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GREENWASHING AND CORPORATE ENVIRONMENTAL IRRESPONSIBILITY – IMPROPER PRACTICES OF COMPANIES

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Purpose: To identificate factors prompting companies to undertake activities bearing the hallmarks of greenwashing, and to indicate the link between these activities and the concept of corporate environmental irresponsibility.

Design/methodology/approach: The purpose of the article was achieved through a critical analysis of the literature on greenwashing and corporate environmental irresponsibility. In addition, data provided by Eurostat on gross value added for total environmental goods and services sector for the 27 countries of the European Union from the years 2000-2019 were analysed.

Findings: The concept of corporate social irresponsibility is common in the context of immoral and dishonest corporate behaviour. By acting in a socially irresponsible manner companies want to make quick profit, and they do not see the role of socially responsible actions as crucial. In this context corporate social irresponsibility is similar to the concept of greenwashing. Socially irresponsible companies, however, do not intend to "deceive" consumers and "artificially" create an image of socially responsible companies, which is very characteristic of greenwashing practices. The article identifies the most important reasons for greenwashing activities, relating to companies' internal and external motives. The article also presents ways to prevent greenwashing activities, undertaken both at the company level and at the level of superior institutions.

Originality/value: The article systematizes knowledge about the greenwashing practices of companies. Also, links between these practices and the concept of corporate environmental irresponsibility are indicated.

Keywords: Corporate social responsibility, corporate environmental irresponsibility, greenwashing.

Category of the paper: General review.

1. Introduction

Pro-environmental business practices have become an important competitive advantage in the 21st century. They help build a positive company image as the key element of a business strategy. The increased interest in pro-environmental activities (or activities that are safe to the environment) is a direct result of the implementation of sustainable development principles and the development of the concept of corporate social responsibility. Unfortunately, the positive effects of pro-environmental activities are usually immeasurable, unlike the costs of their implementation, which are among the basic indicators of the business effectiveness of a business. Companies therefore often reach for practices aimed at giving the customer the impression that the product they are purchasing was created with environmental principles in mind. Although such practices lead to the development of the company and improve its economic efficiency, they are against the common principles of corporate social responsibility.

The article discusses the factors prompting companies to undertake activities bearing the hallmarks of greenwashing, and points out the link between these activities and the concept of corporate environmental irresponsibility.

2. Theoretical background

2.1. Increasing need among businesses to be seen as "green"

Market effects are primarily reflected in external results. Customers know that by accepting the offer of a company whose activities do not harm the environment they will incur lower costs associated with environmental degradation, which is why they are likely to reject less environmentally friendly products by the competition. Customers are also a significant source of environmental pressure, which forces changes in manufacturing processes. Because of that companies wish to meet consumer expectations connected with product environmental footprint. To do that they increase their green operations by applying environmental criteria in the production of goods and services. Companies implementing environmentally friendly practices make up the environmental goods and services sector. The main goal of these companies is to help protect the environment by offering green products that do not impact the environment. Gross value added describes the increase in the value of goods over a given period. It is the most accurate measure of the economic effect of a sector. The increase in gross value added indicates an increase in the role and importance of the environmental goods and services sector. Table 1 present the gross value added dynamics for total environmental goods and services sector in million euro in the 2000-2019 period.

Table 1.
Gross value added dynamics for total environmental goods and services sector in million euro in the 2000-2019 period

Economic activities	Dynamics measures			
	Dynamics index for the year 2010 (2000 = 100%)	**Dynamics index for the year 2019 (2010 = 100%)**	**Dynamics index for the year 2019 (2000 = 100%)**	**Average annual rate of change**
Total - all NACE activities	179.94%	140.86%	253.47%	5.02%
Agriculture, forestry and fishing	199.63%	195.30%	389.86%	7.42%
Mining and quarrying; manufacturing	214.45%	107.88%	231.35%	4.51%
Electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	169.99%	148.15%	251.85%	4.98%
Construction	212.13%	154.99%	328.77%	6.46%
Services	153.42%	123.36%	189.27%	3.41%

Source: Eurostat database.

While the average annual rate of change in the years 2000-2019 for all specified economic activities in terms of gross value added for the total environmental goods and services sector is small, ranging from 3.41% to 7.42%, a significant increase in this respect can be observed in 2010 compared to 2000. Gross value added for mining and quarrying, manufacturing increased in 2010 by as much as 114.45% compared to 2000. A similar increase of 112,13% is observed for the construction sector. All economic activities have seen significant growth in gross value added in the consecutive years. The largest increase in gross value added in 2019 compared to 2010 can be observed for agriculture, forestry and fishing (95.30%) and construction (54.99%). Analysing the dynamics of gross value added for the total environmental goods and services sector in 2019 compared to 2000, the largest growth is observed for agriculture, forestry and fishing (289.86%) and construction (228.77%) Progressive greening is therefore visible across all activities, but most clearly in the construction sector.

