Research on the Driving Factors of Corporate Greenwashing and Its Impact on Financial Performance

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Abstract. With the deepening of global sustainable development concepts, consumers and investors have increasingly prioritized corporate environmental performance. The phenomenon of corporate greenwashing, where companies gain short-term benefits through deceptive environmental claims, is becoming more prevalent. This not only misleads consumers and investors but may also lead to market resource misallocation and trust crises. Through qualitative research methods, this article elaborates on the driving factors of corporate greenwashing and its impact on financial performance. It discusses the overview of greenwashing's driving factors, the financial performance trends following greenwashing, and the mechanisms by which these factors affect financial performance. The results of the qualitative analysis indicate that while companies may achieve short-term financial gains through greenwashing, the long-term costs often exceed expectations, leading to brand damage, declining shareholder returns, and increased legal risks. Based on these findings, the article proposes several targeted recommendations and provide some reference for the companies to strengthen the sustainable development.

Keywords: Corporate Greenwashing; Financial Performance; Driving Factors.

1. Introduction

Corporate greenwashing refers to companies exaggerating or falsely advertising their environmental protection and social responsibility efforts in order to create a green image, while in reality, failing to implement corresponding environmental measures. As global attention to sustainable development continues to rise, corporate environmental responsibility has gradually become a focal point for the public and investors. According to a report by the United Nations Environment Programme (UNEP), the global ESG (Environmental, Social, and Corporate Governance) investment scale reached $50 trillion in 2023, accounting for 40% of total global asset management. Along with the growth of ESG investments, the issue of corporate greenwashing has also become increasingly prominent. Approximately 40% of consumers express skepticism about corporate green claims, believing they may involve greenwashing practices. Companies attempt to gain a competitive advantage in capital markets through greenwashing, which can mislead investors and consumers, potentially damaging corporate reputations and ultimately affecting long-term financial performance. The short-term financial gains from greenwashing may be achieved by catering to market demand, attracting green investments, and boosting stock prices. However, in the long run, as regulatory agencies strengthen oversight of green information disclosure, companies engaging in false advertising will face harsher penalties and market repercussions. The exposure of greenwashing often triggers a trust crisis among consumers and investors, negatively impacting the company's financial performance.

By thoroughly analyzing the driving factors of greenwashing behavior, regulatory agencies and policymakers can formulate more effective regulatory policies, encouraging companies to fulfill genuine environmental responsibilities and avoid false advertising. Understanding the impact of greenwashing on financial performance can serve as a warning to companies, prompting them to balance short-term gains with long-term sustainable development strategies and avoid the long-term negative effects of greenwashing, such as damage to brand reputation and decreased shareholder returns. This research not only contributes to market health but also provides theoretical support for companies to formulate sustainable development strategies.

2. Literature Review

Over the past few decades, corporate greenwashing has gradually become a focal point of attention in both academic and practical circles. Liu et al. systematically reviewed the literature on greenwashing, pointing out that companies typically engage in greenwashing driven by the desire to enhance market competitiveness and meet consumer demand for environmentally friendly products [1]. While these actions may bring short-term financial gains, they can negatively impact corporate reputation and financial performance in the long run. Mohammad further emphasized greenwashing in the hotel industry, highlighting that green transparency and green authenticity are key factors in sustaining consumer trust [2]. If greenwashing is not effectively regulated and corrected, it will ultimately harm the company's financial health. Teichmann et al. explored the consequences of corporate greenwashing, pointing out that in both consumer and financial markets, greenwashing leads to declining consumer trust, loss of brand loyalty, and stock price volatility, posing serious threats to a company’s financial performance [3]. Boncinelli et al. conducted empirical research and found that greenwashing is not limited to false advertising but is also reflected in product packaging. Products that excessively use “green” elements without substantial environmental efforts often struggle to maintain market share [4]. Meisinger and Cleveland argued that greenwashing can be seen as a “tragedy of the commons” in the intangible realm, where companies gain short-term benefits through false environmental claims, ultimately undermining public trust in environmental protection and affecting the sustainable development of entire industries [5]. Pizzetti et al. introduced the concept of “alternative greenwashing,” suggesting that some companies in the supply chain may shift responsibility and blame greenwashing on other suppliers to evade their own accountability. These studies indicate that the driving factors of greenwashing are complex and diverse, including market competition pressure, incomplete environmental regulations, and the rise of consumer environmental awareness. The long-term financial impact of greenwashing is often negative, and as consumers and regulatory agencies become more sensitive to green marketing, companies engaging in false green claims will face greater market and legal risks [6].

