Greenwashing: Concepts and Theoretical Insights

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Abstract:

As Environmental, Social, and Governance (ESG) frameworks and sustainable finance become standard business practices, greenwashing has escalated into a major corporate governance challenge. While corporate environmental messaging has expanded rapidly, mounting evidence reveals a persistent gap between symbolic public claims and measurable ecological performance. This conceptual paper traces the evolution of greenwashing from early marketing spin to its current structural role in sustainable finance. By synthesizing literature across ethics, management, and governance, the study integrates four core organizational theories like legitimacy, stakeholder, signaling, and institutional theory to map out how greenwashing operates. Grounded in contemporary statistical trends and high-profile corporate case studies, the paper presents a conceptual framework that illustrates the drivers, operational mechanisms, and market consequences of deceptive sustainability claims. Therefore, this work offers a clearer foundation for future empirical research and highlights the urgent need for regulatory reform.

1. Introduction:

The global sustainability landscape has transformed dramatically over the past two decades. Climate change concerns, regulatory interventions, stakeholder activism, and the growth of ESG investing have placed environmental responsibility at the centre of corporate strategy. Sustainable investment assets globally have surpassed USD 30 trillion, reflecting heightened investor demand for environmentally responsible enterprises.

However, alongside this transformation, concerns have intensified regarding the credibility of corporate sustainability claims. Regulatory authorities and academic researchers increasingly highlight discrepancies between environmental rhetoric and measurable environmental performance. According to Delmas & Burbano, (2011) explained that Greenwashing is used as misleading stakeholders about the company's environmental practices or the environmental benefits of products that evolved from a marketing irregularity into a systemic corporate governance issue

Empirical surveys suggest:

- Nearly 40% of corporate environmental claims lack verifiable evidence.
- ESG rating divergence across agencies ranges between 30% - 50%.
- A majority of sustainability reports globally remain unaudited.

These developments indicate that greenwashing is no longer peripheral; it is structurally embedded within contemporary sustainability communication systems. Despite growing research interest, the literature remains fragmented across disciplines. The concept requires theoretical consolidation and deeper integration with established organizational frameworks. This paper addresses this gap by offering a comprehensive conceptual synthesis and integrative theoretical framework.

2. Historical Evolution of Greenwashing

2.1 Early Advertising Phase (1980s–1990s)

The term "greenwashing" gained significant attention in the 1980s, initially describing misleading environmental advertising. Early critiques focused on deceptive promotional strategies that exploited consumer environmental awareness without substantive ecological improvements (Laufer, 2003). Jay Westerveld, an environmentalist from New York, first used the phrase Greenwahing in the year 1986. According to his study, the concept is used describe the practice of demonstrating messages in suites encouraging hotel's towels to be reused in order to contribute to "save the environment" hotel industry's. Additionally, Jay Westerveld noted that although recycling towels lowered their laundry costs, same establishments often did little to nothing to cut back on energy use. He came to the conclusion that higher profit was usually the main goal. He correctly defined "greenwashing" as the practice of a business appearing more environmentally friendly than it actually is, frequently through selective disclosure (Motavalli, Jim 2011). Greenwashing was primarily viewed as a consumer protection issue.

This phase was characterized by:

- Misleading eco-labels
- Vague claims such as “all-natural” or “eco-friendly”
- Lack of regulatory oversight

2.2 Corporate Disclosure Phase (2000s)

With the rise of CSR and sustainability reporting, greenwashing expanded beyond product marketing. Firms began publishing sustainability reports, often highlighting selective achievements while omitting negative environmental impacts. During the 2000s, greenwashing underwent a fundamental shift. It moved from being a simple marketing trick used to sell a specific "green" dish soap or lightbulb to a high-level corporate strategy designed to manage investor perceptions and global brand equity. This era is defined by the birth of the "Corporate Social Responsibility" (CSR) report a document that often acted more as a highlight reel than a transparent record.

2.2.1. From Products to Portfolios

In the 1980s, people might have been misled by a "natural" label on a box. In the 2000s, the deception scaled up to the entire company. A mining company might release a 50-page glossed-over report detailing their new water-recycling initiative at one office, while completely omitting the massive carbon footprint of their global extraction operations.

2.2.2. The Narrative Shift

Instead of saying "This product is green," companies began saying "We are a green company." This created a protective halo over all their products, regardless of their individual environmental impacts.

Walker and Wan (2012) conceptualized greenwashing as the divergence between symbolic environmental communication and substantive environmental action. This period marked the transition from product-level deception to corporate-level disclosure management.

