

# An Analysis on the Causes and Consequences of Corporate Greenwashing: A Case Study of Sanyuan Food Co., Ltd

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**Abstract.** In the context of the "dual carbon" concept and the growing public awareness of environmental protection, the disclosure of corporate greenwashing behavior has become particularly significant. Greenwashing refers to companies falsely presenting themselves as environmentally responsible while engaging in practices that harm the environment. In their pursuit of economic interests, some companies resort to greenwashing tactics, thereby creating misleading impressions of their environmental efforts. This paper uses Sanyuan Food Co., Ltd. as a case study to examine the internal and external factors driving the greenwashing behavior of its subsidiaries. The analysis is conducted from four key perspectives: the temptation of economic interests, the effectiveness of internal supervision mechanisms, the competitive pressures between enterprises, and the influence of national policies. Furthermore, the paper investigates the environmental and economic consequences of corporate greenwashing, emphasizing the detrimental impacts on both the ecosystem and market fairness. Finally, the paper discusses the broader implications of greenwashing for consumers and government agencies, highlighting the need for more stringent regulations and transparent corporate practices to combat the misleading claims of environmental sustainability.

**Keywords:** Corporate Greenwashing, Disclosure of Information, Sanyuan Food Co., Ltd.

## 1. Introduction

In the era of rapid development of economic globalization, the relationship between economic development and environmental protection of enterprises has attracted more and more attention from all walks of life. The term "greenwashing" is used to describe the actions of some operators who claim to reduce their ecological impact and encourage tourists to reuse towels, but the actual purpose is to save operating costs. In recent years, greenwashing has become a social issue of great concern at home and abroad. For example, the European Commission conducts annual "greenwashing screenings" on corporate websites in the EU market, and about 42% of companies are suspected of greenwashing. In addition, according to the statistics of Everbright Securities in 2020, only 4% of China's listed companies have complete disclosure of environmental, social and corporate governance (ESG) investment information. Although the positive green response of enterprises under the national "dual carbon" goal is worth advocating, given that substantial green innovation is an important starting point for "carbon peak and carbon neutrality", it is still necessary to beware of the emergence of greenwashing in this context [1]. The concept of "carbon peak" and "carbon neutrality" has made the heat of ecological and environmental protection issues continue to rise, consumers' awareness of environmental protection has improved, and people are more and more inclined to buy environmentally friendly and green products and services. Under the influence of multiple pressures such as changes in policies and concepts, some companies do not hesitate to disguise themselves as green environmental protection enterprises to escape the reality of not implementing environmental protection behaviors. Through the case analysis of Company L, Liu Tianshuo found that "greenwashing" had a negative effect on the overall value of the company. From a financial point of view, the profitability, financing ability and operational ability of enterprises are significantly affected, and this impact lasts for a relatively long time and has a certain lag [2]. Through a case study of company Z's greenwashing, Zhang Tianshuo used the GONE theory to analyze the reasons for company Z's "greenwashing" from the perspectives of greed, opportunity, need and exposure, and found that the greedy psychology of enterprises was the direct cause, and the lack of local government

supervision and market information asymmetry indirectly led to corporate "greenwashing" [3]. Fu Yuxin took Lanfeng Biochemistry as an example to explore the motivation and economic consequences of corporate greenwashing from the perspective of dual pressure, and found that after the exposure of "greenwashing", the capital market showed a strong negative reaction, and the profitability of enterprises was seriously impacted, which aggravated the difficulty of debt financing, and the loss of large customers to a certain extent [4]. The disclosure of the greenwashing behavior of Sanyuan Food Co., Ltd. in this article may cause consumers to have a crisis of trust in the goods, and have resistance to similar products, which may affect the performance of the enterprise. To a certain extent, it can also sound the alarm bell for enterprises to falsely publicize the consequences of environmental protection behaviors, so that enterprises can correct their own behavior, establish correct environmental protection values, truly implement green and sustainable development, expand the transparency and supervision of production links, and at the same time take environmental protection and sustainable development as an opportunity to win stronger competitiveness and anti-risk ability in the market. Fraudulent "greenwashing" makes corporate ESG disclosure a way to cover up poor corporate performance and a means to raise funds (Huang, 2022). Therefore, it is of great practical significance to identify the "greenwashing" behavior of corporate ESG and reveal the motivation and consequences of corporate ESG "greenwashing" to promote the sustainable development of enterprises and curb environmental pollution and financial fraud [5].

