Greenwashing Risk and Its Mitigation for Sustainable Finance

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Abstract

Greenwashing presents a significant risk to sustainable financing, prompting researchers to investigate its impact on investors. In response to the urgency of combating this deceptive practice, financial market regulators have increasingly adopted ESG (environmental, social, governance) criteria. This study aims to comprehensively understand the effects of greenwashing by employing a mixed-method approach. Initially, a survey was conducted among participants to analyze their perspectives. The findings reveal a prevailing trend among individuals who seek to optimize investment returns, with a remarkable 50% of respondents demonstrating familiarity with greenwashing tactics. Notably, upon becoming aware of greenwashing practices, a substantial proportion of participants express a strong inclination to revise their investment strategies accordingly. Further exploration into the phenomenon uncovers a combination of factors contributing to greenwashing, including ambiguous legislation, stakeholder pressures, organizational qualities, and individual mindsets. Respondents emphasize the critical importance of enhanced transparency, a heightened emphasis on quality standards, and the enforcement of stringent regulations as key measures to mitigate the prevalence of greenwashing. This study sheds light on investors' sentiments regarding greenwashing, providing valuable insights into the impacts of this unethical practice on sustainable financing. Additionally, it offers practical recommendations to effectively combat greenwashing. By implementing suggested measures such as promoting transparency, prioritizing quality, and enforcing robust regulations.

Keywords: Investors, Sustainable investments, Corporate Finance, Corporate Greenwashing.

1. Introduction

In China, the environmental pollution of water is more prominent (Guo et al., 2014)). India faces high levels of air pollution, loss of food security, and waste problems and is the most polluted country after China (Fernando et al., 2014). Consequently, upon public awareness and environmental issues, the stakeholders became aware of the environment (Chen and Chang, 2012). Governments, corporate customers, and other consumers are exerting pressure on companies to disclose information about their environmental activities and performance (Kim and Lyon, 2015) and the environment-friendly products that have been developed. More pressure is being exerted on the energy sector, and consumers have agreed to pay more for environmentally friendly products. Corporate Social responsibility is gaining more importance among the business communities for responding to this issue (Porter and Kramer, 2006).

The firms exploited the environmental pressure to incentivize their stakeholder that they are working environment-friendly (Berrone et al., 2017). To improve its environmental reputation, the firm adopted green communication, corporate financial performance, and legitimacy (Kim, 2019). However, the media and scholars noted that firms have adopted greenwashing to communicate with their stakeholders (Torelli et al., 2020). Greenwashing was considered a better strategy for sustainability communication. Rather than improving its environmental and social performance, the firm considered this strategy a sustainable business achievement (Kim and Lyon, 2015). The public understood the reality of greenwashing as a misleading concept, and scholars expressed that greenwashing is a negative signal for stakeholders (Walker and Wan, 2012). Recently, washing was reviewed, and only a few studies reported a relationship between greenwashing and corporate finance performance (CFP), which emphasizes the need for more careful and thorough research on the impact of greenwashing (Lyon and Montgomery, 2015).

The four main stakeholders directly impacted by corporate greenwashing are government, corporate management, consumers, and investors. There is a growing trend of corporations engaging in greenwashing practices or misrepresenting themselves as engaging in green or sustainable practices (Andreoli et al., 2022). The ongoing existence of greenwashing may be attributed to a limited comprehension of stakeholders' perspectives and the significance they attach to their encounters with greenwashing. Earlier studies focused on consumers' perceptions from UAE, America, China, and India in different sectors such as health, tourism, fashion, and financial services (Sensharma et al., 2022).

Several studies discussed corporate greenwashing practices and their impacts on employees, strategies to avoid disseminating ESG information, and the causes of greenwashing and its effects on corporate reputations (Li et al., 2022). At present, businesses have a responsibility beyond meeting customers' needs. Sustainability became a significant success factor for a company to claim market advantage and beat its competitors in the industry (Dusik and Bond, 2022). Sustainable businesses are future-oriented regarding environmental, social, and economic concerns and related issues.

Consequently, tremendous pressure would be on green businesses as they must allocate or raise capital to support green and social responsibilities activities and initiatives. Using ESG metrics and substantiating ESG commitments increases capital-raising potential as investors actively screen investment prospects that prioritize ESG factors (Eng et al., 2022). In 2021, 42% of global organizations increased their ESG focus, conveying academic and real-world evidence showing the positive relationship between the corporate ESG score and financial performance. In addition to getting access to capital, there are other vital reasons for ESG reporting, such as enhancing corporate-public relations, increasing accountability, and building trust among the stakeholders (Ramaswamy, 2001). However, the information regarding the relationship between greenwashing and corporate financial performance (CFP) and their underlying mechanism still needs to be improved, and some studies expressed contradictory conclusions. The present investigation was proposed to explore the investor perceptions of greenwashing practices, identify driving factors, and offer effective prevention methods.

2. Literature Review

2.1. Green Washing

Greenwashing is disseminating misleading or deceptive claims that may be ambiguous or incorrect, omitting crucial information, or a combination of these factors (Carlson, 2013). Globally, the concerns surrounding greenwashing have grown because of the need for internationally recognized standards about the taxonomy of ESG-related practices. Retail investors have the right to be confident in their sustainable investments. Corporations may devote time and cash to claim to project an environmentally friendly image through marketing and advertising tactics to earn consumers' trust (Ottman, 2017). However, the corporation did not implement business practices to reduce the negative impact on the environment, society, or the economy (Seele and Schultz, 2022).

When it comes to specific products, the claims made are often overly general, or the third-party certification needs to account for the entire product lifecycle. This is because, in many cases, companies have a vested interest in concealing their subpar environmental performance from customers (Gergely et al., 2014). The main reasons for corporations to participate in greenwashing are the pressure to meet the stakeholders' expectations, being less ethical and more financially motivated, creating environmental targets, and advertising that the company is green before meeting those targets (Magali and Vanessa, 2011).

Since ESG disclosure has recently influenced consumer behavior and investors' investment decisions, some companies and management are incentivized to provide the company with the wrong ESG activities. Shrewd management has discovered that lying about their ESG activities makes it easier to capitalize on the sustainability trend and consumer and investor behavior when interacting with firms that report higher sustainability scores. This action is referred to as greenwashing (Sanseverino et al., 2023).

