THE MITIGATING FACTORS OF GREENWASHING : A SYSTEMATIC LITERATURE REVIEW

Dica Yulinar Sari[1]; Windijarto[2]
Master of Science Management, Universitas Airlangga, Indonesia[1,2]
Email : dica.yulinar.sari-2021@feb.unair.ac.id[1]; windijarto@feb.unair.ac.id[2]

ABSTRAK

Greenwashing is a strategy carried out by companies by presenting an image of good sustainable performance but hiding their actual environmental performance. Greenwashing harms investors and consumers. Therefore, this research will examine mitigation factors that can minimize the occurrence of greenwashing practices. This research method uses a Systematic Literature Review (SLR) with a database sourced from Scopus as many as 21 articles that are relevant to the topic of this study. It is hoped that the final results of this research will be useful in making policies related to greenwashing and as a basis for a development model for researchers related to greenwashing topics in the future.

Keywords : Greenwashing; ESG; Systematic Literature Review

ABSTRACT

Greenwashing adalah strategi yang dilakukan perusahaan dengan menampilkan citra kinerja berkelanjutan yang baik namun menyembunyikan kinerja lingkungan sebenarnya. Greenwashing memiliki pengaruh negatif bagi investor maupun konsumen. Oleh karena itu, penelitian ini akan mengkaji faktor-faktor mitigasi yang bisa meminimalisir terjadinya praktik greenwashing. Metode penelitian ini menggunakan Systematic Literature Review (SLR) dengan database yang bersumber dari Scopus sebanyak 21 artikel yang relevan dengan topik studi ini. Hasil akhir penelitian ini diharapkan mampu bermanfaat dalam pengambilan kebijakan terkait greenwashing serta sebagai dasar model pengembangan bagi para peneliti terkait topik greenwashing kedepannya.

Kata Kunci : Greenwashing; ESG; Systematic Literature Review

PENDAHULUAN

In recent decades, greenwashing has become a crucial topic of discussion due to companies' responsibility to achieve Sustainable Development Goals (Rahman & Viet, 2022). Increasing environmental awareness among investors and consumers has led them to consider a company's environmental responsibilities when making decisions (Li et al., 2022). Moreover, external stakeholder factors and demands of business competition have also encouraged companies to adopt greenwashing practices to meet widespread market standards (Cercielle et al., 2022). Companies engage in greenwashing to gain investors' trust and increase their portfolio returns (Olatubosun & Nyezenga, 2019).

Companies carry out greenwashing actions that can make a company seem sustainable by increasing their Environmental, Sustainability, and Governance (ESG) disclosures beyond actual Environmental, Sustainability, and Governance (ESG) practices to gain benefits related to ESG practices(Eliwa et al., 2021). Greenwashing is a company strategy to appear 'more environmentally friendly' than it is (Arouri et al., 2021).

According to Gregory (2023), Greenwashing is defined as a strategic decision made by a company to mislead investors and consumers that the company is committed to environmental, social, and governance policies that increase the value of the company through the products and services it sells. The costs incurred by companies for greenwashing are quite large. Greenwashing is carried out to build a good reputation that will increase the value of the company and give the impression of having better performance than its competitors when in reality increasing this reputation is not feasible. Greenwashing practices exist in various types of companies including the food, manufacturing, and airline industries (Hemmings et al., 2023).

The impacts resulting from greenwashing tend to be negative and detrimental. In several previous studies, greenwashing can weaken consumer confidence in environmentally friendly products and services, thereby harming and reducing the brand reputation of a company that is truly sustainable (Boncinelli et al., 2023).

Research conducted by Garcia et al. (2023) explains that one form of greenwashing strategy by issuing green bonds shows no improvement in a company's environmental performance and no real beneficial impact on the environment. Companies that build their image with CSR must also be careful because these benefits will only be obtained when done in the long term. Still, when done in the short term, it will cause consumer skepticism and judge that the company is doing greenwashing because it has ulterior motives and sees the company's environmental performance as not according to reality (Nyilasy et al., 2014). Moreover, investor skepticism towards companies can also arise in companies that are proven to exaggerate their reports (Gatti et al. 2019; Blazkova et al. 2023).