2.2. Defining greenwashing

Greenwashing is considered a tool for the promotion of business (Huang et al., 2022). It helps establish relationships with stakeholders by creating an environmentally friendly image of the company. Unfortunately, greenwashing is an activity motivated by opportunistic goals, focusing on economic rather than environmental consequences. Greenwashing activities focus public attention not on the environmental damage caused by corporations, but on their minimal efforts to protect the environment (Megura, Gunderson, 2022).

The goal of greenwashing activities is to achieve economic benefits through presenting the offer of a company as environmentally friendly to customers who are increasingly interested in such products. Greenwashing, however, is effective only if consumers are unaware of the fact that they are deceived. This is supported by studies which have shown that while environmentally focused actions do not correlate with a company's financial performance, revealing the use of "fraud and hypocrisy" strategies impacts them negatively (Walker, Wan, 2012). Customers and other stakeholders lose trust in companies that use dishonest practices in the context of pro-environmental declarations (Lee, Suh, 2022; Remme et al., 2022). It is pointed out that greenwashing does bring benefits, but only short-term, while fines imposed by NGOs and consumer opposition can be long-term (Koseoglu et al., 2021).

Greenwashing is also referred to as „SDG-washing” (Johnsson et al., 2020), which clearly indicates the negative nature of these activities in the context of achieving Sustainable Development Goals (SDGs). Thus, greenwashing emphasizes the gap between a company's market image in terms of corporate social responsibility principles and its actual sustainability efforts (Dixon 2020). Under the guise of implementing socially responsible business principles, companies pursue their business goals aimed at improving their image or making or increasing profits (Toussaint, Cabanelas, González-Alvarado, 2021).

2.3. Corporate social responsibility vs. corporate social irresponsibility in the activities of enterprises

Thinking only in terms of profitability has proven insufficient in evaluating a company due to the fact that it also operates in spaces other than just economic. The increasing importance of environmental protection and the well-being and health of the society has translated into the development of the concept of corporate social responsibility (CSI), which contributes to the realization of sustainable development goals at the corporate level. Unfortunately, companies are more focused on sustainability goals that are aimed at "avoiding harm" rather than those that are aimed at "doing good". The extent of the actual "sustainability goal" in the context of a corporate sustainability assessment depends on the underlying motive for conducting the assessment (Johnsson et al., 2020). It is therefore important to consider striking a balance between "doing good" and "avoiding bad" (Siano et al., 2017). The social effects of the functioning of enterprises should therefore (Salaiz et al., 2020):

1. carry out activities that benefit the society, i.e., act in accordance with the principles of corporate social responsibility, and
2. avoid, prevent, reduce or mitigate inappropriate behavior that harms society, i.e., prevent corporate social irresponsibility.

It can be concluded that social responsibility should go hand in hand with the prevention of social irresponsibility, which requires the involvement of various company resources. Until now, the two concepts of corporate social responsibility and corporate social irresponsibility have been viewed and developed independently of each other. They should, however, be integrated to facilitate the development of a more general normative theory that promotes a wider range of universal criteria translated into global standards of business practice (Windsor, 2013).

Corporate social irresponsibility (CSI) does not bring positive consequences for companies. It can be argued that it actually has a negative impact on corporate performance by causing a decrease in the value of the company resulting from the loss of positive stakeholder relationships. When customers become aware of socially irresponsible behavior, they stop purchasing products offered by the company. Social irresponsibility can therefore lead to a loss of reputation and tarnish the company's image, resulting in lower revenues (Price, Sun, 2017) and poorer corporate financial performance (Chen et al., 2018). The results of empirical studies show that CSI-oriented activities have a longer effect than CSR-oriented initiatives, and that companies with little implementation of CSR and CSI achieve better results than companies heavily involved in CSR or CSI. The results of this research are therefore not very optimistic, and show that it is not worth concentrating all resources in efforts to increase environmental friendliness, but rather settle for activities which are just enough to simply avoid harming the environment.