Companies today achieve greenwashing in several ways. Using images is one such technique, as companies use environmental imagery to make consumers believe that the company is environmentally conscious. These images depict animals, leaves, and even the use of green packaging (Netto et al., 2020). The imagery may lead the consumer to believe the company is concerned about sustainability. Another greenwashing technique businesses may employ is misleading labels like "100% organic." However, there are no ways to determine whether the product is truly 100% organic, and the company needs to provide more information to back up its claims. The company could have self-created such labels to capitalize on the green movement (Nancy, 2010).

2.2. Greenwashing Drivers

The primary driver of greenwashing is the disconnection between integrity and capitalism. With adequate laws to regulate corporate greenwashing, corporations engage in greenwashing practices with little oversight (Delmas and Burbano, 2011). According to Devinney (2009), a corporation's claim of being environmentally committed aims to satisfy the consumers' demand in the market rather than genuinely commit to the environment. Chen (2010) reached the same conclusion when he found that companies were pressured by consumer demands and marketing trends, which forced them to enter the market even when they were not ready. Within this context, Boccia and Sarno (2013) discovered that corporations actively manipulate unsuspecting consumers through deceptive advertising practices. Marketing manipulation arises from strategically using marketing tactics to shape consumer behavior in favor of the corporate entity ultimately. Greenwashing drivers could be at the macro, corporate, and individual levels (Jhamb and Fiegl, 2022).

Looking at the macro level, Delmas and Burbano (2011) found that the regulatory system is one of the leading facilitators of greenwashing practices. The study focused on the European investment funds where the European Commission represents the regulatory environment. The study found that the need for more clarity about what stakeholders understand as sustainable and what is not and the lack of auditing by independent bodies contributes to corporate greenwashing. Other studies agreed with what was found by Delmas and Burbano (2011). The increased number of new regulations, lack of clarity, limited discipline, and lack of external audit are all associated with regulating the business environment, contributing to corporate greenwashing. The individual level drivers include several confusion aspects due to the individual financial literacy, lack of knowledge about the impact of sustainable investments, and optimistic bias (Magali and Vanessa, 2011). The confusing regulatory environment, uncertainty, and limited information significantly impact individual investment decisions. Klapper and Lusardi (2019) studied financial literacy and found that one in three adults is financially literate and needs to gain knowledge of the main concepts in financial decision-making. In addition, individual investors need more time to consider sustainable investments Delmas and Burbano (2011).

2.3. Greenwashing Regulations

Greenwashing regulation focuses on government regulations, green certification, and ESG ratings. Many companies are trying to pressure the government to enforce more rules to control competitors' greenwashing behavior (Kirchhoff, 2000). Even though procedures such as green labels and ESG rankings can prevent such behavior, environmental regulation is still needed to fight to greenwash (Smith and Font, 2014). Worldwide, governments have framed laws and policies to manage the corporate greenwashing issue better and prohibit any false or misleading representations. The United States FTC published the Environmental Marketing Guidelines in 1988. The European Union disseminated the EU Unfair Business Practices Directive in 1988. China's State Environmental Protection Administration issued the Measures for Disclosure of Environmental Information in 2007 (Bünger, 2011). China's Guidelines for Environmental Information Disclosure of Listed Companies were published in 2010, and China's Environmental Protection Law in 2015.

The United Kingdom CMA published its Green Claims Code and accompanying guidance in 2021. Canadian Federal Competition Act in 1985 and the Consumer Packaging and Labelling Act were amended in 2019. Some scholars have gathered empirical evidence by examining information disclosure and analyzing the correlation between the environmental performance of public and private firms concerning greenwashing (Buchetti and Arduino, 2022; Kasapi, 2022; Seele and Schultz, 2022). In response to heightened pressure to disclose environmental impacts, certain firms adopt a selective approach by disclosing relatively less harmful impacts.

2.4. Stakeholders' Perception

The increasing quantity of green claims made by corporations presents a challenge for stakeholders in discerning between genuinely positive business performance and companies that merely present an outward appearance of embracing sustainable development principles (Laszlo, 2008). Companies accomplish a range of objectives by employing distinct communication strategies linked to diverse organizational and decision-making processes. Given its significant role in magnifying the impact of greenwashing levels on stakeholders' responses, industry environmental sensitivity should be thoroughly considered in all communication aspects (Nyilasy et al., 2014). In this context, Torelli et al. (2020) assessed the distinct effects of deceptive communications regarding environmental matters on stakeholders' perceptions of corporate sustainability and greenwashing. The study revealed that varying degrees of greenwashing have an impact on stakeholders' perceptions of corporate environmental responsibility, as well as their responses to environmental scandals. Organizations must pay attention to the stakeholder's approach as history reveals that the firms who understand the priority concerns of stakeholders are performing well compared to other firms who do not consider stakeholders' interests (Huang et al., 2022). Approaching stakeholders' expectations regarding the business's sustainable strategies and social and environmental initiatives might lead to greenwashing.

2.5. Consumers

Based on the psychological contract theory, Sun and Shi (2022) studied the consumer perception of companies engaging in greenwashing. The study collected data by distributing surveys among 220 consumers and found that the consumers' perception of greenwashing has a significant negative effect on consumers' green purchasing intentions. As the perception of greenwashing increases, the intention to engage in green purchasing decreases. Consumers' diminished inclination to purchase green products is frequently attributed to their belief that the company has violated their psychological agreement following the detection of greenwashing practices. As the green economy continues to expand and consumer awareness of sustainable consumption grows, companies are increasingly recognizing the importance of green marketing in enhancing brand performance (Fillippi, 2022). Nevertheless, it is undeniable that numerous companies exploit the information asymmetry and conceal the unsustainable aspects of their business operations through deceptive green marketing campaigns to attract a larger pool of potential consumers.

In their research, Bulut et al. (2021) introduced the concept of greenwashing perception as a moderating factor in the connection between environmental concern and the purchasing behavior of post-millennials in Turkey. By collecting 174 survey responses, the researcher discovered that the environmental concern characteristic of post-millennials catalyzes their engagement in green purchasing behavior. When there is a strong emphasis on green products, the awareness regarding whether a product is genuinely green or falsely claiming to be green becomes heightened. In the presence of greenwashing perception, the impact of environmental concern on the green behavior of post-millennials diminishes. The moderating influence of greenwashing on the relationship between environmental concern and green purchasing behavior is evident, as greenwashing perception attenuates the effects of environmental concern on green behavior (Alyahia et al., 2024).