Based on the explanation of the negative impacts resulting from greenwashing practices, it is seemed important to know the mitigation factors so that the occurrence of greenwashing can be minimized. In line with research conducted by Lu et al. (2023)

revealed that mitigating greenwashing is very challenging amidst uncertain regulations. However, several factors can be used to mitigate greenwashing practices related to ESG disclosure.

The purpose of presenting this paper is to further examine the mitigation factors of greenwashing to help researchers related to the topic of greenwashing which will be used in determining future research topics by understanding some of these mitigation factors. Moreover, it is hoped that they will be able to produce solutions to the practice of greenwashing which is detrimental. Then, this research will answer the research problem: what are the mitigating factors of Greenwashing?

LITERATURE REVIEW AND FOCUS OF STUDY

In line with the demands of companies to carry out corporate social responsibility, the issue of greenwashing is growing and a lot of literature is starting to discuss it (Lyon & Montgomery, 2013). Navarro et al. (2021) classify the development of literature on greenwashing into 3 stages, namely: Ground-Setting which occurred in 1999–2010, Trail-Blazing which occurred in 2011-2015, and Remarkable growth which occurred in 2016–2020.

The increasing expectations and pressure for corporate social responsibility, especially in companies that have responsibilities to stakeholders, ultimately make developing companies experience tensions both externally, namely meeting social needs and internal needs operational efficiency, so this makes them carry out greenwashing practices (Kim & Lyon, 2015). This is in line with research that greenwashing can influence the managerial decisions of several stakeholders such as investors, suppliers, and others, which is the company's response to stakeholder preferences in the hope of achieving a better company image than its actual image (Vilchz et al., 2020).

Various academic and non-academic definitions of greenwashing have shown broad understanding and scope. The term greenwashing started when an environmental activist from New York, Jay Westerveld discovered that almost all hotels posted announcements urging guests to reuse their towels to preserve the environment even though this had an ulterior motive aimed at reducing costs and increasing hotel profits (Guo et al., 2018). The Oxford English Dictionary defines greenwashing as a form of disinformation disseminated by an organization to present a public image that is environmentally responsible but in reality, it is only a practice of misleading information. (Netto et al., 2020). Greenwashing can also be interpreted as the immoral act of companies that deliberately misreport their CSR to exploit the nominal value of CSR reports to influence stakeholder perceptions and gain legitimacy (Hassan et al., 2020).

Based on research conducted by Seele & Schultz (2022), there are 5 types of misleading greenwashing behavior:

1. Misleading with words, which include (a) misleading claims (b) inaccurate claims (c) vague/unprovable claims (d) meaningless claims (e) overstatements/exaggerations.
2. Misleading with visuals or graphics. This aspect relates to various company visualization forms, including false and misleading certifications and labels.
3. Misleading by omission includes company practices related to (a)complete omission of information and (b) concealment of information.
4. Misleading with symbolism which refers to the inconsistency between promises that do not match reality, in this case, social and environmental initiatives.
5. Misleading with (covert) lobbying. This category involves overt or covert activities outside the market aimed at benefiting laws and regulations.

In several previous studies, 4 theoretical bases discussed this greenwashing phenomenon, namely: Institutional Theory, Attribution Theory, Signaling Theory, and Legitimacy Theory (Vangeli et al., 2023). Signaling theory and legitimacy theory are the theoretical foundations most widely used in research on greenwashing. In line with this, based on research conducted by Torelli et al. (2020) which is based on the Legitimacy theory and Signaling theory, greenwashing can occur at four main levels, namely:

1. Corporate Level: Greenwashing is related to the image and reputation of a company.
2. Strategic Level: Greenwashing is related to choosing a company's strategy for the future.
3. Dark Level: Greenwashing is related to illegal activities such as corruption and money laundering.
4. Product Level: Greenwashing relates to the specific characteristics of a product, such as packaging and labels.