2.3 ESG and Sustainable Finance Phase (2010s–Present)

In the contemporary era (2020s - present), the concept of greenwashing has moved from the marketing department to the boardroom and the stock exchange. It is no longer just about "eco-friendly" soap; it is about sustainable capital. As of 2024-25, the focus has shifted toward the integrity of the financial plumbing that supports the green transition. The contemporary phase of greenwashing extends into:

- ESG reporting
- Green bonds
- Claiming Carbon neutrality
- Sustainable investment funds

Financial institutions and asset managers have faced scrutiny for overstating ESG integration in portfolios. ESG score inconsistencies and lack of standardization have intensified greenwashing concerns. Greenwashing now operates across marketing communication, sustainability disclosure, and financial market representation.

3. Research Methodology

This research paper presents a conceptual and qualitative research design to examine the phenomenon of greenwashing in corporate sustainability practices. The research relies on secondary data collected from academic journals, corporate sustainability reports, ESG disclosures, and regulatory publications. The main objectives of the study are to trace the evolution of greenwashing as a systemic governance challenge within the ESG and sustainable finance landscape, and to synthesise literature across the disciplines of ethics, management, and sustainability governance to create a unified understanding of greenwashing mechanisms. Case illustrations from companies such as Volkswagen, H&M, Hindustan Unilever Limited, and DWS Group are used to demonstrate practical instances of greenwashing across different industries. The analysis is guided by theoretical perspectives including legitimacy theory, signaling theory, stakeholder theory, and institutional theory to interpret the gap between sustainability communication and actual environmental performance.

4. Theoretical Foundations of Greenwashing

4.1 Legitimacy Theory

Legitimacy Theory explains that organizations seek alignment with societal norms and values (Suchman, 1995). Environmental sustainability has become a dominant societal expectation. Companies facing legitimacy challenges because of pollution, environmental incidents, or regulatory penalties may rely on symbolic environmental disclosures to preserve public trust and maintain social acceptance. Thus, greenwashing functions as a mechanism for repairing legitimacy. However, if it is exposed, it can intensify legitimacy loss.

4.2 Stakeholder Theory

Freeman (1984) argues that firms must respond to multiple stakeholder groups. Increased environmental awareness among consumers, investors, NGOs, and regulators creates pressure for sustainability transparency. When stakeholders demand sustainability, but monitoring is weak, firms may prioritize communication over transformation. Greenwashing becomes a cost-minimising response to stakeholder pressure.

4.3 Signalling Theory

Signalling Theory addresses information asymmetry between firms and stakeholders (Connelly et al., 2011). ESG disclosures act as signals of environmental responsibility. However signals may be low-cost and unverifiable, ESG rating divergence weakens signal reliability and without assurance, signals lack credibility. Greenwashing represents opportunistic signalling under weak verification systems.

4.4 Institutional Theory

Institutional Theory explains organizational conformity to societal norms (DiMaggio & Powell, 1983). Sustainability reporting has become institutionalized through coercive (regulation), normative (professional standards), and mimetic (industry imitation) pressures. Firms may mimic sustainability reporting practices without substantive environmental change resulting in symbolic mapping.

5. Corporate Case Studies

5.1 Volkswagen Emissions Scandal

In 2015, Volkswagen was found to have installed defeat devices to manipulate emissions testing results while marketing vehicles as environmentally friendly. For years, Volkswagen ran a massive global campaign called "Clean Diesel". They aired high-budget commercials (including a famous Super Bowl ad) claiming their diesel cars were as clean as hybrids but more fun to drive (Rhodes, C., 2016). The scandal resulted in billions in penalties and severe reputational damage. This case study highlights:

- The danger of misleading environmental marketing claims.
- The need for independent regulatory oversight and testing.
- The importance of corporate transparency and ethical governance.
- The risk that symbolic sustainability communication may mask unsustainable practices.

5.2 H&M and Sustainable Fashion

H&M's sustainability campaigns on 1) Conscious Collection, a clothing line marketed as environmentally friendly, 2) Garment Collecting Program, customers can return old clothes to stores for recycling, 3) Sustainability labeling and scorecards, products are labeled with environmental impact indicators and 4) Commitments to use 100% recycled or sustainably sourced materials in the future (Joy, A., Sherry, J., Venkatesh, A., Wang, J., & Chan, R., 2012). These initiatives are widely promoted through marketing campaigns, sustainability reports, and in-store communication. "Conscious Collection" was criticized for potentially overstating environmental sustainability while operating within a fast-fashion model associated with high resource consumption. Investigations questioned transparency in sustainability labeling. This illustrates selective disclosure and narrative framing mechanisms (Turker, D., & Altuntas, C., 2014).