2.6. Management

The demand for enhanced corporate governance has prompted numerous listed companies to overhaul their boards and enhance their effectiveness. This is achieved by implementing policies that promote board independence, gender diversity, and various other factors. The increasing emphasis on corporate sustainability has resulted in a growing gap between environmental practices and communications, leading to "greenwashing" in the corporate world (Bowen and Aragon-Correa, 2014).

Jhamb and Fiegl (2022) suggested that cooperation between corporate management and government is necessary for achieving sustainable development goals (SDGs), and greenwashing will remain. Companies are trying to create sustainable competitive advantages by building climate action leadership, protecting biodiversity, and shepherding sustainability to stay ahead of competitors. In general, this may encompass activities such as feigning to be an environmentally conscious company to enhance public perception or utilizing inexpensive and inferior raw materials to reduce expenses and maximize profits.

Some of these actionable methods are very radical, potentially negatively influencing climate change. Therefore, governments and organizations must stop harmful environmental issues and push for a better climate and healthier earth (Esty and Winston, 2009).

2.7. Investors

Greenwashing is investors' highest concern, and integration into investment strategies has become a priority. Grprioritying is the top concern for 44% of ESG investors, according to a study done by Quilter. The study found that greenwashing is a global challenge for 750 industry professionals in asset management when making sustainable investment decisions (Yang et al., 2020). Recently, there has been a significant increase in sustainable products and services due to the tremendous pressure on firms from investors who consider the firm's ESG performance in their investment decisions. Therefore, some firms need to be more fully transparent and mislead the public about their sustainable strategy to attract investors for raising capital (Ramirez et al., 2023).

The main challenge of sustainable investing is the need for more transparency and accuracy of disseminated ESG data by corporates. Thus, Regulators designed the European Union Taxonomy for Sustainable Activities (EUT) to deter greenwashing (Bradford, 2022). It is a green classification system that defines *qualified investments* as sustainable and discourages the greenwashing of sustainable financial products. However, this tool did not prevent greenwashing since corporations can still mislead the public and follow a tick-the-box approach to presenting their projects as sustainable (Crossey, 2022). This issue challenges investors to rank and compare investment opportunities reliably. Investors' limitations while using ESG performance are mainly related to inconsistent metrics and definitions, lack of standardized reporting, variable rating systems, and complex communications. Consequently, this study aims to dig deeper and explore the investors' perception of corporate greenwashing and evaluate the practices adopted by investors to deter the greenwashing risk.

2.8. Link between Green Businesses and Investors

Many researchers have studied the impact of corporate social responsibility on corporate financial performance in different contexts, and these studies have had differing views on the relationship between these two variables. Some researchers, such as Platonova et al. (2018) and Al-Malkawi and Javaid (2018), have conducted the research and concluded that a significant positive relationship exists between the implementation and disclosure of corporate social responsibility and an organization's financial performance.

If the customer base is large, the company will enjoy economies of scale, more sales, reduced costs per unit of production, and improved revenue (Jain and Singh, 2002). Corporate Social responsibility helps attract customers since it improves the organization's image and reputation and acts as a positive public relation. This ability to attract new customers will improve the size of the organization's customer base (Ahn and Kwon, 2020). ESG activities help retain customers by cultivating a positive image for the organization and adhering to the customers' norms and values. If the organizations go against the value systems of the customers, then the customers are likely to boycott the organization and look for substitutes (Saeidi et al., 2015). The case of Nike and Apple losing customers due to the involvement of child labor in their sweatshops in East Asia is an example of how organizations can lose customers if they do not adhere to the values and norms of the customers.

3. Methodology

A sample of 100 US investors was surveyed using basic random sampling for the quantitative phase. The research explored broad impressions of business greenwashing among U.S. investors using this strategy. SurveyMonkey connected FINRA-Registered Investors by gender, geography, income, and occupation, providing customised selection. Non-probability sampling was used to choose participants for in-depth interviews. Purposeful sampling targeted capital markets, financial laws, greenwashing, and sustainable finance experts. Participants have the expertise to debate regulatory frameworks and greenwashing risk mitigation techniques according to eligibility criteria. Invited fifteen skilled financial experts via LinkedIn was the main source of participation. Six experts participated in Zoom video-based 40–60-minute semi-structured interviews. Non-probability sampling was used to identify in-depth interviewees for the qualitative investigation. Instead of statistical representation across populations, non-probability sampling strategies target particular groups or phenomena (Rossi et al., 2013). This research used purposive sampling to interview a well-chosen and competent group of capital market professionals on financial market rules, greenwashing, and sustainable finance. These experts sought to understand corporate greenwashing. To choose suitable candidates, inclusion criteria were set. FINRA registration verified participants' knowledge of applicable regulations and laws. Participants were also evaluated on their regulatory expertise and greenwashing mitigation techniques. Participants must have ten years of capital market asset management or advising experience to debate regulatory changes and sustainable financing. LinkedIn was the leading interviewee-finding site.

Targeted searches included "corporate greenwashing," "sustainable investment," and "ESG expert." Qualifications were carefully evaluated, including professional experience and relationships with respectable institutions or consulting businesses. Emails were sent to 15 financial experts to measure their interest in the project. After accepting the invites, six experts agreed to be interviewed. Zoom videoconferencing was used for 40–60-minute semi-structured interviews. To thoroughly examine participants' thoughts, opinions, and experiences, interviews were done in English, the common language, using a balanced combination of open-ended and closed-ended questions.