Submitted : 05/08/2023 |Accepted : 04/10/2023 |Published : 08/12/2023
P-ISSN; 2541-5255 E-ISSN: 2621-5306 |

Moreover, in economic studies, Stakeholder Theory has been used to examine the greenwashing phenomenon (Testa et al., 2020). Similarly, Management Theory is often utilized in environmental management studies (Hassan et al., 2020).

When a company is caught engaging in greenwashing practices, it can lead to a loss of trust among stakeholders. Therefore, the company must implement the right strategy to rebuild stakeholder trust (Guo et al., 2018). Furthermore, greenwashing can result in a decrease in sales volume and market share, and can even lead to the withdrawal of a product from the market. As a result, the company's financial performance may decline. Furthermore, consumers are also likely to be skeptical of companies that engage in greenwashing and may no longer trust the product. Consequently, they may avoid purchasing the product altogether (Braga et al., 2018).

RESEARCH METHODS

A method is a way of working that can be used to obtain something. Meanwhile, research methods can be interpreted as a work procedure in the research process, either searching for data or uncovering existing phenomena (Zulkarnaen, W., et al., 2020). In this research, the Systematic Literature Review (SLR) method was used to focus on the Greenwashing variable. The SLR was based on the Preferred Reporting Items for Systematic Review and Meta-Analysis (PRISMA) guidelines, which were presented in Figure 1 showing the data search flow and research results decisions.

The Scopus database was used to search for relevant articles. First, the keyword "greenwashing" was used in the article search, and 1038 articles appeared. Next, articles were sorted by selecting the publication year (2013-2023), "all open access" status, subject area (Business, Management, and Accounting, and Economics, Econometrics, and Finance), document type (article), language (English), and publication stage (final). As a result of these restrictions, 127 articles were found, which were then downloaded for further analysis.

Next, the 127 articles were screened again to find articles that matched the research questions. Initial selection was based on the relevance of the title and abstract about all greenwashing factors. This resulted in 21 articles that matched the research questions, which then underwent a data analysis process.

RESULTS AND DISCUSSIONS

Based on the research questions presented, the following research results are described in Table 1 regarding mitigating factors of greenwashing.

What are the mitigating factors of Greenwashing practices?

Greenwashing mitigation is a factor that can minimize the negative impact of unwanted greenwashing practices. Greenwashing limits sustainable economic growth, including green innovation. Whereas, green innovation is a driving factor that has an important influence in determining the quality of economic growth. Therefore, this research tries to look at mitigation factors that can minimize greenwashing practices to produce a contribution to green innovation. Apart from that, the increasingly widespread practice of greenwashing raises the question of how to mitigate the current negative trend. Furthermore, the results have been mapped in Table 1.

Greenwashing practices occur because there are no clear regulations. Based on research conducted by Zhang (2022), environmental regulations are considered capable of having an impact on economic growth and environmental regulations become an "anti-driving mechanism" tool that increases company innovation and technology activities where support-oriented environmental regulations are proven to significantly reduce greenwashing behavior, on the other hand, Administrate punishment-oriented environmental regulations will further encourage companies to carry out greenwashing practices. In line with this, Marquez et al. (2022) in their research found that strict climate-related regulations tend to make companies in these countries less likely to engage in greenwashing practices. Other research conducted by Toussaint et al. (2021) stated that government regulations regarding social sustainability policies need to be implemented to limit companies to mitigate the negative impacts resulting from greenwashing practices.

The presence of technological progress/advance as a means of financial innovation is momentum in achieving social and economic goals. Digital finance, as a form of innovation product in the financial sector, can minimize greenwashing practices by empowering digital finance. Digital finance empowerment is a step taken by companies in implementing technological innovation to make financial activities easier and provide environmental protection and environmentally friendly energy. Digital finance can encourage the renewal of the traditional financial system by providing transparency of information in various business lines (Zhang, 2023).

