermediate goal of companies wanting to increase financial performance through the enhancement of environmental responsibility. In other words, the linkage between sustainability accomplishment and financial performances is mediated firstly by reputation, among other determinants, and secondly by the achievement of cost or revenue advantages.

Fombrun (1996, p. 11) defines reputational capital as «a form of intangible wealth that is closely related to what accountants call “goodwill” and marketers term “brand equity”». Reputation derives from the stakeholders’ perception of the company and it is shown by their reactions (Deephouse, 2000). There are several drivers of reputation, and social responsibility is considered not only one of them but also a prerequisite of reputation (Rettab et al., 2009; Cantele and Zardini, 2018). Since, as we previously reported, reputation assumes the strategic role of gaining a competitive advantage (De Castro et al., 2006), it represents one of the greatest opportunities for creating economic value. However, reputation is a fragile and scarce resource and it is strictly dependent on the relationship between the company and its external environment: without credibility there is no reputational capital (Worden, 2003). This normative dimension of reputation, which relies on credibility, enlightens its link with the relational capital and claims the role of greenwashing as a value creation strategy.

Reputational capital is also important in improving company competitiveness in the financial markets, boosting its capacity in order to have access to financing resources, which bears lower costs than competing companies have. As Mazzola et al. (2006) state, a good reputation allows the companies to be considered an «investment choice». In recent years, this impact of environmental responsibility on the companies’ capacity of attracting financing is demonstrated by the issuing of “green bonds”. As London Stock Exchange (2021, p. 2) states, green bonds are «any type of bond instrument where the proceeds will be exclusively applied to financing or refinancing in part or in full new and/or existing eligible “green” projects».

As Dye et al. (2021) argue the fact that, while nowadays environmental issues are variables able of influencing financing decisions, financial institutions divulgate information regarding their environmental impact. However, when disclosure is not clear, the arising information asymmetries can prejudice the decision process of potential investors (Rabaya and Saleh, 2021), and when investors are aware of a company's misleading disclosure, the market replies to greenwashing by producing negative abnormal returns (CAR). In fact, the market can detect if a company is an «environmental wrongdoer» because environmental performance scores can reveal the gap between what is said and what has been done, and, therefore, such companies are punished (Du, 2015).

Moreover, a good reputation helps to reduce market volatility and to foster the management of potential corporate or environmental crises (Mazzola et al., 2006). For the above reasons, reputational capital, among other things, should be considered an important value driver.

Reputational capital is related to some essential elements, such as relationships with stakeholders and communication, which influences people's perceptions. Relational capital is a component of intellectual capital (Stewart, 1997). The concept of relational capital, theoretically supported by the resource-based view (Barney, 1991; Wernerfelt, 1984), stems from the value assumed by the relations existing between the company and the actors of the environment. Communication is a fundamental asset of relational capital within a company, where it is used to manage and strengthen relationships with all stakeholders.

Value is a broad concept that goes beyond the boundaries of its financial dimension, involving also a social perspective (Dumay, 2016).

In November 2020, the International Valuation Standard Council (IVSC, p. 4) stated that «“Social Value” includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users». In the perspective of IVSC, value is a wide concept, which includes three dimensions: the monetary benefit to the asset owner, the social benefit to asset users and the social benefit to non-asset users. The first component may be understood as the shareholder financial value, the second and the third components are included in the concept of social value.

The social benefit to asset users are defined as «Social Investments», while the social benefit to non-asset users are defined as «the benefits derived

from the asset that flow to the non-asset users including the wellbeing of individuals and communities, social capital and the environment» (IVSC, 2020, p. 4).

The conceptual framework proposed by the IVSC can include the companies' environmental responsibility. Furthermore, green strategies may foster an increase in shareholder value, and also an improvement of the social value. Green strategies, in fact, may also generate benefits for asset users (e.g., health benefits deriving from the use of natural products) or may generate advantages for non-asset users (e.g., a reduction of pollution or creation of green urban spaces). In addition, IVSC increases the possibility of generating social value by introducing the concept of «social asset», i.e., an asset held «with the primary objective of providing social benefits to asset users and non-asset users» (p. 9), which can generate value not only for the owners, but also for other stakeholders.