This study used quantitative data analysis to examine and interpret survey and interview data to answer research questions (Wheeldon, 2010). Qualitative data analysis focused on semi-structured interviews. Maginn et al. (2008) thematic analysis was used to categorize subjects and find themes in qualitative data. The survey and interview methods were ethical to safeguard participant rights and privacy. The survey included a permission form to notify respondents of the study goals and protect their privacy. Instead of names, respondents were given a code number to protect anonymity throughout the analysis. In the interviews, participants were given an Informed Consent Form that explained their rights, including the choice to refuse to answer questions and withdraw. The study obtained written agreement from participants to shield the researcher against insufficiently informed consent claims. The study demonstrates a commitment to data quality by implementing rigorous procedures. Various measures were employed to enhance the trustworthiness of the findings and mitigate potential biases. One crucial step was utilizing member checks, involving sharing preliminary findings and interpretations with participants to obtain their feedback and validation. By actively involving participants in the research process, their perspectives and insights were carefully considered, bolstering the credibility of the study's findings.

4. Results

4.1. Survey

Out of 100 participants, the females were 55%, while the male participants were 45% with age over 18 years. Among them, 40.5% of participants were in the age range from 30-44, while 24.7% of the participants were above 60 and 17.8% were in the age range of 18 to 29, and 16.8% fell into the 45 to 60 age range. Based on experience, 43.5% of participants have less than five years of experience as investors, 22% have 11 to 20 years of experience, and the remaining 15.8% have more than 20 years of experience as investors.

Participants were given a choice to make multiple selections for the financial market. The majority showed interest in investing in the American financial markets, namely *the New York Stock Exchange* and *NASDAQ*, with 70.6%. The remaining 29.4% was distributed among *the Tokyo Stock Exchange, Shanghai Stock Exchange, Hong Kong Stock Exchange*, and *London Stock Exchange*. For the annual investment earning range, 36% of participants earn less than $50,000, 31% receive from $50,000 to $100,000, and 26% earn more than $100,000. There were 7 participants representing 7% of the total responses who preferred not to share information about their annual investment earnings). The survey results revealed that 52% of the respondents knew corporate greenwashing practices, and the remaining 48% were unfamiliar with corporate greenwashing terminology (Figure 1A). After this question, the researcher briefly introduced corporate greenwashing for all respondents. This introduction ensured that the participants who answered "No" were straightforward about the topic. However, 48% of the respondents expressed interest in green businesses (Figure 1B), indicating that many investors prioritize environmentally sustainable investments. Additionally, more than half of the respondents (53.5%) indicated their willingness to change their investment decisions if they discovered greenwashing practices, highlighting the importance of trust and transparency in investment choices. Regarding the main reasons behind corporate greenwashing, 34% of the respondents identified the lack of standard definitions of sustainable green investments as the primary cause.

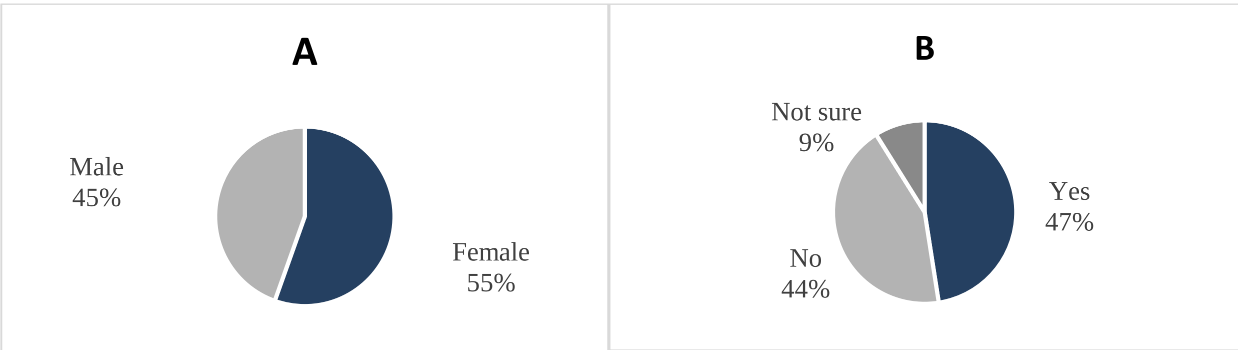

Figure 1 (A & B). Familiarity with greenwashing and interest in investment (A) Fifty-two percent of respondents were familiar with greenwashing and 48% were unfamiliar (B). Forty-eight percent of respondents were interested in investment and 53% were not interested.

Thirty-four percent of the respondents believe that the lack of standard definitions of sustainable green investments is the leading cause of corporate greenwashing. Lack of rules and regulations comes as a second cause, with 23% of responses. 18% voted that the increased demand for green investments put corporations seeking to raise their capital under tremendous pressure (Figure 2).

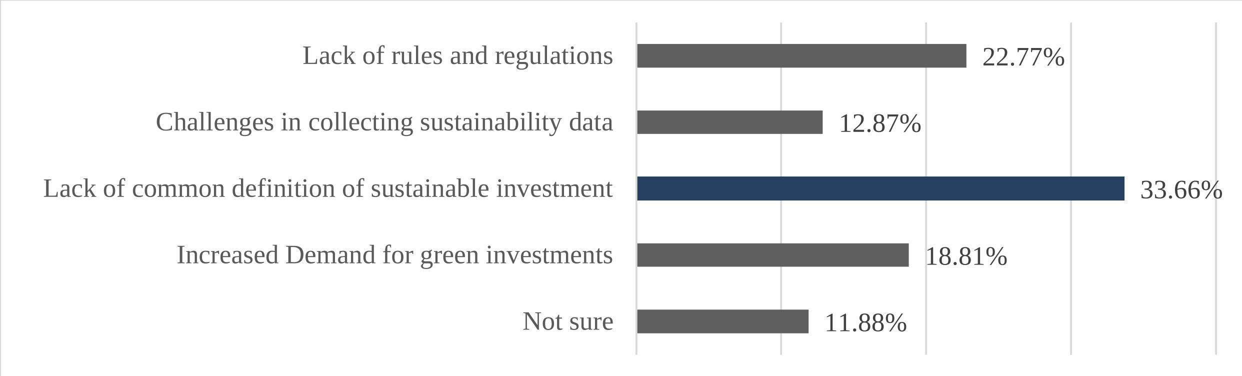

Figure 2. The main driver causing Corporate Greenwashing

Furthermore, the survey findings strongly support specific strategies to reduce corporate greenwashing. Most respondents (80%) believed that improving regulatory enforcement would be a practical approach. Additionally, increasing the quality and transparency of fund reporting (79%) and enhancing transparency regarding how fund managers invest (78%) were identified as essential measures to address corporate greenwashing practices (Figure 3).