The nature of business irresponsibility nevertheless determines the behavior of the public, which reacts more negatively to the actions of companies that blatantly violate accepted rules and regulations (Teng, Yang, 2022). The market reaction to punish socially irresponsible businesses is characteristic of liberal markets, whose consumers, through a system of penalties and rewards, want to stimulate companies to act in a socially responsible manner (Jasinenko, Christandl, Meynhardt, 2020). Actions, which can confirm and be part of corporate social irresponsibility, represent a risk connected with the loss of trust, support and positive perception of the company by all its key stakeholders (Harjoto, Hoepner, Li, 2021).

Corporate social irresponsibility occurs when an action taken is unethical from the point of view of the decision-maker's personal values or when it produces results that are worse than other actions in the long run (Armstrong, Green, 2013). Considering long-term profit or long-term viability when planning operations is one of the factors preventing corporate social irresponsibility, which significantly reduces the performance of companies in the long term (Zhong, Chen, Ren, 2022). The planned activities should also promote fair treatment of all stakeholders.

Both socially responsible and socially irresponsible behaviours are influenced by different attitudes and intentions of stakeholders, which are part of open relationships (Pereira et al., 2021). CSI is not the exact opposite of CSR as CSI focuses more on maintaining lasting relationships with stakeholders, while CSR helps build such relationships (Harjoto, Hoepner, Li, 2022). It also remains questionable whether consumers, who prefer socially responsible companies, will tend to punish the ones that are socially irresponsible (Valor, Antonetti, Zasuwa, 2022). The research shows that consumers are more likely to notice socially irresponsible actions, especially in relation to large companies (Jung, Bae, Kim, 2022). Additionally, uniform social and environmental standards implemented across all partners working together in the supply chain translate into positive results. This is because the irresponsible actions of one partner can contribute to undermining the intangible assets of the entire supply chain, such as corporate trust, corporate image, attitude toward the firm, and word-of-mouth intention (Nunes, Park, Shin, 2021).

The concept of corporate social irresponsibility usually appears in the context of a range of immoral behaviours associated with business. Companies operating in a socially irresponsible manner are primarily profit-driven, and although they operate with legal requirements in mind, they do not see the role of socially responsible activities as crucial (Murphy, Schlegelmilch, 2013). This approach is close to the concept of greenwashing. However, it should be noted that socially irresponsible companies do not try to "deceive" consumers and "artificially" create an image of socially responsible companies.

3. Causes of greenwashing and methods to prevent it

3.1. Determinants of greenwashing

Dishonest behaviour of companies is similar to dishonest behaviour of individuals, but the former is much more criticized (Jauernig, Uhl, Valentinov, 2021). The moral evaluation of deliberate actions which are misleading when it comes to someone's true intentions and of gaining benefit from these actions by both individuals and companies is driven by essentially the same psychological mechanisms. Unfair practices of companies were evaluated much more harshly than those of individuals, which results from the perception that the extent of immorality of companies exceeds that of individuals. The public perception of deception contributes to the condemnation of the violation of material norms. Four motives for deceptive behaviour of companies can be distinguished (Jauernig, Uhl, Valentinov, 2021):

1. adopting a moralizing attitude, invoking moral principles by, among other things, stating principles or ideals explicitly and clearly, or by signalling a willingness to follow the rules of a particular social practice,
2. failing to meet moral principles in at least one case,
3. attempting to hide the inconsistency between accepted moral principles and actual actions, which results in deceiving stakeholders through deliberately failing to adhere to the moral promises made in order to increase profits.

Because the environmental focus of businesses is desired by buyers, thinking only in cost-benefit terms can pave the way for greenwashing activities. If the cost of improving a company's environmental performance outweighs the benefits, and if the company's green image is desired or expected by buyers, greenwashing activities can help the company to maintain economic efficiency (at least in the short term), all the more so because greenwashing activities are not only an actual fraud, but also shallow CSR practices, or the implementation of environmental policies at a minimum level (Gatti, Pizzetti, Seele, 2021). Companies with poorer performance in terms of socially responsible activities are more likely to be involved in greenwashing (Karaman et al., 2021). What is more, companies often report only those results related to their environmental responsibility that are favourable to them, omitting the ones that indicate their actual negative environmental impact (Arouri, Ghoul, Gomes, 2021; Zhang, 2022b). This is because companies involved in greenwashing publish their CSR reports primarily in order to let their stakeholders perceive the company as addressing social and environmental issues (Mahoney et al., 2013).

Unfortunately, in the period of the green transformation there is a lot of pressure from government institutions to reduce negative environmental impacts. It has been observed that the impact of environmental regulations on product quality motivates companies to resort to greenwashing. This is because companies create their strategic actions to merely meet pressure from the government and competitors, rather than to actually prevent environmental pollution (Zhang, 2022a).

