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Deconstructing 'Greenwashing' and 'Anti-Greenwashing' in Corporate ESG Investments: Based on Behavioral Identification, Motivation Analysis and Effect Evaluation

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Abstract: With the increasing corporate attention to Environmental, Social, and Governance (ESG), some companies that do not have ESG investment strengths have also joined the ESG practice. As firms intensively integrate ESG into their operational ethos, discrepancies between proclaimed and actual ESG commitments have given rise to "greenwashing" behaviors. At present, China's research on corporate "greenwashing" is still in its infancy, and it is difficult to accurately identify corporate "greenwashing" behaviors and clarify their motives and impacts, so as to achieve the "anti-greenwashing" effect of precise governance. This paper examines the manifestations, motivations, and effects of "greenwashing" through actual case studies as well as theoretical and comparative literature research in order to propose a comprehensive framework for analyzing the nature of "greenwashing." To counteract "greenwashing," the paper combines the reality of problems to extract the insights and shortcomings of the existing research and propose multi-tiered strategies tailored to policy, corporate, and societal levels to look forward to the direction of future research on "anti-greenwashing." The aim of this paper is to promote the development of "greenwash" research and strengthen the society's awareness of "greenwash" behavior and the understanding of corporate ESG behavior, underscores the theoretical and practical significance of addressing "greenwashing." It calls for sustained research to optimize the ESG investment landscape.

Keywords: Greenwash, ESG Investing, Sustainability, Motivation Analysis, Risk Regulation.

1. Introduction

With increasing global awareness of climate issues due to greenhouse gas emissions, the push for a green and low-carbon transformation has intensified. In 2020, China set forth ambitious "double carbon" goals to peak emissions by 2030 and achieve carbon neutrality by 2060, promoting sustainable practices and expanding green financial products[1]. Environmental, Social, and Governance(ESG) principles have begun to replace Corporate Social Responsibility(CSR) in guiding green financial strategies, aiming for economic and environmental benefits. However, some companies that do not have the advantages of ESG investment have also rushed into the ESG field, which makes the reliability and authenticity of ESG performance questioned, resulting in a very prominent "greenwashing" problem, misleading investors and consumers.

Both foreign and domestic research on greenwashing is still developing, with challenges including identifying and understanding greenwashing behaviors and motives within companies, and their broader impacts.

This paper is problem-oriented, emphasizes the need for systematic research and effective anti-greenwashing strategies, enhancing societal awareness and improving ESG implementation among enterprises. This will not only support the health of China's ESG investment landscape but also provide critical insights for policy-making and corporate governance.

2. Identification of "greenwashing" behavior in ESG investments

Based on corporate social responsibility(CSR) and the principle of responsible investment(PRI)[2], ESG incorporates environmental, social and governance factors into investment strategies and practices, forming an investment philosophy that focuses on these three aspects of a company's performance, as well as a criterion for investors to evaluate companies. However, the three basic elements of ESG differ in specific word expressions, and their underlying dimensions have not yet been harmonized.In recent years, ESG investment has boomed, but with it has come the prevalence of "greenwashing" behavior. Jay Westerveld, the environmentalist who first proposed "greenwashing", argues from the perspective of green marketing that companies adopt pandering behaviors in order to satisfy demand, leading to a "decoupling of words and deeds"[3]. From the perspective of information disclosure, "greenwashing" is "pseudo-social responsibility" behavior by companies "filtering information."[4] In terms of misleading words and actions, greenwashing fails to correctly and fairly reflect sustainability characteristics, thereby misleading consumers and investors.

Based on the collection and analysis, the author summarizes the common types of greenwashing behavior as follows:

First, blatant deception and intentional concealment, fictionalizing favorable information or hiding unfavorable information to assign false "green" labels. For example, Green Mountain Coffee intentionally claimed that its eco-friendly packaging has met strict biodegradable green standards, but this is not the case[5].

Secondly, there are hidden trade-offs, where companies are "green" in certain investments but neglect environmental issues in other areas. A notable example is a Chinese company that invested in environmental protection facilities but was heavily fined for discharging wastewater in excess of standards.

Third, multinational corporations sometimes apply double standards, claiming that their enterprises are environmentally friendly, but making behavior in other regions or countries that is not in line with the claim. This was notably seen in Volkswagen's Emissionsgate scandal in the United States and Europe[6].

Fourthly, empty promises without real action, such as exaggerating corporate environmental performance and social responsibility. As was the case with major airlines like Air France and Lufthansa, which were forced to withdraw exaggerated advertisements about sustainable flying[7].

Fifth, over-optimistic future commitments, where companies make environmentally friendly claims and then fail to stay "green". exemplified by ExxonMobil's limited action on its carbon emissions reduction targets despite public commitments[8].

These cases highlight greenwashing's common characteristics: First, its essential feature is the misleading nature of the behavior, often between half-truths and half-falsehoods. Secondly, it is interest-induced, where enterprises maximize their own interests as the economic motivation and the market motivation to win a good corporate image. Thirdly, "greenwashing" is consistently

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negative. Greenwashing companies not only seldom actively correct it, but also have a tendency to proliferate and imitate it.

3. In-depth analysis of the motives for greenwashing

3.1. Negative economic pressure

Many companies, faced with fierce industry competition, take environmental measures to make ESG investments, incurring additional expenses and increasing costs that affect profits. If the cost of bleaching green violations is low, they can enjoy marginal benefits such as an improved reputation and higher returns from green investment and financing behaviors. A good environmental image also reduces the penalties triggered by environmental issues and lowers investment risks[9]. As a result, tremendous external pressure has prompted companies in need of financing to prefer greenwashing to reduce capital costs.