Other research conducted by Lu et al. (2023) stated that digital transformation can suppress greenwashing practices by mitigating the occurrence of information asymmetry and weak internal controls as evidenced by the negative relationship between digital transformation variables and greenwashing practices. The digital transformation itself is a company strategy to invest in the use of digital technology to create technological innovation and high-quality company development. In its application, company stakeholders apply effective digital transformation to monitor and prevent claims on ESG values that do not match original practices.

The pressure of existing market competition requires companies to carry out greenwashing practices to be superior to their competitors, therefore in subsequent research presented by Arouri et al. (2021) found that Product Market Competition can be an effective disciplinary mechanism as a control in reducing the tendency of managers to engage in greenwashing practices, so greenwashing practices can be minimized and economic efficiency can be achieved. Product Market Competition generally shows the threat of business competition among products that have similarities.

Another factor is the presence of an analyst in a company who has been proven to effectively mitigate greenwashing. An analyst plays an important role in collecting and processing public reports presented by the company. Analysts also play a role in reducing information asymmetry between stakeholders and the company (Liu et al., 2023).

The information asymmetry that occurs between stakeholders and companies triggers the emergence of greenwashing. This information asymmetry can be overcome by implementing Blockchain technology which will provide consumers with access to transparent information. This transparency will give consumers confidence and minimize companies' greenwashing (Nygaard et al., 2022). Furthermore, transparency in ESG reporting disclosure is also an important factor that is part of the company's stakeholder assessment and assessment of a company's business effectiveness (Lokuwaduge & Silva, 2022).

The consumer perspective on "environmentally friendly" products where consumers prefer "environmentally friendly" products encourages companies to make "environmentally friendly" claims. From a consumer perspective, to mitigate greenwashing practices carried out by a company, limiting or not purchasing products that are proven to carry out greenwashing practices is one way that consumers can mitigate companies carrying out greenwashing (Toussaint et al., 2021). In line with this research, Schmuck et al. (2018) found that consumer knowledge of environmental sustainability minimizes false claims made by companies on their products and companies give up their intentions to carry out greenwashing.

Companies are sometimes considered greenwashing because of differences in the sustainability reports they provide. Companies that are considered to be greenwashing can use external assurance as a tool to mitigate stakeholder and consumer concerns regarding greenwashing practices. External assurance is a company signal that the company's sustainability reporting is credible and not just an attempt to change perceptions of company performance (Weber, 2018).

A company's leadership style can also be a factor in the emergence of greenwashing practices. In research conducted by Blome et al., (2017), Ethical Leadership is proven to reduce greenwashing practices because greenwashing practices are not in line with ethical leadership values. Ethical leaders will commit to encouraging employees to run the company in a sustainable environment. From the explanation above, those are several mitigating factors for greenwashing practices that the author obtained from the literature review carried out.

CONCLUSION

Greenwashing is a strategy carried out by companies by making claims that they are environmentally friendly, both in terms of products, values, and company goals without actually carrying out activities that have an impact on environmental sustainability. In practice, greenwashing tends to be detrimental and has a negative impact on society. This research identifies factors that can mitigate the negative impacts of greenwashing thereby minimizing these impacts.

Based on a literature review in the Scopus database, several variables are found that are proven to be mitigating factors, including support-oriented environmental regulations, product market competition, and transparency. Furthermore, technological advances including digital finance, digital transformation, and blockchain can also mitigate the negative impact of greenwashing. From the company side, mitigation of greenwashing practices is proven to be influenced by management leadership style, external assurance, and the presence of an analyst. Meanwhile, mitigation from the consumer side can be done with consumer knowledge about a company's products.

The limitation of this research is that the literature findings that are appropriate to the research topic are still limited, but this is an opportunity for future researchers to further develop the topic of greenwashing. Database references that only come from Scopus and have limitations on articles that can only be accessed (open access) are also limitations of this research. Apart from that, this research is still limited to a literature review so the researchers suggest that this topic can be followed up with research using empirical testing methods.