5.3 DWS Group ESG Allegations

DWS faced regulatory investigation over claims that ESG factors were integrated into investment decisions more extensively than actual practice indicated. This case highlights greenwashing within sustainable finance. Global studies indicate firms in high-emission industries often produce longer sustainability reports without corresponding emission reductions. ESG score divergence across rating agencies averages 30–50% and post-environmental litigation, firms increase CSR communication intensity. The case of DWS Group demonstrates how greenwashing can occur not only in manufacturing industries but also in the financial sector (Lyon, T. P., & Montgomery, A. W., 2015).

This study reflects that:

- Lack of standardized ESG measurement frameworks.
- Risk of misleading sustainability claims in investment products.
- Need for stronger regulatory oversight and disclosure requirements.
- Importance of independent verification of ESG integration.
- Integrated Conceptual Framework

5.4 Hindustan Unilever Limited – Natural and Eco-Friendly Product Claims

Hindustan Unilever Limited has launched several sustainability campaigns focusing on plastic reduction, sustainable sourcing, and eco-friendly consumer products (HUL, 2023). Despite sustainability messaging, environmental organizations have pointed out several concerns:

- Many products marketed as "natural" or "eco-friendly" still contain synthetic ingredients.
- The company remains one of the largest plastic waste producers in India according to brand audit reports by environmental NGOs.
- Sustainability initiatives may focus more on communication and branding than structural changes in production and packaging.

6. Greenwashing: multidimensional construct

Greenwashing is conceptualized as a multidimensional construct:

Antecedents	Mechanisms	Consequences
Environmental regulatory pressure	Selective carbon disclosure	Reputational damage
Industry pollution intensity	Exaggerated net-zero commitments	Market penalties
ESG investor demand	Use of ambiguous terminology	Regulatory tightening
Weak governance and auditing	Green financial labeling	Erosion of stakeholder trust

7. Standard governance initiatives

Mandatory third-party assurance is integral part of sustainability data, is no longer a self-reported document. Now, the Corporate Sustainability Reporting Directive (CSRD) in the EU and similar frameworks globally (like Australia's ASSA 5000) have made independent verification a legal requirement.

7.1 Standardized ESG metrics:

The time of companies picking their own convenient metrics is over. The introduction of the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) has advanced the standardization of sustainability reporting by providing a common framework for consistent and comparable ESG disclosures.

7.2 Materiality:

Companies must use Double Materiality. They must report not just how climate change disrupts their profits, but how their business can hamper the planet. Reports are now submitted in machine-readable formats (like XBRL). This allows for instant comparison across thousands of companies, making it impossible for a firm to hide poor performance.

7.3 AI-based sustainability report screening:

AI models (like ClimateBERT and multimodal LLMs) scan thousands of pages of corporate text and cross-reference them with satellite data and financial records. If a company's symbolic talk of reforestation doesn't match satellite imagery of their land, the AI flags a "Greenwashing Risk" score.

7.4 Enforcement penalties:

Greenwashing is now treated as Consumer Fraud or Securities Fraud. In the UK and EU, regulators now have the power to fine companies up to 10% of their global annual turnover for misleading environmental claims.

8. Findings

The historical analysis indicates that greenwashing has progressed through three distinct phases. Initially, it appeared as misleading environmental advertising during the 1980s and 1990s. During the 2000s, the phenomenon expanded to corporate sustainability reporting and CSR disclosures. In the current ESG driven financial environment, greenwashing increasingly occurs within sustainability reporting, green finance instruments, and ESG investment claims. This transformation explains that greenwashing is now embedded within corporate communication, disclosure practices, and financial markets. Greenwashing has evolved into a structural governance issue within sustainability reporting ecosystems. Integrating Legitimacy, Stakeholder, Signaling, and Institutional theories provides a comprehensive explanation of its drivers and consequences associated with it. The literature consistently reveals a gap between symbolic sustainability messaging and actual environmental outcomes. The selected cases illustrate how greenwashing occurs in different industries and organizational contexts. The study conceptualizes greenwashing as a multidimensional construct involving antecedents, mechanisms, and consequences. Regulatory pressure, stakeholder expectations, and investor demand act as key drivers. These practices ultimately result in reputational risks, regulatory penalties, and erosion of stakeholder trust.

9. Conclusion

In conclusion, the credibility of the global sustainability transition depends not only on corporate commitments but also on the integrity of sustainability communication systems. Strengthening regulatory oversight, improving ESG measurement standards, and enhancing verification mechanisms are essential to ensure that sustainability disclosures reflect genuine environmental performance rather than symbolic corporate narratives. Such reforms are critical for restoring stakeholder trust and enabling responsible and sustainable economic development.

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