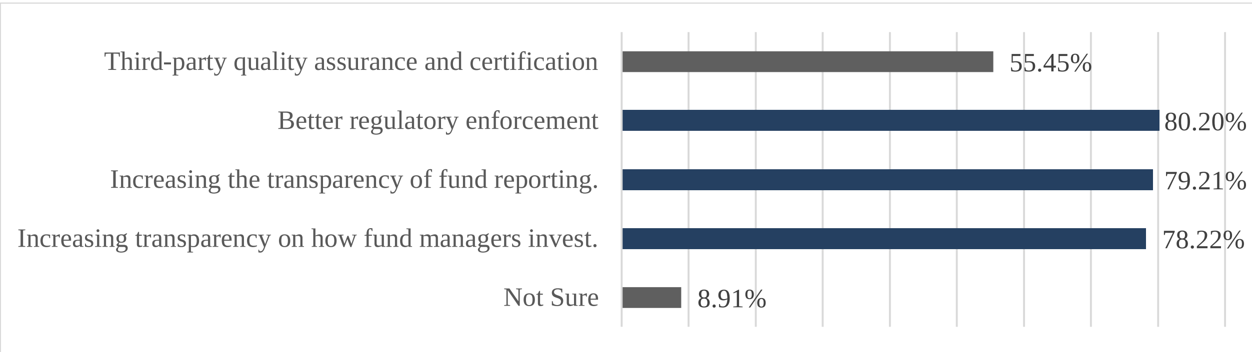

Figure 3. The best way to deter corporate greenwashing.

4.2. Interviews

The main goal of the interview method was to know the responses about greenwashing drivers in investors' opinions. The semi-structured interviews were conducted via Zoom call after sending an invitation to the participants via email and receiving the signed letter of informed consent. Thematic analysis was the most appropriate method to make sense of the data collected from interviews, as it allows the researcher to examine qualitative data by categorizing topics and identifying patterns (Saldana, 2018). Data analysis started after the researcher transcribed the audio-recorded interviews and then identified the codes from repeated key points that answered the main research questions during the interviews. For instance, most participants mentioned that corporations claim their products are green because of consumers' strong demand for healthy and environmentally friendly products.

This finding can be coded as Consumer Pressure under the drivers of corporate greenwashing. Next, themes were established based on association with the research objectives by combining codes into broader clusters. For example, all corporate consumers, management, and investors codes were combined under the theme of Corporate Stakeholders. The analysis process involved a data reduction step concentrating only on the relevant findings to the research objectives and questions.

After coding all interview transcripts, the researcher utilized an Excel sheet to tally the frequency of each coded theme manually. This process involved counting how many times a particular theme was mentioned to assess the level of agreement among the interviewees regarding specific ideas and concepts. For instance, the coded theme "stakeholders' pressure" was mentioned by all six participants, resulting in a score of 100%. This approach aimed to gain a quantitative understanding of the extent to which participants concurred on specific themes. By quantifying the occurrence of each theme, the researcher aimed to provide a more objective measure of the consensus among the interviews. This method facilitated the identification of prominent and recurrent themes within the data, enabling a comprehensive analysis of the research findings. This approach is called "coding consensus analysis" or "intercoder agreement analysis." It involves quantifying the level of agreement among coders or interviews on specific themes or codes.

This approach is widely recognized in academic research and has been utilized in various disciplines. It helps ensure the reliability and validity of the coding process by assessing the level of agreement among different coders or individuals involved in the study (Richards and Hemphill, 2018). By quantifying the frequency or occurrence of specific themes or codes, researchers can evaluate the consistency of the coding process and determine the degree of consensus among participants (Cascio et al., 2019). The results related to the greenwashing drivers in investors' opinions revealed that drivers of greenwashing can be clustered into two main groups: external-level and internal-level drivers. Both levels were further clustered in themes, as summarized in (Figure 4).

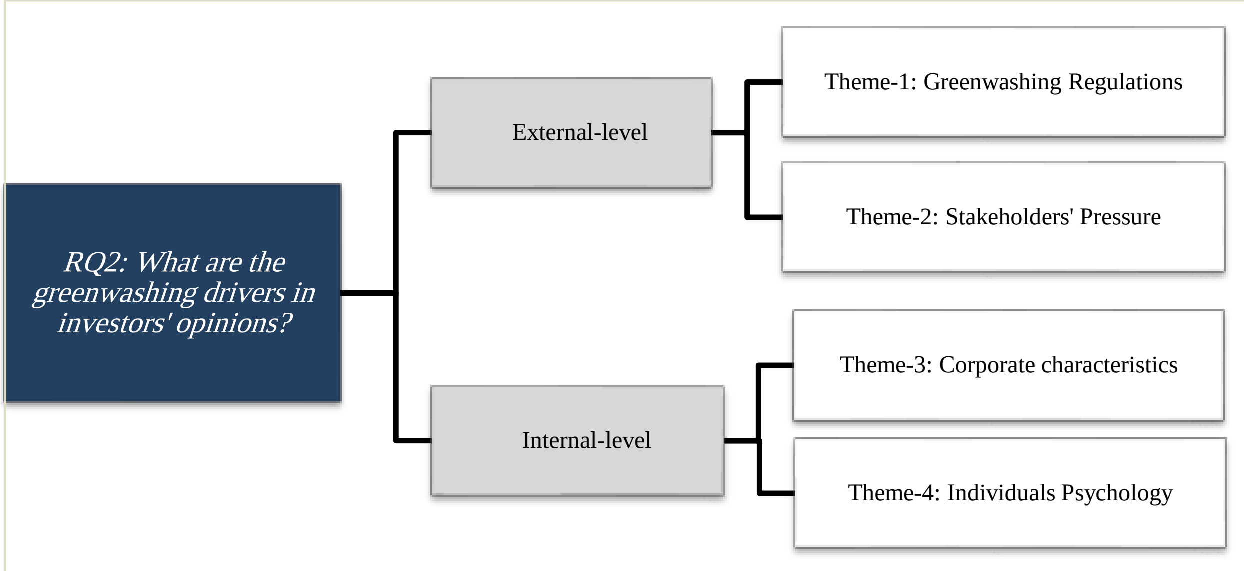

Figure 4. Themes of the Greenwashing Drivers

4.2.1. Theme-1: Greenwashing Regulations

Based on greenwashing regulations all participants expressed a negative response towards corporate greenwashing practices. The participants believe that one of the main reasons is that the regulation of greenwashing is very inadequate, and the implementation methodology of such regulation needs to be clarified. From 1990 to 2023, the FTC reported only 42 environmental cases and Regulations exist but enforcement has been limited. At the level of the state, for example, California, have their own environmental advertising claims regulations, but states still need to put out regulations stricter than that of the FTC. Greenwashing regulations differ between countries, particularly in developing nations. Specifically, in some developing countries, there is a lack of regulations governing environmental claims made by businesses. This absence of regulation can create confusion for business management and complicate their environmental practices. It suggests that without clear guidelines or standards in place, businesses may face challenges in accurately communicating