## **2. Case Introduction of Greenwashing Behavior of Sanyuan Food Co., Ltd**

### **2.1. Basic Information of Sanyuan Food Co., Ltd**

Beijing Sanyuan Food Co., Ltd. (hereinafter referred to as "Sanyuan Food") is a Sino-foreign joint venture joint-stock enterprise mainly engaged in dairy industry and McDonald's fast food, its predecessor was Beijing Milk Terminal established in 1956, renamed Beijing Milk Company in 1968, Beijing Sanyuan Food Co., Ltd. was established in 1997, and the company was restructured into Beijing Sanyuan Food Co., Ltd. in 2001, and issued RMB ordinary shares of 0.15 billion shares to the public in August 2003. It was successfully listed on the Shanghai Stock Exchange on September 15, completed the equity division reform with the approval of the Ministry of Commerce of the People's Republic of China in April 2006, and successfully issued shares in November 2009 and February 2015, with a total share capital of 1,497,557,426 shares [6].

### **2.2. Review of Greenwashing Behavior of Sanyuan Food Co., Ltd**

"Quality Lixin" is the quality concept that Sanyuan has always implemented, Sanyuan in line with the concept of "quality Lixin, integrity-based", to continuously meet the needs of consumers as its own responsibility, and sincere cooperation with all sectors of society. On January 7, 2017, under the guidance of the Corporate Social Responsibility Research Center of the Chinese Academy of Social Sciences and hosted by the China Social Responsibility 100 Forum, the "China Social Responsibility 100 Forum - The Fifth Annual Conference on Sharing Responsibility" was held in Beijing. With 60 years of ingenuity, Sanyuan Food won the "Responsible Product Award", the most concerned "Responsible Product Award", becoming the only dairy company to receive this award [7]. The company creates an image of honesty and trustworthiness and a sense of responsibility for consumers. This also paves the way for companies to cover up their environmentally friendly practices and carry out greenwashing. Beijing Sanyuan Co., Ltd. is a leading dairy company in China, and its social responsibility report has been rated five-star for consecutive years. In the corporate social responsibility report, Sanyuan Food claims to "lead a green future" and strictly abides by laws and regulations. Based on the 2022 corporate environmental protection fine data compiled by Qingyue and Green.com, Beijing Shounong Animal Husbandry Development Co., Ltd. and its branches, a subsidiary of Sanyuan Food, received a number of environmental protection fines. In March 2022, the Beijing Daxing District Ecology and Environment Bureau inspected and found that the company's Treasure Island Ranch continued to discharge sewage into the oxidation pond after the impermeable

membrane of the oxidation pond was damaged in June 2021, and since February 2022, it has discharged the sewage into multiple seepage pits by evading supervision, causing pollution to the surrounding environment. The suspended solids, COD, and ammonia nitrogen in the seepage pit in the south wall exceeded the standard by 30.5 times, 48 times, and 67.8 times, respectively, and a fine of 200,000 yuan was imposed [8].

