

Chapter 6

Greenwashing in ESG and Its Implications

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ABSTRACT

This book chapter discusses greenwashing within the domain of Environmental, Social, and Governance (ESG), reflecting upon the emergent dichotomy between espoused corporate sustainability and actual environmental stewardship. By systematically reviewing the pertinent literature, the chapter highlights the pivotal role of greenwashing as a deceptive tactic within ESG framework. It discusses the Volkswagen's and Coca-Cola's greenwashing practices and offer empirical insights into the inconsistencies in their marketing claims of producing sustainable and eco-friendly products. This chapter explores the variances in ESG reporting due to differing regulatory frameworks and emphasize on the importance of regulatory frameworks in enhancing or impeding transparency in corporate disclosures. The chapter outlines the pressing research questions and practical challenges in containing greenwashing strategies and advocate for future scholarly exploration into the uncharted areas of ESG and corporate sustainability.

Introduction

The contemporary corporate accountability has witnessed Environmental, Social, and Governance (ESG) considerations emerging as pivotal yardsticks in assessing organizational conduct and its long-term implications on sustainability and ethics

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(Chouaibi & Affes, 2021). Today's discerning investors and stakeholders leverage ESG standards to gauge not just the immediate fiscal health of companies, but their broader commitment to ethical practices and environmental custodianship (Eccles & Klimenko, 2019; Friede et al., 2015). These standards delve into a corporation's ecological footprint, scrutinize its societal interactions, and evaluate governance structures overseeing fair and transparent business operations. A sound ESG protocol reflects a corporation's adept navigation through the complexities of ethical stewardship and strategic foresight, often translating into lower financial risks and augmented investor confidence (Khan et al., 2016). This trust, however, is premised on the authenticity and reliability of reported ESG conduct, underscoring the importance of the quality of non-financial disclosure practices. With ESG disclosures largely remaining voluntary, companies enjoy a substantial berth in defining the narrative of their sustainability and eco-friendly practices. While this autonomy is instrumental in fostering tailored sustainability strategies, it also paves the way for greenwashing—a practice where firms embellish their sustainability credentials, offering an illusion of environmental virtue that may not hold up under scrutiny.

While ESG has emerged as a vital framework in modern corporate analysis, there is a growing concern about 'greenwashing,' a form of deceptive marketing where a company presents itself as more environmentally friendly or socially responsible than it is (Nguyen et al., 2019). This practice misleads stakeholders into believing that the products, values, and policies of a company are eco-friendly. The dissonance between the publicly espoused Corporate Social Responsibility (CSR) narratives and the underlying corporate actions is at the heart of this issue, leading to criticism and scepticism about the authenticity of these proclaimed commitments towards environment (Gatti et al., 2019). When companies fudge or exaggerate their ESG compliance, it undermines the very objectives ESG standards aim to achieve: sustainable development, social equity, and transparent corporate governance. Governments worldwide are recognizing the importance of genuine ESG practices, often offering subsidies and support to companies that display genuine commitment to these principles. However, many companies have been found to engage in greenwashing strategy when it comes to their reported ESG performance, either through omission, embellishment, or outright deception.

While the extant studies have identified individual cases pertaining to greenwashing, less is known about the congruence between what companies report in their ESG disclosures and their actual practices. This chapter provide a critical analysis of reported ESG practices, thereby aiding in enhanced understanding of the credibility gap in corporate sustainability reporting. Another gap in extant research is understanding how different countries' regulatory frameworks affect the sincerity and thoroughness of ESG disclosures with an objective to contain greenwashing. This review article has twofold objectives – first is to critically assess the corporate

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