3. Analysis of the Driving Factors of Corporate Greenwashing and Overview of Financial Performance

3.1. Overview of the Driving Factors of Corporate Greenwashing

The driving factors of corporate greenwashing primarily include market competition pressure, the rise in consumer environmental awareness, the intensity of policy regulation, and the increase in ESG (Environmental, Social, and Governance) investment scale. With the intensification of global competition among companies, environmental protection and sustainable development have become important areas of corporate competition. According to the Global Competitiveness Report published by the World Economic Forum, competition in the field of green innovation among companies strengthened in 2023, with the Green Technology Innovation Competitiveness Index reaching 8.5, a significant increase from 6.5 in 2015. Meanwhile, consumer demand for environmentally friendly products continues to grow. According to Nielsen's 2023 report, global consumer environmental awareness increased by 25% compared to 2015, and more consumers are now willing to pay a premium for green products. This trend has prompted companies to engage in greenwashing to cater to consumer preferences for green products, thereby enhancing their market competitiveness. The overview of driving factors for corporate greenwashing from 2015 to 2023 is illustrated in Figure 1-3. The data is sourced from Environmental Performance Index, Global Sustainable Investment Review.

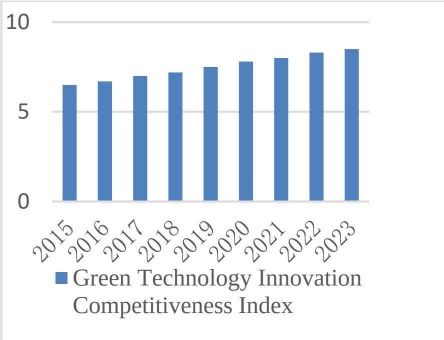

Figure 1. Corporate Greenwashing Driving Factors (GTICI)

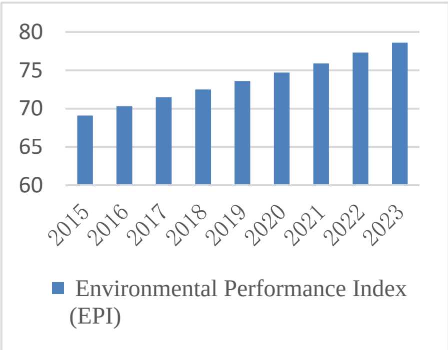

Figure 2. Corporate Greenwashing Driving Factors (EPI)

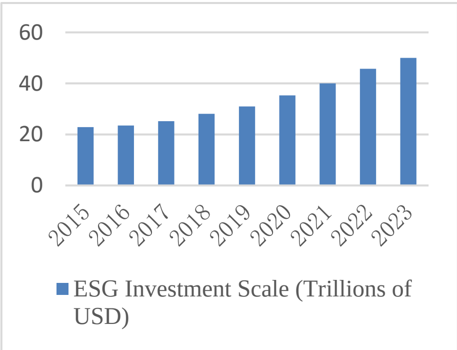

Figure 3. Corporate Greenwashing Driving Factors (IS)

It can also be seen that the gradual strengthening of policy regulation is another important driving factor for corporate greenwashing. According to Yale University's 2023 Environmental Performance Index (EPI), the global environmental regulatory intensity score was 78.6, a significant increase from 69.1 in 2015. This regulatory pressure has prompted companies to place more emphasis on environmental responsibility. However, some companies, fearing that they may not meet the standards in the short term, have opted to use false advertising to cover up their actual environmental performance.

The rapid growth of ESG investment is another crucial driving factor for greenwashing. According to data from the Global Sustainable Investment Alliance, the global ESG investment scale reached $50 trillion in 2023, approximately double that of 2015. This massive capital flow has made companies more inclined to use green marketing to attract investors. In practice, some companies fail to genuinely fulfill their environmental commitments, leading to the frequent occurrence of greenwashing.

In summary, corporate greenwashing is the result of multiple factors acting in concert. These include external market and policy pressures, as well as internal corporate strategic considerations.

3.2. Overview of Financial Performance Following the Occurrence of Corporate Greenwashing

The impact of corporate greenwashing on financial performance typically manifests as a coexistence of short-term profit growth and long-term risks. In the short term, companies that exaggerate or falsely promote their environmental practices often attract consumers and investors who are focused on sustainability, resulting in increased revenue. Companies engaging in green marketing usually see a 4%-6% increase in short-term revenue initially. Data from 2023 shows that as consumer environmental awareness continues to rise and with the increased transparency of information on social media, once greenwashing is exposed, a company's financial performance deteriorates rapidly. Over 60% of consumers choose to abandon a brand's products or services after discovering it has engaged in greenwashing, leading to a significant decline in the company's brand reputation.

Greenwashing also negatively affects shareholder returns. In 2023, companies exposed for greenwashing saw their long-term shareholder returns decrease by an average of 4%, and this trend is likely to worsen in the coming years. Stock prices typically experience short-term volatility following exposure, with some companies facing large-scale shareholder sell-offs. At the same time, regulatory scrutiny of greenwashing is becoming increasingly strict, resulting in massive fines for companies engaging in false environmental advertising. According to the Global Corporate Responsibility Report, global fines imposed on companies for greenwashing reached approximately $1.5 billion in 2023, a 30% increase from 2020.

