Greenwashing: Deceptive Marketing Practices, trends and facts

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Abstract. Greenwashing is a marketing technique used by companies to create a false impression that their products or activities are environmentally friendly or environmentally conscious. The article discusses the greenwashing prevalence in today's market and its negative effects on consumers, the environment and society as a whole. The authors cite examples of greenwashing practices and offer recommendations for identifying and combating greenwashing.

1 Introduction

The new paradigm, aimed at the transition from the priority of making a profit as the most important goal of business to concern for the maximum harmonization of the interests of business and society in the long term, is expressed in several concepts: ESG, «responsible business conduct» (RBC), «sustainable development» (SD) and etc. In the international practice, these concepts are actively used in corporate reporting (for example, in sustainability reports), ESG ratings, and in analysts’ and investors’ assessments of the investment attractiveness of companies.

The European Union has seen significant growth in ESG-related financial products in recent years, and market participants are therefore expecting national authorities (EBA, EIOPA and ESMA) to take increasingly proactive measures to ensure investor protection as well as maintaining a trusted environment for sustainable investment. The fact is that the mismatch between the growing demand for ESG products and the limited set of assets that are classified as sustainable finance creates intense competition for market share and revenues, in which companies try to strengthen their positions in the field of sustainable development by not always in good faith and misleading investors.

Against this backdrop, a series of important reports were published by European supervisory authorities in May 2023, outlining a common understanding of the risks of the green economy in various areas of activity—banking, insurance, pensions, as well as in financial markets [1,2,3]. The reports pay particular attention to the interpretation of the term «greenwashing», since, as EBA experts note, a clear definition and better understanding of this phenomenon is a key step towards more effectively addressing its causes and driving forces [2].

During the period from November 15, 2022 to January 16, 2023, ESGAs experts surveyed 136 respondents in different countries, including 13 banking associations, 17 credit institutions, 12 investment companies, 18 associations, 22 investment managers, 15 non-governmental organizations, 11 analytical centers and etc. In the survey, a significant number
of respondents indicated that a clear and uniform definition of greenwashing practices, along with harmonization of existing regulatory definitions of sustainability (sustainable economy, sustainable finance, sustainable development), would significantly help financial market participants identify, prevent and manage risks green economy.

2 Methods

The phenomenon of «greenwashing» in the context of the ESG concept has recently become increasingly relevant, resulting in an increase in the number of scientific papers, studies and statistical reports. Among the main areas of research, we can highlight:

- analysis of the legal and economic nature of «greenwashing»
- studying the influence of greenwashing on consumers and their behavior
- assessing the impact of greenwashing on the companies’ reputation and their income
- finding ways to improve legislation to reduce the negative impact of greenwashing

In terms of individual countries, the largest number of publications on the topic of greenwashing was generated in the USA, EU countries. The interest in this topic is growing in China, India, Russia. The results of a quantitative analysis of this phenomenon in the European Union since 2012 show a clear increase in the total number of potential cases of «greenwashing» both in different countries and in different economic sectors actively implementing ESG principles.

On the one hand, society is gradually realizing the importance of the process of climate change on the planet, while companies are becoming more responsible for their environmental policies and the impact on climate change on a planetary scale. On the other hand, in the struggle to attract consumers, companies offering relevant goods and services often use unfair «greenwashing» practices.

The aim of this research is to study the approach of European competent authorities to the practice of «greenwashing», as well as to analyze the main characteristics of this phenomenon in the modern economy.

The research included the following stages:

- studying the essential content of the approach developed by experts from international organizations to describe the «greenwashing» phenomenon;
- highlighting the main levels at which «greenwashing» can occur;
- studying statistics on the incidence of «greenwashing» on ESG-related topics by geography and economic sector.