ACKNOWLEDGEMENT

The author expresses gratitude towards the publishers who have provided their valuable assistance in completing and publishing this article. Additionally, the author is thankful to the reviewers who have contributed their ideas in preparing this article. Special appreciation goes to the fellow writers who have collaborated in the writing process. The author would like to emphasize that this article was written without any coercion or negative influence that could harm individuals.

REFERENCE.

Álvarez-García, O., & Sureda-Negre, J. (2023). Greenwashing and education: An evidence-based approach. The Journal of Environmental Education, 54(4), 265-277.

Arouri, M., El Ghoul, S., & Gomes, M. (2021). Greenwashing and product market competition. Finance Research Letters, 42, 101927.

Blazkova, T., Pedersen, E. R. G., Andersen, K. R., & Rosati, F. (2023). Greenwashing debates on Twitter: Stakeholders and critical topics. Journal of Cleaner Production, 139260.

Blome, C., Foerstl, K., & Schleper, M. C. (2017). Antecedents of green supplier championing and greenwashing: An empirical study on leadership and ethical incentives. Journal of Cleaner Production, 152, 339-350.

Boncinelli, F., Gerini, F., Piracci, G., Bellia, R., & Casini, L. (2023). Effect of executional greenwashing on market share of food products: An empirical study on green-coloured packaging. Journal of Cleaner Production, 391, 136258.

Braga, S., Martínez, M. P., Correa, C. M., Moura-Leite, R. C., & Da Silva, D. (2019). Greenwashing effect, attitudes, and beliefs in green consumption. RAUSP Management Journal, 54, 226-241.

De Freitas Netto, S. V., Sobral, M. F. F., Ribeiro, A. R. B., & Soares, G. R. D. L. (2020). Concepts and forms of greenwashing: A systematic review. Environmental Sciences Europe, 32(1), 1-12.

Ferrón-Vílchez, V., Valero-Gil, J., & Suárez-Perales, I. (2021). How does greenwashing influence managers' decision-making? An experimental approach under stakeholder view. Corporate Social Responsibility and Environmental Management, 28(2), 860-880.

Eliwa, Y., Aboud, A., & Saleh, A. (2021). ESG practices and the cost of debt: Evidence from EU countries. Critical Perspectives on Accounting, 79, 102097.

García, C. J., Herrero, B., Miralles-Quirós, J. L., & del Mar Miralles-Quirós, M. (2023). Exploring the determinants of corporate green bond issuance and its environmental implication: The role of corporate board. Technological Forecasting and Social Change, 189, 122379.

Gatti, L., Seele, P., & Rademacher, L. (2019). Grey zone in–greenwash out. A review of greenwashing research and implications for the voluntary-mandatory transition of CSR. International Journal of Corporate Social Responsibility, 4(1), 1-15.

Guo, R., Zhang, W., Wang, T., Li, C. B., & Tao, L. (2018). Timely or considered? Brand trust repair strategies and mechanism after greenwashing in China—from a legitimacy perspective. Industrial marketing management, 72, 127-137.

Gregory, R. P. (2023). When is greenwashing an easy fix?. Journal of Sustainable Finance & Investment, 13(2), 919-942.

Hassan, A. M., Roberts, L., & Atkins, J. (2020). Exploring factors relating to extinction disclosures: What motivates companies to report on biodiversity and species protection?. Business Strategy and the Environment, 29(3), 1419-1436.

Hemmings, P., Mulheron, M., Murphy, R. J., & Prescott, M. (2023). Investigating the robustness of UK airport net zero plans. Journal of Air Transport Management, 113, 102468.

Kim, E. H., & Lyon, T. P. (2015). Greenwash vs. brownwash: Exaggeration and undue modesty in corporate sustainability disclosure. Organization Science, 26(3), 705-723.

Li, W., Li, W., Seppänen, V., & Koivumäki, T. (2023). Effects of greenwashing on financial performance: Moderation through local environmental regulation and media coverage. Business strategy and the environment, 32(1), 820-841.