4.2.2. Theme-2: Stakeholders' Pressure

Another theme emerged from participant responses for Interview Questions 1 and 2, 100% of the participants. The impact of primary stakeholders' pressure (such as consumer demand and investors' demand) and secondary stakeholders' pressure (such as competitors) can make a corporate change from regular to green business.

> **P1:** "*Brown firms face pressure from consumers and investors to be environmentally friendly and thus face incentives to communicate positively about their environmental performance.*"

The finding here is that brown firms, which typically operate in industries associated with high environmental impact, experience pressure from consumers and investors to adopt environmentally friendly practices. As a result, these firms have incentives to communicate positively about their environmental performance. It suggests that consumer and investor demand for sustainability can influence the behavior of brown firms and drive them to present themselves in a more environmentally friendly light.

> **P2:** *"There was a recent study by Jacob Vos about Greenwashing in American corporates, and he concluded that the greater the pressure from the stakeholders for sustainable business, the more likely a brown firm that is not ready financially and operationally might greenwash."*

In the context of American corporations, when there is significant pressure from stakeholders for sustainable business practices, brown firms that are financially and operationally unprepared may be more likely to engage in greenwashing. This suggests that when faced with high expectations for sustainability, financially and operationally struggling companies may resort to deceptive or misleading practices to create an appearance of environmental responsibility.

> **P3:** *"Just as rampant, unchecked greenwashing could erode the consumer market for green practices and services in the future, and it could also erode the capital market for socially responsible investing."*

The finding here is that if greenwashing remains widespread and unaddressed, it has the potential to negatively impact both the consumer market for green practices and services and the capital market for socially responsible investing. This implies that if consumers and investors lose trust in the authenticity of sustainability claims made by companies, it could undermine the growth and credibility of green markets and socially responsible investment.

> **P4:** *"The pressure to go green to seduce consumers led companies to make claims that may be deceptive or misleading, if not outright false. It is tempting to use words such as "sustainable," "green," "eco-friendly," "good for the planet," "better for the environment" in advertising marketing campaigns without having to support these claims."*

The pressure to attract consumers by appearing environmentally friendly can lead companies to make deceptive or misleading claims, sometimes even falsifying their sustainability credentials. It suggests that the desire to appeal to consumers' growing environmental consciousness can create temptations to use terms associated with sustainability without genuinely supporting these claims. This finding highlights the potential ethical concerns and risks associated with greenwashing practices in marketing and advertising.

Moreover, the analysis revealed that market competitors pressure corporations' marketing and communication decisions. The sustainable activities of competitors are forcing organizations to change their marketing activities since firms tend to follow similar firms in their industry.

> **P6:** *"Very often, companies watch their competitors promoting their environmental behaviors and try to follow this behavior."*

This statement suggests that companies often observe their competitors' environmental practices and efforts and attempt to mimic or imitate them. The finding highlights the influence of competitive behavior in shaping companies' environmental actions. It indicates that companies may engage in environmental initiatives because of their intrinsic motivations and desire to keep up with or gain a competitive edge in the market.

> **P4:** *"Some brown firms decide to positively communicate about their business sustainable performance including environmental performance to increased access to green consumers and investors."*

This statement indicates that certain companies operating in traditionally polluting industries (often called "brown" firms) choose to communicate their sustainable performance, including their environmental practices, to target green consumers and investors. The finding suggests that these firms recognize the potential benefits of appealing to environmentally conscious stakeholders and may strategically engage in positive communication to access this market segment. It implies that there can be economic incentives for brown firms to adopt and promote sustainable practices, potentially leading to a shift towards more environmentally responsible behaviors in these industries.

4.2.3. Theme-3: Corporate characteristics

Many characteristics of the corporation, such as industry, size, and stage of the business lifecycle, influence the firm strategies and actions linked to greenwashing. Consumer products firms are expected to face higher consumer pressure to be green than those in non-consumer industries.

Moreover, companies operating in the industrial sector, such as oil and gas, face more significant pressure from regulators where carbon emissions, as mentioned in the SDGs, are what most countries try to follow.

> **P1:** *"From my experience and what we read in the financial news, oil and utility firms usually are the top in the Green washers list."*

Large publicly traded companies tend to be under the spotlight by the sustainable investment community; therefore, they face greater investor pressure than Small and medium-sized enterprises (SMEs). In addition, public companies usually disseminate their annual reports and communicate with the public.

> **P5:** *"Because they attract more public attention, large corporations are more possibly to be subjected to activist and media scrutiny."*

Moreover, the business life cycle stage influences greenwashing behavior as startup firms have lower reputation risk than mature firms. Accordingly, the participants believe that mature firms with well-established reputations avoid greenwashing, which will undermine their brand image. Many growing firms were caught greenwashing, negatively affecting their reputation and sales. Accordingly, risk management considers that seriously when making decisions.

> **P2:** *"over claiming or misleading wording can lead to criticisms which will damage the company's reputation and lead to losing customers and investors."*

When companies engage in overclaiming or use misleading wording regarding their environmental performance or sustainability practices, it can result in criticisms that have negative consequences. Specifically, these criticisms can damage the company's reputation, losing customers and investors. It suggests that when companies make exaggerated or false claims about their environmental efforts, stakeholders may react negatively and question the company's credibility and trustworthiness. As a result, customers may choose to discontinue their patronage, and investors may withdraw their financial support. This finding emphasizes greenwashing practices' potential risks and repercussions, highlighting the importance of accurate and transparent communication in maintaining a positive reputation and stakeholder relationships.