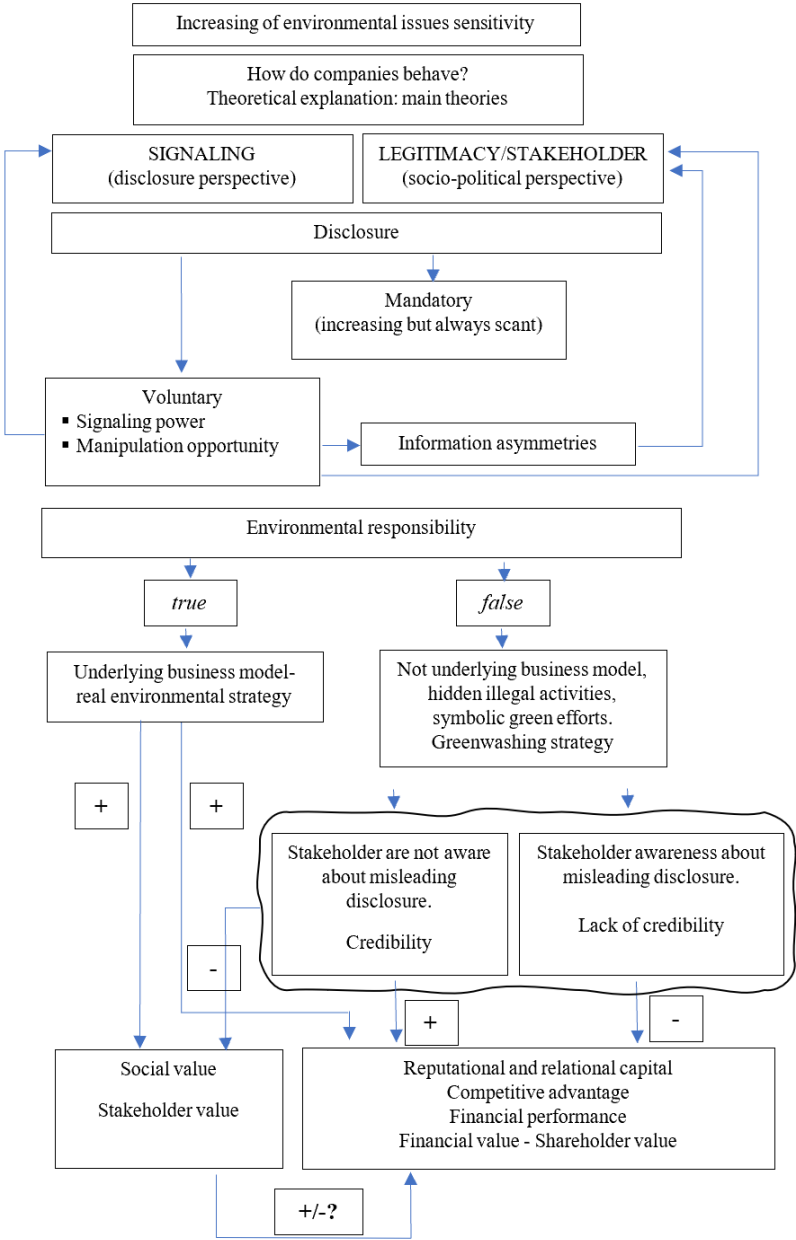
Following the above conceptualization, companies' greenization or environmental efforts, in general, should be considered as positive value drivers, including in the concept of value, shareholder value and social value. In fact, both of them may be improved throughout green strategies.

However, when the value creation process is not based on a redefinition of the business model but only on a misleading communication strategy, different considerations arise. We propose in Picture 2 the conceptual framework representing the background for future empirical testing of the research questions arising from the analysis of greenwashing in a business economic perspective.

Greenwashing aims to increase the shareholders' value by improving reputational capital without taking real actions. The lack of real actions underlying disclosed information, as well as the willingness to hide illegal behaviours that can generate the onset of environmental problems, although potentially capable of increasing the financial value, cannot be considered a positive value driver in a social capital perspective. When external stakeholders are not aware of the misleading intent of the company's disclosure, the company's credibility is not harmed. Despite this, the social capital cannot be improved - although it can be decreased or threatened - by implementing greenwashing strategies. In this situation, managers should not adopt a shortsighted strategy without evaluating the possible long-term negative impacts of social value destroying processes on the shareholder's financial and strategic value.

As we said above, since credibility is a fundamental prerequisite to achieve reputational results (Worden, 2003), the value creation process cannot be virtuous if stakeholders become aware of the lack of clarity on the disclosure of the environmental practices. This consideration is corroborated by other scholars (Zharfpeykan, 2021; Karaman et al. 2020), stating that reputational capital may generate a competitive advantage if companies provide honest disclosure regarding challenging issues. Therefore, greenwashing produces a value-destroying process both in the financial and in the social perspective. When a company is accused of being a greenwasher, investors and other stakeholders reinforce their opinion that the company is not environmentally compliant or that it is dishonest, thus formulating a negative evaluation (Du, 2015). Also, the strategy consisting in providing disclosure regarding only symbolic involvement in environmental responsibility will not be effective in achieving financial and social benefits, in the long term, because symbolic actions are not able to improve critical environmental situations, such as pollution, waste reduction and so on (Walker and Wan, 2012).

**Figure 2 – Greenwashing conceptual framework**



## **6. Conclusions**

Our study aimed to investigate the issue of greenwashing from a theoretical point of view. Greenwashing is a multifaceted concept that engages the attention of scholars belonging to different disciplines. In fact, greenwashing may have an impact in several fields of study, such as, among others, the role of corporate disclosure, the possible impacts on financial performances, strategy and marketing, sociology, psychology, and law (i.e., legality, rulings, corruption and so on).

In this wide context, after providing an inclusive outlook of the different interpretations of the concept, this paper enlightens the main business economic theories that may be used or adapted to explain greenwashing behaviours, involving them in delineating the role of disclosure as a key-tool of greenwashing strategies and aiming to highlight the potential link between greenwashing and a broad concept of value, which also includes its social dimension.

Our main contribution consists in the elaboration of a conceptual framework (Picture 2) that mainly helps scholars aiming to investigate the concept of greenwashing and some of its possible implications in business economics studies. We consider our framework useful in defining a possible path of analysis for business scholars who aim to explore one of the possible issues involved in the greenwashing strategies or emerging from them.

Our study is also particularly contextualised in the current period due to the increase in attention from global and domestic institutions towards improving mandatory environmental disclosure and also the increase in attention from governments towards companies' environmental responsibility and greenization.

Our analysis also offers a suggestion for future research. Our conceptual framework enlightens the importance of studies devoted to analysing the impacts that a social value destruction - due to wrong greenwashing strategies - may have on the economic value. Moreover, it may be interesting to overcome one of the limits of our paper by empirically testing the theories we have recalled in order to motivate greenwashing strategies and their potential impacts on companies' value.

We identify a relevant practical implication of this study that consists in the need for stronger regulation and effective legal enforcement in order to improve mandatory environmental disclosure as well as a process for auditing that reporting. As Du (2015) states, in fact, self-regulation is not effective in order to reduce the gap between substantive and symbolic behaviours,

considering also the relevant impact that the environmental disclosure may have on the products of financial markets (e.g., green bonds).

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