Although companies may achieve short-term financial gains through greenwashing, their long-term financial performance and brand value are likely to suffer negative consequences, especially under the combined pressures of lost consumer trust, declining shareholder returns, and increased legal penalties.

4. Analysis of the Mechanisms Behind the Driving Factors of Corporate Greenwashing and Their Impact on Financial Performance

4.1. Short-term Financial Impact

In the short term, companies can quickly achieve financial gains through greenwashing, primarily reflected in revenue growth and increased market value. Greenwashing typically involves exaggerating environmental commitments or engaging in false advertising to create an image of a company highly committed to sustainability. This strategy effectively attracts consumers and investors who are sensitive to environmental issues, especially against the backdrop of a growing global emphasis on sustainable development. Companies that engage in green marketing generally see a 4%-6% increase in short-term revenue. As more consumers are willing to pay a premium for environmentally friendly products, greenwashing allows companies to cater to this demand, leading to short-term increases in sales and market share.

Greenwashing also helps companies attract more ESG (Environmental, Social, and Governance) investment funds. In 2023, the global ESG investment scale reached $50 trillion, double the approximately $22.9 trillion in 2015. This capital flow provides companies with significant financing opportunities, boosting their stock prices and market valuations. By exaggerating their environmental commitments, companies can garner more investor interest in the short term, resulting in a temporary rise in stock prices. However, these short-term gains are often based on false environmental claims, and once companies fail to deliver on their promises, a trust crisis inevitably follows. While the short-term financial benefits of greenwashing can be significant, their sustainability is highly questionable.

4.2. Long-term Financial Impact

In the long term, the impact of greenwashing on corporate financial performance is often negative, and this effect can intensify over time. Once a company is exposed for engaging in greenwashing, consumer and investor trust sharply declines, which affects both brand reputation and market share. Over 60% of consumers choose to abandon a brand's products or services after discovering it has engaged in greenwashing. This trust crisis has profound long-term consequences, as damage to brand reputation leads to customer loss, which in turn affects sales. Shareholder returns are also significantly impacted. In 2023, companies exposed for greenwashing saw their long-term shareholder returns decrease by an average of 4%. This decline is primarily attributed to investors losing confidence in the company's future growth and profitability, leading to stock price drops and investor withdrawals.

Another significant long-term impact is the increased risk of legal and regulatory penalties. With the growing global emphasis on regulating corporate environmental practices, governments and international organizations have introduced laws and regulations to combat false environmental advertising. In 2023, global fines imposed on companies for greenwashing totaled approximately $1.5 billion, a 30% increase from 2020. These fines not only directly affect a company's financial health but also exacerbate the brand reputation crisis, leading to further customer and investor losses.

Although greenwashing may yield some short-term financial returns, its long-term financial impact is often negative, as companies face significant reputational, market, and legal risks.

5. Conclusion

This article utilizes qualitative research methods to explore the driving factors behind corporate greenwashing and its impact on financial performance. Through an analysis of the driving factors, the financial performance trends following greenwashing, and the mechanisms by which these factors affect financial performance, the results show that companies may achieve short-term financial gains through greenwashing, but the long-term costs often far exceed expectations. These costs include damage to brand reputation, declining shareholder returns, and increased legal risks. Based on the qualitative analysis, this article also proposes several targeted recommendations.

Companies should strengthen their internal awareness of environmental responsibility and genuinely incorporate sustainable development principles into their core strategies. To avoid trust crises caused by false advertising, companies must take real actions and ensure that their environmental commitments are backed by verifiable evidence. Independent third-party certification bodies can be used to audit a company's green initiatives, and companies should regularly publish transparent and credible environmental performance reports to enhance consumer and investor trust.

Companies should also increase investment in green technologies and innovation, upgrading their technology to improve their environmental performance and reduce their operational environmental footprint. This not only enhances market competitiveness but also ensures compliance with stricter future regulatory policies.

Moreover, companies should actively participate in industry-wide environmental initiatives and collaborations, working with other organizations to promote sustainable development across the sector, thereby reducing the occurrence of greenwashing. Regulatory bodies should further improve relevant laws and regulations, imposing severe penalties on greenwashing behaviors and establishing a robust punishment mechanism to ensure that companies fulfill their environmental responsibilities truthfully.

Lastly, companies should strengthen communication with stakeholders, especially through interactions with consumers, shareholders, and the community, to understand their expectations for corporate environmental performance. This will allow companies to adjust their strategies in a timely manner to better meet market demands. By implementing these measures, companies can not only achieve short-term financial gains but also build sustainable competitive advantages in the long term, enhancing brand image and market value. In future research, we can also study the relationship between corporate social responsibility (CSR) and how to reduce greenwashing by improving transparency and strengthening management, so as to promote the sustainable development of enterprises

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