4.2.4. Theme-4: Individual psychology

The analysis showed that 67% of the participants think that individuals, such as employees and managers, play an essential role in explaining firm behavior.

Individuals have limited data and information to assess corporate greenwashing practices. Decision makers have the potential to overestimate the probability of favorable outcomes resulting from greenwashing practices, such as achieving a larger share of the green market and attracting investment capital. On the other hand, the adverse outcomes might be underestimated, like being punished by the FTC, facing consumer lawsuits, or destroying the business image. Consequently, the probability that firm leaders will choose to communicate positively about the firm's environmental performance is high, resulting in greenwashing.

> **P2:** "Some firms' management may decide to disseminate information about their green products without planning properly, resulting in unsuccessful implementation which leading to greenwashing to cover the failure."
>
> **P4:** "Corporate leader may focus on the short-term gains from greenwashing without adequately weighing the long-term potential negative effects on loss of reputation."

Best Practices to reduce greenwashing

The results related to *RQ3: What practices are suggested by investors to the market regulators to reduce greenwashing in the ESG field?* Found that the participants' suggestions fall under three themes: transparency, quality assurance, and market government regulations (Figure 5).

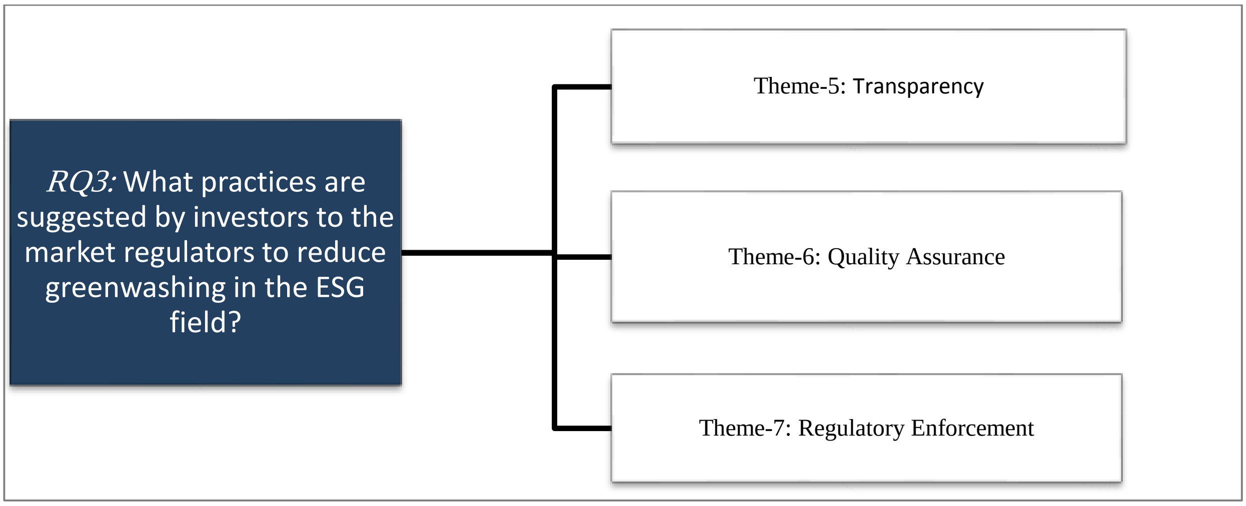

Figure 5. Themes of the investors' suggestions to deter greenwashing

4.2.5. Theme-5: Transparency

According to responses to Interview Questions 5 and 6, which focused on the best practices and recommendations to reduce greenwashing practices, based on the analysis, it was determined that all participants share the belief that addressing greenwashing requires enhanced transparency in fund managers' investment practices. This includes disclosing track records of holding companies, strategies, and information about the investment team. Additionally, participants emphasized the importance of improving the quality and transparency of fund reporting, specifically regarding ESG investments and their monitoring. Integration of corporate financial disclosure and sustainability reporting was also highlighted as a crucial step in combating greenwashing.

> **P6:** *"transparency is a good way for companies to avoid greenwashing, it is not the only solution, but Brands must also ensure that they are consistently communicating with transparency on all levels and topics."*

Transparency is considered a practical approach for companies to avoid greenwashing. However, it is not the sole solution. In addition to transparency, brands need to communicate consistently across all levels and topics. This suggests that while transparency plays a crucial role in addressing greenwashing concerns, it should be accompanied by consistent and comprehensive communication practices. It implies that companies should provide transparent information about their environmental practices and ensure that transparency extends to all aspects of their operations and messaging. Through upholding consistent transparency, companies can establish trust, showcase their dedication to sustainability, and minimize the risk of making misleading or deceptive claims.

4.2.6. Theme-6: Quality Assurance

The analysis showed that 83% of the participants stated that increasing quality assurance is crucial for reducing greenwashing. Assuring quality by harmonizing global standards and matrices, improving local ESG labels, and having a third-party certificate will reduce greenwashing practices.

> **P1:** *"If a company wants to avoid greenwashing, it should rely on data, embrace credible third-party certification, and resist stretching the truth about the eco-achievements they are making."*

The finding here is that companies should base their environmental claims on reliable and verifiable data to prevent greenwashing. By relying on accurate and transparent data, companies can ensure the credibility of their sustainability claims. Additionally, embracing credible third-party certifications can independently verify a company's environmental performance and help establish stakeholder trust.

Lastly, the statement emphasizes the importance of avoiding exaggerated or misleading claims about environmental achievements. Companies can maintain their integrity and reputation by resisting the temptation to stretch the truth.

> **P4:** *"some certificates such as IECQ are used as a tool to monitor and control the manufacturing supply chain, thus helping to eliminate the need for multiple re-assessments of suppliers and avoid the temptation of greenwashing."*

The finding from this statement is that certain certifications, such as IECQ, serve as tools to monitor and control the manufacturing supply chain. These certifications help streamline the assessment process for suppliers, reducing the need for repetitive evaluations and enabling better control over the supply chain. By implementing such certifications, companies can mitigate the risk of greenwashing by ensuring consistent adherence to environmental standards throughout their supply chain. This finding suggests that certifications can play a crucial role in promoting transparency and avoiding deceptive sustainability practices.