Lu, Z., Lin, Y., & Li, Y. (2023). Does corporate engagement in digital transformation influence greenwashing? Evidence from China. Finance Research Letters, 104558.

Lyon, T. P., & Montgomery, A. W. (2013). Tweetjacked: The impact of social media on corporate greenwash. Journal of business ethics, 118, 747-757.

Mateo-Márquez, A. J., González-González, J. M., & Zamora-Ramírez, C. (2022). An international empirical study of greenwashing and voluntary carbon disclosure. Journal of Cleaner Production, 363, 132567.

Montero-Navarro, A., González-Torres, T., Rodríguez-Sánchez, J. L., & Gallego-Losada, R. (2021). A bibliometric analysis of greenwashing research: a closer look at agriculture, food industry and food retail. British Food Journal, 123(13), 547-560.

Mustofa, A. W., & Trisnaningsih, S. (2022). STUDI LITERATUR : URGENSI PENERAPAN CORPORATE SOCIAL RESPONSIBILITY (CSR) DALAM PERUSAHAAN. Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA), 6(2), 809-819.

Nyilasy, G., Gangadharbatla, H., & Paladino, A. (2014). Perceived greenwashing: The interactive effects of green advertising and corporate environmental performance on consumer reactions. Journal of business ethics, 125, 693-707.

Olatubosun, P., & Nyazenga, S. (2019). Greenwashing and responsible investment practices: empirical evidence from Zimbabwe. Qualitative Research in Financial Markets, 13(1), 16-36.

Priyanto, A., & Robiyanto, R. (2020). FACTORS AFFECTING SUSTAINABLE GROWTH RATE ON MANUFACTURING COMPANIES IN INDONESIA STOCK EXCHANGE PERIOD 2015-2018. Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA), 4(2), 1-21.

Rahman, S. U., & Nguyen-Viet, B. (2023). Towards sustainable development: Coupling green marketing strategies and consumer perceptions in addressing greenwashing. Business Strategy and the Environment, 32(4), 2420-2433.

Schmuck, D., Matthes, J., & Naderer, B. (2018). Misleading consumers with green advertising? An affect–reason–involvement account of greenwashing effects in environmental advertising. Journal of Advertising, 47(2), 127-145.

Seele, P., & Schultz, M. D. (2022). From greenwashing to machinewashing: a model and future directions derived from reasoning by analogy. Journal of Business Ethics, 178(4), 1063-1089.

Testa, F., Iovino, R., & Iraldo, F. (2020). The circular economy and consumer behaviour: The mediating role of information seeking in buying circular packaging. Business Strategy and the Environment, 29(8), 3435-3448.

Torelli, R., Balluchi, F., & Lazzini, A. (2020). Greenwashing and environmental communication: Effects on stakeholders' perceptions. Business strategy and the Environment, 29(2), 407-421.

Toussaint, M., Cabanelas, P., & González-Alvarado, T. E. (2021). What about the consumer choice? The influence of social sustainability on consumer's purchasing behavior in the Food Value Chain. European Research on Management and Business Economics, 27(1), 100134.

Vangeli, A., Małecka, A., Mitręga, M., & Pfajfar, G. (2023). From greenwashing to green B2B marketing: A systematic literature review. Industrial Marketing Management, 115, 281-299.

Weber, J. L. (2018). Corporate social responsibility disclosure level, external assurance and cost of equity capital. Journal of Financial Reporting and Accounting, 16(4), 694-724.

Zhang, D. (2022). Environmental regulation and firm product quality improvement: How does the greenwashing response?. International Review of Financial Analysis, 80, 102058.

Zhang, D. (2023). Can digital finance empowerment reduce extreme ESG hypocrisy resistance to improve green innovation?. Energy Economics, 106756.