### **3. Case Study of Greenwashing Behavior of Sanyuan Food Co., Ltd**

#### **3.1. Analysis of the Motivation of Greenwashing Behavior of Sanyuan Food Co., Ltd**

##### **3.1.1. Driven by economic interests**

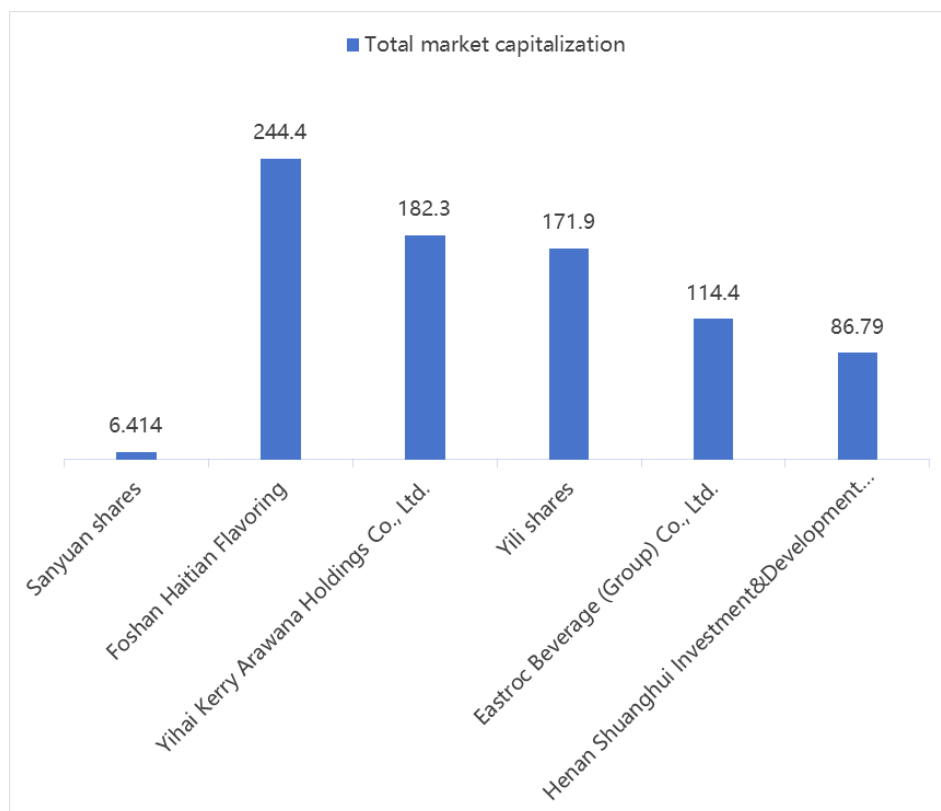
The most direct purpose of greenwashing is to pursue higher economic benefits in the short term, and to this end, it does not hesitate to take improper measures to improve its financial performance and corporate visibility. As a supplier of McDonald's Food Co., Ltd., Sanyuan also holds 50% of its equity, and when McDonald's was blown up and changed the label of expired ingredients, it still did not affect its financial performance too much, and paid more than 40 million dividends a year. Sanyuan Food Co., Ltd. has always been honest and responsible label, to give the outside world an environmentally conscious, for the sake of consumer health image, prompting more investors to invest in the enterprise, more consumers trust the products produced by the enterprise, to the enterprise to obtain excess returns to lay a foundation.

##### **3.1.2. The internal management and supervision mechanism**

After the company was exposed to greenwashing, the annual report did not put forward specific measures to solve the problem and punish the person in charge and the responsible department of the enterprise, which can indicate that there are obvious deficiencies in the supervision and punishment mechanism of the enterprise, which helps to drive the enterprise to carry out illegal measures. According to the food safety compliance management of the whole industry chain of Sanyuan Food Co., Ltd., Sanyuan Food focuses on the safety of dairy products and the compliance risk assessment of the whole industry chain and other problems and preventive measures before the risk, but does not indicate the corresponding solution measures after the occurrence of the risk, which leads to the lack of clear internal solutions after the explosion of Sanyuan greenwashing, and the corresponding internal punishment measures for the person in charge of the relevant risks.