4.2.7. Theme-7: Regulatory Enforcement

All participants' responses showed that better regulatory enforcement is the best way to deter greenwashing practices. Moreover, establishing minimum regulatory standards for investment products and services to meet sustainability criteria, minimizing frequent regulatory modifications, transitioning from local to global standards, and ensuring alignment and harmony among policymakers are essential in addressing and mitigating greenwashing practices. The qualitative component of the study involved interviews with six selected participants, providing in-depth insights into their experiences and perceptions of greenwashing. The analysis of these interviews led to identifying themes that helped define the core aspects of investors' experiences with greenwashing. The identified themes were categorized into external-level drivers, including greenwashing regulations and stakeholders, and internal-level drivers, encompassing corporate characteristics and individual psychology. According to the participants, transparency, quality assurance, and regulation enforcement emerged as the priority areas for policymakers to address greenwashing effectively. These findings highlight the significance of establishing transparent practices, ensuring quality standards, and enforcing regulations to build investor trust and combat deceptive corporate practices.

5. Discussion

The global community is aware of the effect of human activities on the environment, and consumers are interested in products and services that are environmentally friendly. Hence, many companies introduced and disseminated green marketing strategies in their advertisements to promote eco-friendly products. However, some companies mislead consumers by their engagement in greenwashing to get environmental benefits from their products. Currently, market regulations fail to protect investors from corporate greenwashing due to limited research exploring the investors' perception of this kind of non-financial risk.

Our survey revealed that 48% of the respondents expressed interest in investing in Green Businesses, indicating a substantial portion of investors prioritize environmentally sustainable investments. The finding that 48% of the survey respondents were interested in green investments is a promising result suggesting a significant market for environmentally responsible investments. However, the fact that 53% of respondents were not interested or unsure about their decision regarding this question indicates that some investors may need help with adoption. In addition, it supports Bradford's findings (Bradford, 2022), stating that the lack of transparency and accuracy of disseminated ESG reports by corporations is the main challenge of sustainable investments. In contrast, the current study results oppose what was concluded from the literature review, which recently confirmed a significant increase in sustainable products and services due to the tremendous pressure on firms from investors.

Societies appreciate environmental practices that pressure firms to conform to such demands from stakeholders (Kim et al., 2017). The firm realizes its reputation or legitimacy is endangered and misleads its communications about its environmental actions to get a favorable reputation (Chen et al., 2014). The firm pretends to have positive green communication and works under environment-friendly approaches, but the actual firm communication could differ (De Jong et al. 2018). Hence, the firm misled society about its environmental practices to get maximum benefit from its product (Gatti et al., 2021).

Regarding the main reasons behind corporate greenwashing, 34% of the respondents identified the lack of standard definitions of sustainable green investments as the primary cause. When ambiguous sustainability claims are floated, the main confusion is created about sustainable and environment-friendly products. Without independent verification, the claims of eco-friendliness have no meaning.

Companies exploit this ambiguity, and customers lack the expertise to evaluate this claim. It becomes very difficult for a commoner to differentiate sustainability from greenwashing due to a lack of standard definitions. Many stakeholders are aware of environmental considerations due to ecological problems (Chen and Chang, 2021). Corporate customers, stakeholders like investors, and consumers pressure companies like energy sectors to disclose accurate information (Guo et al., 2014) and produce sustainable products. The awareness of societies is growing now (Antunes et al., 2015).

Reports indicated that 66% of consumers globally are willing to pay more for environmentally friendly products (Elkington, 1994). Several dictionaries have defined greenwashing as promoting environment-friendly programs to express companies' shortcomings in working environment-friendly manners. There is no rigid definition of greenwashing due to its numerous approaches. In 1999, the term was added to the Concise Oxford English Dictionary, which defined it as: "Disinformation disseminated by an organization to present an environmentally responsible public image; a public image of environmental responsibility promulgated by or for an organization, etc., but perceived as being unfounded or intentionally misleading." According to Lyon and Montgomery (Lyon and Montgomery, 2015), greenwashing has no rigid definition due to its multifaceted nature. Above, we describe the different main approaches we found in defining the phenomenon of greenwashing.

In the present study, most respondents (80%) believe that improving regulatory enforcement would be a practical approach to greenwashing. Similar results have been reported by Li et al. (2017), demonstrating tapping firms' behavior and monitoring; the firm's government plays an essential regulatory role in exerting pressure that will impact enterpriser activities. Economic and political institutions influence firms' behaviors. Firms could improve environmental performance if more significant regulatory pressures were exerted on innovation, production, and green management (Berrone et al., 2013). According to the participants, transparency, quality assurance, and regulation enforcement emerged as the priority areas for policymakers to address greenwashing effectively. The regulatory system is one of the leading facilitators of greenwashing practices. The increased number of new regulations, lack of clarity, limited discipline, and lack of external audit are all associated with regulating the business environment, contributing to corporate greenwashing (Giudice and Rigamonti, 2020). Sustainable finance regulations have grown 96% due to the significant increase in the creation of new sustainable products in the market from 2000 to 2021. Currently, the European Union has the highest number of policies and interventions in the financial market.

6. Conclusion

Investors are increasingly becoming turned off by "greenwashing" and are prepared to adjust their investment strategy regarding environmental regulations. However, to reduce the danger of greenwashing, companies need to be more open, and regulators need to use quality assurance policies and land regulatory enforcement. Investors' relative aversion to "greenwashing" and their readiness to adjust investing strategies in line with environmental policy changes are rising. All investors, businesses, regulators, and anyone with a stake in sustainable investment should know these significant findings. Companies should establish comprehensive quality assurance systems and be transparent about social and environmental impacts. Regulators should establish transparent policies and consequences for greenwashing. Public educational strategies may help to inform people about the causes of greenwashing. Investors need to educate themselves before investing. Prospective research may strive to investigate the following question: How can corporate governance strategies avoid greenwashing? How is shareholder value impacted by greenwashing, and how does investor attitude change? How the quality assurance system can be improved would be paramount to allow for a better understanding of the aversion factor of investors to greenwashing and reducing it. It is concluded that this survey will provide better insight into how investors perceive greenwashing and how greenwashing can be prevented.

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