Zulkarnaen, W., Fitriani, I., & Yuningsih, N. (2020). Development of Supply ChainManagement in the Management of Election Logistics Distribution that is MoreAppropriate in Type, Quantity and Timely Based on Human ResourcesCompetency Development at KPU West Java. MEA Scientific Journal (Management, Economics, & Accounting), 4(2), 222-243. https://doi.org/10.31955/mea.vol4.iss2.pp222-243.

FIGURE AND TABLE

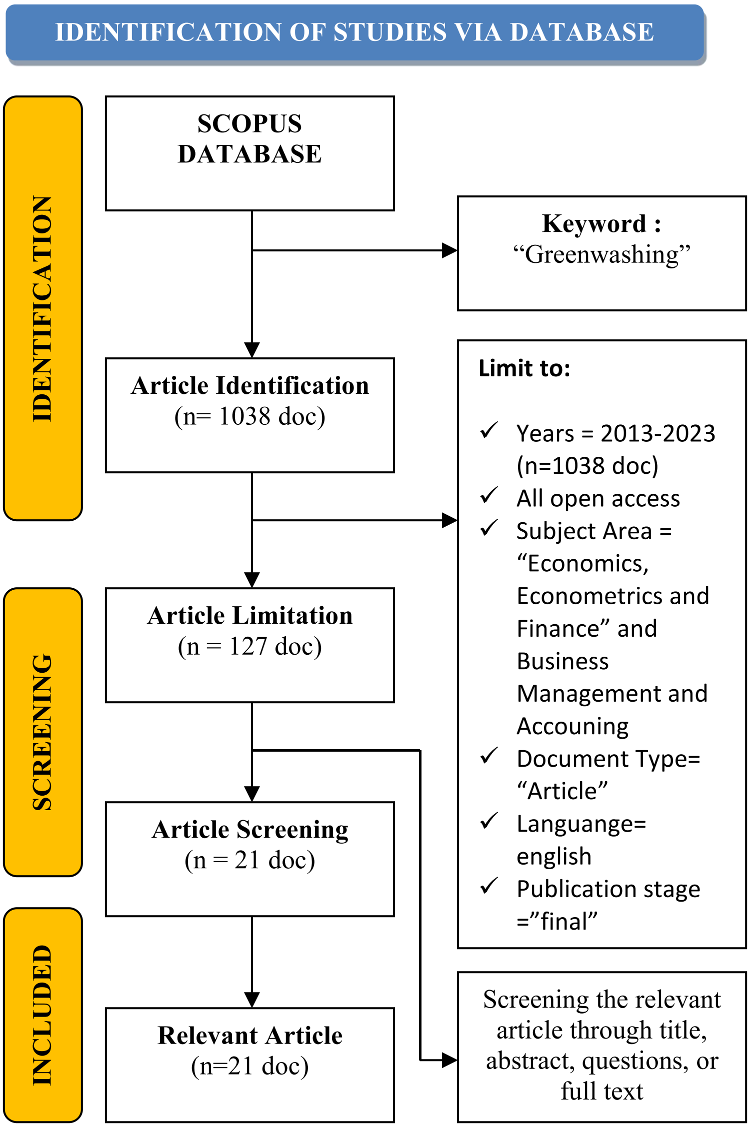

Figure 1. Flowchart PRISMA of Data Search Process Source: Author Analysis (2023)

Table. 1 Mitigating Factor of Greenwashing

No	Mitigating Factor	Source
1	support-oriented environmental regulations	Zhang (2022)
2	Strict Regulations	Marquez et al. (2022)
3	Government Regulations	Toussaint et al. (2021)
4	Digital Finance	Zhang (2023)
5	Digital Transformation	Lu et al. (2023)
6	Product Market Competition	Arouri et al. (2021)
7	Analyst	Liu et al. (2023)
8	Blockchain	Nygaard et al. (2022)
9	Transparancy	Lokuwaduge & Silva (2022)
10	limit product purchases	Toussaint et al. (2021)
11	Consumer Knowledge	Schmuck et al. (2018)
12	External assurance	Weber (2018)
13	Ethical Leadership	Blome et al. (2017)

Source: Author Analysis (2023)