3 Results

The term «greenwashing» in a literal translation on Russian sounds like «green washing». At the same time, the essential content described by experts from EBA, EIOPA and ESMA boils down to the fact that «greenwashing» is considered as a practice in which statements, declarations, actions or messages related to sustainable development do not clearly and fairly reflect the fundamental sustainability profile of an enterprise or financial product or financial service. The term «greenwashing» arose from a combination of the English words green and whitewashing (whitening of reputation), i.e. literally «green washing». It was proposed by Jay Westerveld in 1986 in relation to hotels. A classic example of greenwashing is the use of Eco and Bio prefixes for products that are not such in order to increase sales. Such practices may mislead consumers, investors or other market participants, but experts believe that misrepresentation can be created and spread both intentionally and unintentionally.
However, there is no doubt that «greenwashing» is a source of additional risks that ultimately fall on the shoulders of consumers of ESG products. First of all, we are talking about reputational risks, followed by operational, strategic and business risks of banks and investment companies.

Despite the fact that greenwashing, being one of the side effects of the «green economy», has been manifested to one degree or another in the form of various risks for more than 20 years, until now this phenomenon has been the object of close attention of regulators in different countries. It is for this reason that supervisors have a key role to play in monitoring the risks of greenwashing and monitoring greenwashing practices.

Experts from EBA, EIOPA and ESMA, having studied the practices of «greenwashing» in the European Union countries in recent years, have identified several main characteristics that help to understand the potential scale of this phenomenon.

Considering that «greenwashing» can be either intentional or unintentional, statements, declarations, actions or communications related to sustainability may mislead consumers due to the lack of necessary information or because such information is partial, selective, unclear, vague, oversimplified, ambiguous or simply untimely. On the other hand, statements, declarations, actions or communications related to sustainability may be misleading due to the actual provision of deliberate and false information (including mislabeling, misclassification, conflicting information, etc.).

«Greenwashing» may occur:

a) at the organizational level;

b) at the level of creation and promotion of financial products (including as a result of mis-selling);

c) at the level of financial services, including advisory services at any time;

d) at the level of ESG rating providers or third-party reviewers when sustainability-related statements, declarations, actions or communications are made.

However, no matter at what levels greenwashing occurs, the danger of this phenomenon, if it is not regulated, is that it can undermine confidence in sustainable development and sustainable finance.

The total number of instances of greenwashing reported by stakeholders has increased significantly in recent years (Figure 1). This increase occurred in different regions of the world, but was most significant in the United States (60% of all estimated cases of «greenwashing» in 2022).
As can be seen from Figure 1, the increase in the number of suspected «greenwashing» has occurred in different regions of the world, but the most significant increase has been in North America (60% of all suspected cases in 2022). Cases of «greenwashing» also occurred in different sectors of the economy (Figure 2). However, they were primarily seen in the oil and gas, utilities, mining, industrial construction, food and beverage, household goods and financial sectors.

We note that the financial sector accounted for 16% of all estimated «greenwashing» cases in 2022 (including insurance (2%), banks (4%) and financial services (10%)). It is no coincidence that the authors focus on this, since it is the financial sector, in the opinion of the European Union, that should make the most significant contribution to the trajectory of sustainable development and the ESG concept.
4 Conclusion

The analysis shows that in recent years the number of cases of «greenwashing» has increased significantly, especially in the countries of North America and the European Union. In addition, evidence suggests that this practice occurs in the most important sectors of the economy, where ESG standards and principles have been actively adopted in recent years. The practice of «greenwashing» is particularly common among financial and banking institutions in the European Union, which account for the highest percentage of suspected cases of «greenwashing» compared to other economic sectors. This may be due to increasing incentives for companies to meet the demands of environmentally-conscious customers, as well as the fact that companies in the European Union, especially including large banking groups, are subject to greater public scrutiny than in other countries.

The increasing number of greenwashing facts requires strengthening response measures from the state and the public. Countermeasures include:

- monitoring and verifying companies' green performance claims with the help of independent organizations and experts;
- strengthening requirements for transparency and openness in relation to environmental indicators and company performance. Companies must provide detailed information about their sustainability efforts;
- development of product and service certification standards that will help consumers distinguish between truly green products and greenwashing;
- increasing sanctions and fines for companies that provide false or misleading information about their green activities;
- raising consumer awareness of the facts of greenwashing.

References

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