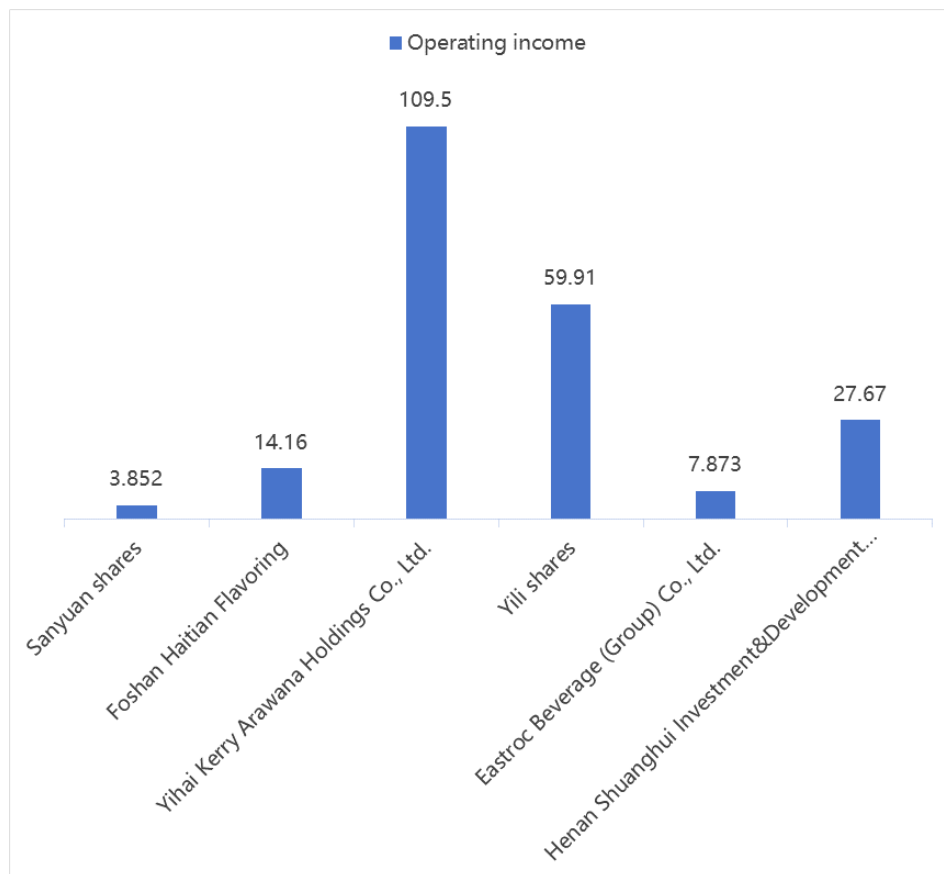
##### **3.1.3. Fierce competition among enterprises of the same type**

Compared with other peer companies, the total market value of Sanyuan shares lags behind, and the fierce competition among peers will also drive Sanyuan Food to package itself, cover up the facts, and carry out greenwashing. As shown in Figure 1, the total market value of Sanyuan shares is 6.414 billion, while the total market value of Yili shares is 171.9 billion, which is more than 26 times that of Sanyuan, and the average market value of the industry is 13.06 billion.



**Figure 1.** Comparison of the total market value of Sanyuan shares and peer companies Unit: Billion yuan (Data source: Oriental Fortune Network)

As shown in Figure 2, there is also a gap between the operating income of Sanyuan and other peer companies. Compared with Yili of the same type of enterprise, the operating income of Yili shares is 15.55 times that of Sanyuan shares. On the one hand, low operating income will be rejected by some investors, and Sanyuan Company carries out greenwashing to give the public an environmentally friendly and low-carbon corporate image, which can save the investment of some investors; On the other hand, corporate greenwashing can save the management costs of the enterprise to a certain extent, so that the operating income of the enterprise is more considerable, and the competitiveness of the enterprise is enhanced.