The participation of all kinds of organizations in various certification schemes is also controversial. Helping companies present their products as environmentally friendly contributes to greenwashing (Flagstad, Hauge, Johnsen, 2022). Certification is an attractive prospect not only for international NGOs trying to solve environmental problems in global supply chains (Partzsch, Zander, Robinson, 2019), but also for the companies themselves, for whom certification can confirm their pro-environmental activities. The need to prove one's environmental performance is characteristic especially of companies operating in sectors with the greatest environmental impact (Heras-Saizarbitoria, Arana, Boiral, 2015). Numerous research shows, however, that environmental certification has a positive influence on the market value of businesses (Bernard, Nicolau, 2022; Wen, Lee, 2020), because consumers prefer certified products (Valenciano-Salazar, André, Soliño et al., 2021). Delmas and Gergaud (2021), using wine as an example, tested the impact of eco-labels on the assessment of the product quality by experts. The analysis covered the quality assessments of wines with organic and biodynamic labels issued by third parties, and the quality assessments of wines with organic labels declared by producers but without third-party certification. The results indicated that experts rated the quality of wines with eco-labels without third-party certification lower than the quality of wines with such certification. This means that labelling products with eco-labels without third-party certification may be associated with "greenwashing" and thus reduce the value of certification.

The factors which drive greenwashing are financial pressures and the desire to achieve a rapid profit growth. However, it should be remembered that in order to achieve long-term sustainability a company needs to avoid profit growth in the short term in favour of a long-term development involving systematic and slow growth, make financially prudent choices of business practices, and reorganize key strategic capabilities and resources (Liedong et al., 2022).

Greenwashing is also fostered in environments characterized by lower levels of economic development. Greenwashing in emerging markets is significantly different from that in developed countries due to differences between the functioning of these two spaces (Huang et al., 2020). In developing countries, brown enterprises have a cost advantage over pro-environmental enterprises. In addition, consumers in emerging markets are far less environmentally aware than customers in developed markets. Studies have shown that consumers with poorer knowledge about environmentally friendly products are more vulnerable to greenwashing (Guyader, Ottosson, Witell, 2017). Also, the lack of government regulation to prevent greenwashing activities in developing countries makes them easier to conduct, often without criminal consequences.

Vulnerability to greenwashing also depends on the society's personality traits. Societies placing more emphasis on their image than on implementing real pro-environmental policies are more susceptible to greenwashing (Cislak et al., 2021).

The search for ways to prevent greenwashing is a difficult task, requiring a multifaceted view of the problem. This is because different approaches to solving the problem of greenwashing are needed depending on the type of economy, the organizational culture of companies, legal and administrative solutions in a given country, and the awareness of buyers. Solutions should also be sought at the levels of the management of a business and the economy as a whole.

3.2. Methods to prevent greenwashing activities of enterprises

Due to the negative meaning of greenwashing, it is difficult to analyse its level and the way it is used by enterprises, which makes it harder to find effective methods to solve the problem of greenwashing. However, the subject literature presents some attempts to develop indicators that measure the scale of greenwashing behaviour in enterprises in order to determine the methods to prevent it. It was found that the prevention of greenwashing can be strengthened through the following four mechanisms (Yu et al., 2021):

1. increasing the number of independent managers,
2. increasing the number of institutional investors,
3. reducing the level of state corruption,
4. cross stock exchange.

Companies which come under greater scrutiny are less likely to engage in greenwashing. The four mechanisms that can support enterprises in not engaging in greenwashing activities given by Yu et al. (2021) can be implemented in large enterprises with high market capitalization.

Enterprises can improve their environmental performance through the implementation of environmental management control systems and proactive policies (Nishitani et al., 2021). Unfortunately, assessing a company's environmental performance solely on the basis of the cost-benefit ratio leads to the discontinuation of the environmental management control system, which results in the deterioration of the environmental performance.

Ways to reduce greenwashing are sought continually, not only at the microeconomic level, but also at the macroeconomic level. It was proposed, for example, that greenwashing could be prevented by the introduction of stricter criteria for issuing all kinds of certifications and ecolabels (Popescu, Hitaj, Benetto, 2021). Studies have shown that only "dishonesty list disclosure" and "unified green certification" can effectively prevent greenwashing activities, and that they must be supported by government regulations (He et al., 2020). Therefore, the phenomenon of greenwashing is more often observed in the manufacturing sector than in the services sector (Baldi, Pandimiglio, 2022), which means that the activities of manufacturing companies are more often monitored by government organizations.