**Figure 2.** Comparison of operating income of Sanyuan shares and peer enterprises Unit: Billion yuan (Data source: Oriental Fortune Network)

### 3.1.4. The national policy

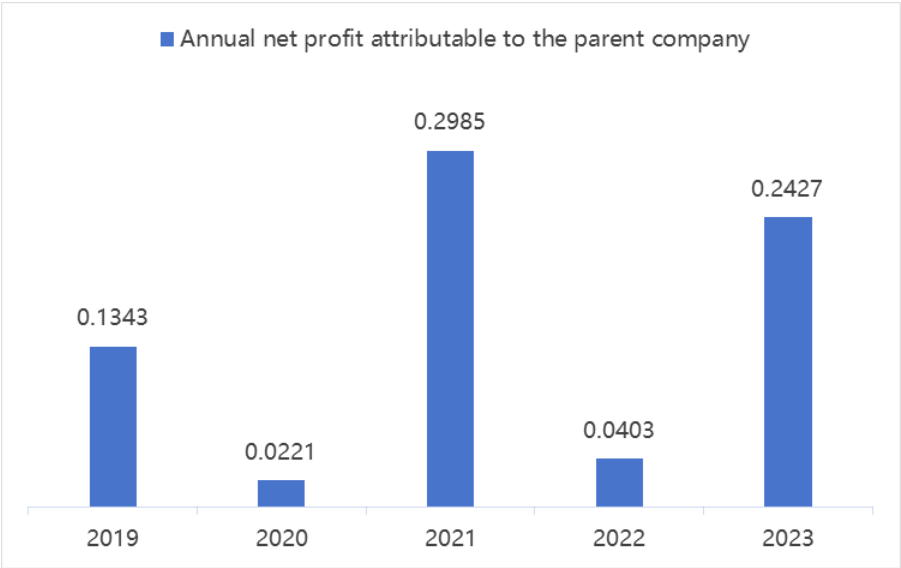
China's enterprise environmental information disclosure system by the State Council, the State Environmental Protection Administration, the Ministry of Finance, the China Securities Regulatory Commission and other institutions to formulate and issue the relevant regulations, measures or guidelines, etc., has gone through the process from scratch, can be roughly divided into four stages: the first stage (before 2000), less involved in environmental information disclosure of enterprise environmental protection and other related regulations, the second stage (2001-2005), the environmental supervision department to disclose the enterprise environmental information system, the third stage (2006-2007), a system to encourage voluntary disclosure of environmental information by enterprises, and the fourth stage (2008 and beyond), a system that combines voluntary disclosure and mandatory disclosure [9]. It can be seen that the improvement of China's information disclosure system is relatively late, and there may be some loopholes in environmental protection regulations, and enterprises can take advantage of their imperfections to make illegal measures, which increases the probability of corporate greenwashing. At the same time, there are more or less differences in the frequency and intensity of supervision by governments and regulatory authorities in different regions, and enterprises can take advantage of their differences to "exploit loopholes".

## 3.2. Analysis of the Consequences of Greenwashing Behavior of Sanyuan Food Co., Ltd

### 3.2.1. Environmental consequences

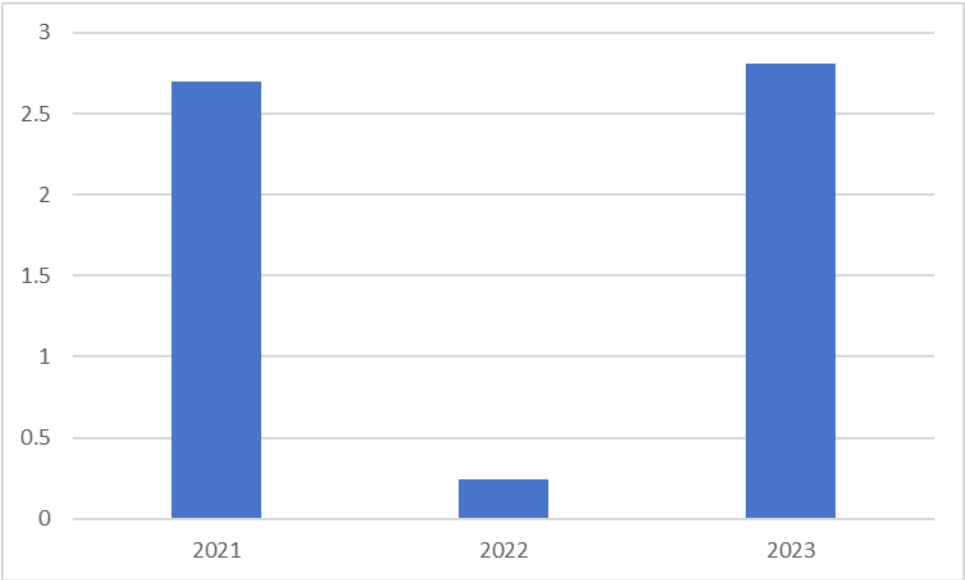
The most direct impact of greenwashing is to cause environmental pollution, enterprises evade supervision and discharge sewage at will, and it is also found that the waste gas is discharged unorganized, resulting in excessive odor emission concentration, and at the same time polluting the land, water and atmosphere, which has a serious impact on the local ecological environment, and this greenwashing behavior lasts for a long time, causing irreparable ecological losses in the short term.

3.2.2. Economic consequences



**Figure 3.** Annual net profit attributable to the parent company of Sanyuan shares: Billion yuan (data from Oriental Fortune Network)

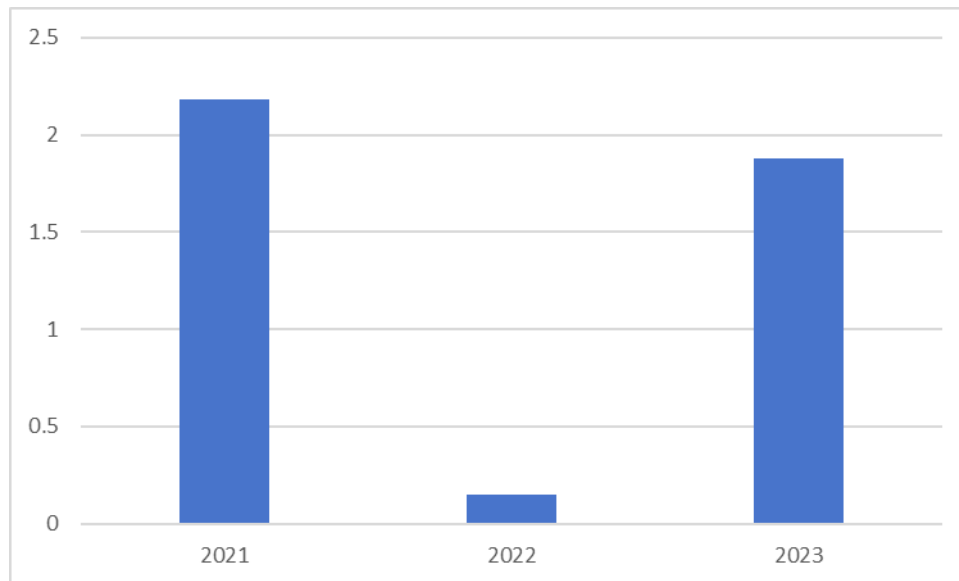
As shown in Figure 3, after the exposure of greenwashing of its subsidiary, the annual net profit attributable to the parent company will decline significantly in 2022 after reaching a peak in 2021. Enterprises are subject to administrative penalties for greenwashing, and with the exposure of greenwashing, the inventory of the enterprise will face the loss of inventory price decline, resulting in a decline in profits; Enterprises need to carry out rectification of purification equipment, and the increase in management expenses will also lead to a decrease in net profit; When corporate greenwashing is exposed, the company's reputation can be seriously damaged, causing investors to reduce their investment in the company, reduce the company's sales revenue, and damage its profits.