Another way to combat greenwashing is subsidizing consumers who purchase environmentally friendly products. Unfortunately, it is not easy to ascertain that a product is environmentally friendly, which is why factors indicating proper pro-environmental practices of manufacturers are, for example, product price or company profit (Ki, Kim, 2022).

Measures leading to the reduction of greenwashing are also taken within the framework of European Union regulations. It was noted as early as at the beginning of the 21st century that in order to avoid greenwashing the European Union needed to operationalize its commitment to sustainability and move beyond rhetoric (Lightfoot, Burchell, 2004). On 18 June 2020 the European Parliament and the Council adopted a regulation to create the world's first classification system - a "green list" for sustainable economic activities, or a taxonomy. The regulation outlines a general framework for the gradual development of an EU-wide classification system for environmentally sustainable economic activities in relation to six environmental goals:

1. mitigating climate change,
2. adopting to climate change,
3. sustainable use and protection of water and marine resources,
4. transition to a closed loop economy,
5. pollution prevention and control,
6. protection and restoration of biodiversity and ecosystems.

One of the goals of the regulation is to protect private investors and consumers by preventing "green pseudo-marketing", i.e., greenwashing. Support for the European Commission in developing a social taxonomy is to be provided by the draft report on an expanded taxonomy to support economic transformation. The project includes recommendations including, among others (Regulation (EU) 2020/852):

- encouraging increased funding to urgently move away from activities that are significantly harmful to the environment;
- identification of economic activities that significantly harm environmental sustainability goals and defining economic activities that do not significantly affect them;
- identification of future economic activities for which there is no technological way to improve their environmental performance in order to avoid significant environmental damage;
- economic activities that cause significant environmental damage, which cannot be technologically improved, should be considered as activities that significantly harm environmental objectives from a technical point of view;
- developing technical criteria for the potential "decommissioning" of electricity generation activities using solid fossil fuels and other activities for which it is not technically possibile to improve their environmental performance;
- making it mandatory for companies to participate in a labeling/certification process (e.g., the EU environmental certification system, EMAS) to ensure minimum environmental performance as a prerequisite for reporting activities that do not have a significant impact on environmental sustainability goals;
- working out ways in which activities that do not cause significant environmental damage can access green financing;
- developing a taxonomy of economic activities most at risk of needing transformation due to their current negative impact on the environment (brown taxonomy).

Developing methods to prevent greenwashing will only be half the battle if effective mechanisms for implementing these methods in companies are not found. Only understanding on the part of business executives that taking measures to foster environmental protection is not a cost but an investment can bring satisfactory results in this regard.

4. Summary

The development of pro-environmental civilization ensures higher quality of life. It can be achieved through taking real action to serve the environment. The proper functioning of enterprises is mainly assessed on the basis of such criteria as revenue, costs, quality and price of the product offered. The tasks related to the reduction of the negative impact of the implementation of basic activities on the natural environment and the creation of social well-being stand in opposition to the economic goals. Given the fact that customers make their purchasing decisions not only on the basis of price and quality, but also the degree of a product's impact on the environment and, indirectly, on the well-being and health of the society, offering a responsible product, the construction and distribution of which also takes into account environmental standards and requirements, is becoming a fundamental challenge for enterprises. Unfortunately, environmental measures only bring benefits in the long term, prompting companies to implement practices that give the appearance of pro-environmental behaviour in order to gain benefits in the short term as well. Such practices are called greenwashing.

The article points out the causes of greenwashing activities such as: the desire to achieve a rapid increase in profit in the short term, the need to meet the state environmental requirements, targeting buyers' expectations in terms of certificates obtained. The propensity for greenwashing activities is also determined by the level of economic development and social awareness. The methods of preventing greenwashing should also be subordinated to its causes. These methods can be implemented both at the level of an enterprise, for example through the implementation of an environmental management control system and proactive policies. Solutions to the problem of greenwashing can also be macroeconomic and take the form of regulations, such as an EU-wide classification system for environmentally sustainable economic activities in relation to environmental goals.

Businesses know that greenwashing activities can lead buyers to lose trust in the brand. Rather than changing their behaviour to eliminate greenwashing, companies often focus on developing a brand repair strategy, for example through improving brand legitimacy (Guo et al., 2018). This raises the following question: does the possibility to regain the trust of customers by companies using greenwashing hinder the elimination of this type of behaviour? Is the development of a strategy to repair the company's image an obstacle to undertaking true environmental sustainability activities? These questions open further areas for research on the problem of greenwashing and set further directions for finding solutions to it.

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