**Figure 4.** Net profit margin of ternary shares Unit: % (data from Oriental Wealth Network)

As shown in Figure 4, the net profit margin of Sanyuan shares in 2021 was 2.70%, and after the greenwashing in 2022, the net profit margin of Sanyuan shares dropped to 0.24%, reaching a low value, and rose to 2.81% in 2023. It can be seen that after Sanyuan was fined 200,000 yuan for environmental protection, the company's non-operating expenses increased, the net profit margin decreased, and at the same time, the enterprise needs to treat the sewage, and the manufacturing cost

increases, and the enterprise will face a shortage of funds, which may reduce R&D investment, resulting in limited development.



**Figure 5.** Return on total assets of Sanyuan shares Unit: % (Data from Oriental Wealth Network)

As shown in Figure 5, after the company found that greenwashing was subject to administrative penalties in 2022, the return on total assets dropped from 2.18% in 2021 to 0.15%, which will slow down the return of corporate funds, affect the production and delivery of enterprise products, and then affect sales revenue, forming a vicious circle; From the perspective of external investors, after the enterprise is labeled as not honest and contrary to the business philosophy of the enterprise, the investment of investors in the enterprise will be reduced, and the investment income of the enterprise will be reduced.

### 3.2.3. The social impact of greenwashing by Sanyuan Food Co., Ltd

**Government:** The Beijing government has also paid enough attention to the greenwashing behavior of many enterprises, including Sanyuan. Since 2022, a number of policies on environmental protection have been promulgated, and since 2022, the Beijing Municipal Action Plan for Deepening the Battle of Pollution Prevention and Control has been implemented, which clarifies the main goals and tasks such as carbon emission intensity, air quality, and ecological environment quality index, including 100 measures to promote water pollution prevention and control and strengthen soil pollution prevention and control. In 2024, the Beijing Municipal Implementation Plan for Promoting the High-Quality Development of the Social and Environmental Governance (ESG) System (Draft for Comments) will be released, which aims to focus on strengthening ESG information disclosure and promoting enterprises to disclose information independently.

**People:** Enterprises conceal environmental protection issues and endanger the physical and mental health of consumers, consumers think that the goods they buy are environmentally friendly and healthy, but in fact they find that they are only inferior products with "green" packaging, and greenwashing will lead to adverse selection of the market and the failure of environmental disclosure signals. Greenwashed products and green products are mixed in the market, and in the case of information asymmetry, consumers cannot distinguish the authenticity, and even if they are willing to buy green goods at a higher price, rational consumers can only pay the average price. This has led to the market for green goods starting to shrink, and even the truly green goods have to be withdrawn from the market. Truly green products cannot be recognized, and environmental problems cannot be improved as a result [10].

## 4. Conclusion

This paper uses the case analysis method to analyze the motivation of the greenwashing behavior of the subsidiary of Sanyuan Food Co., Ltd., and at the same time studies the consequences of corporate greenwashing, and finds that the consequences of corporate greenwashing will lead to a certain crisis of the enterprise, which will not only fail to obtain the expected benefits of greenwashing, but also damage the reputation of the enterprise, resulting in a vicious circle. Due to the limited cognitive level and academic research ability, this paper has limitations in the research process. In terms of research content, the analysis of the consequences of corporate greenwashing behavior should be more comprehensive, and the consequences of greenwashing can be further explored by analyzing the changes of corporate stock prices before and after greenwashing. In terms of research methods, the event research method can be considered to study the greenwashing behavior of enterprises. In the future research, it can consider helping consumers to analyze whether the enterprise is an honest enterprise and whether there is the possibility of greenwashing, and it is believed that in the era of more and more transparent informatization, enterprises can consciously disclose information, put an end to greenwashing, and create a green and environmentally friendly enterprise production environment.

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