3.2. Positive policy drive

With the emergence of the concept of sustainable development and the growing demand for corporate environmental responsibility in society as a whole, enterprises have been attracting much attention in terms of green investment. Many countries have promoted the flow of capital to the environmental protection sector through policies such as green credit and green bonds, government-subsidized interest rates, preferential interest rates, and accelerated approvals. In order to obtain preferential opportunities or attract investment, some enterprises only superficially respond to these policies, but in fact they cover up their actual behavior by “greenwashing” to maintain their market status and green reputation and keep their social legitimacy[10].

3.3. Internal defects of enterprises

Many enterprises have deficiencies in their internal management and supervision mechanisms, such as imperfections in information collection processes, statistical methods, auditing and verification, etc., which make ESG disclosure arbitrary and prone to greenwashing behavior. Moreover, technological innovation bottlenecks or implementation costs are expected to be much higher than expected, which may also prevent companies from achieving their environmental goals, some companies have to exaggerate their environmental achievements, thus triggering greenwash. At the same time, the lack of awareness of green development within the enterprise is also one of the drivers of the risk of “greenwash”. This attitude will weaken the effectiveness of public supervision of their environmental behavior, reduce the enthusiasm and effectiveness, and undermine the stability of green financial development.

3.4. Inadequate external system

Since there are internal motivations, there must also be external motivations, that is, the overall ESG information disclosure system is not perfect, the standard is not uniform, insufficient supervision. Typical ESG disclosure standards existing in the international are Global Reporting Initiative (GRI) standard, Sustainability Accounting Standards Board (SASB) standard, Climate-related Financial Disclosure (TCFD) standard or Carbon Disclosure Project (CDP) standard and so on[11]. However, due to the lack of unified disclosure standards, ESG disclosure requirements of different enterprises vary greatly and the content varies greatly, resulting in information asymmetry and making it very easy to fall into the “greenwash” fiasco.

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4. Assessment of the effects of greenwashing

This section will delve into the impacts of "greenwashing", generally outlining the direct and indirect consequences. In the case of direct impacts, this paper will analyze both internal corporate economics and external environmental effects. Indirectly, the focus will be on the slower but broader impacts of industry credibility, policy implementation and social welfare, emphasizing the need for truly green finance.

4.1. Direct effect

On the one hand, it increases the economic risk of enterprises. Greenwashing behavior may seem to bring short-term financial benefits to enterprises, such as increasing sales and market share to achieve share price increases[12]. This is because the market reacts positively to the positive ESG results announced and the green image created by the company's investment process. However, such share price increases are often built on unstable foundations and may quickly reverse once the market realizes the falsity of these results, resulting in a significant drop in share price. Once a company's green-bleaching behavior is discovered by investors and the appropriate financial institutions, the capital market will negatively evaluate the green-bleaching company, which can lead to an increase in the cost of financing, reduce the availability of financing channels, and ultimately harm the company's financial performance[13]. At the same time, greenwash companies are more likely to face regulatory fines and other sanctions, which can reduce corporate value.

On the other hand, “greenwash” in ESG investing can weaken the incentive for companies to make environmental efforts, causing them to divert resources away from effective environmental action. Greenwash creates the “illusion of environmentally friendly actions”, i.e., companies focus too much on the effects of opportunistic actions and lose sight of real environmental commitments and efforts. As a result, greenwashing can also directly exacerbate environmental problems, as products with seemingly higher environmental targets are purchased or projects with seemingly stronger environmental attributes are funded, while genuinely green businesses are ignored or omitted. This vicious circle leads to fewer and fewer companies that are truly willing to take on environmental responsibility, inevitably causing harm to environmental sustainability.

4.2. Indirect impacts

First, it strikes investor and consumer confidence. Once greenwashing is revealed, it will negatively affect investors' and consumers' perception of a company's value, product purchases, and brand investments; people will be skeptical of the company's overall transparency and reliability, weakening trust in the company's environmental claims and legitimacy, and affecting stakeholder loyalty. Once formed, skepticism is very difficult to dispel[3]. This skepticism can even extend to the real green initiatives that companies fulfill, undermining the effectiveness of their environmental efforts and reducing the likelihood that consumers will respond to their environmental efforts.

Second, it hinders government input and policy implementation. Greenwash makes it difficult for the government to accurately assess the effectiveness of existing green financial policies, thus affecting the precise adjustment of policies. Greenwashing behavior increases the cost of inputs in disguise, making implementation more difficult, and the government needs to increase additional supervision and resource inputs to ensure that the policy objectives are achieved.

Third, in the long run, greenwashing is detrimental to the industry and even to the overall welfare of society. If greenwash is prevalent in the industry, it will lead to a decline in the credibility of the industry as a whole, affecting the level of investment and innovation within the industry. The disruption caused by such greenwashing can discourage collective environmental

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action and undermine the credibility of social responsibility initiatives. Stakeholders are reluctant to reward truly environmentally friendly firms, reducing the incentive for firms to engage in environmentally friendly behavior. In addition, when some companies rely on greenwashing behavior to achieve success, it will trigger others to imitate it one after another, creating a ripple effect that spreads across industries or regions and ultimately undermines the overall welfare of society[14].

5. Improvement of "anti-greenwash" system under ESG investment

The establishment of the "anti-greenwash" system is based on the background of ESG investment, and it is necessary to redefine the concept of ESG. There are many interpretations of its nature in academia, such as whether it is risk management, an evaluation system, a duty, or an ideological preference. However, these perceptions are all one-sided and should return to the fundamental and substantive "impact" relationship between business and society from a deeper logical perspective. In more detail, ESG not only focuses on the impact of enterprise operation and management on environmental and social sustainability, but also attaches great importance to the impact of environmental and social governance factors on enterprise operation, covering the two-way impact of "enterprise→environment and society" and "environment and society→enterprise". It covers the two-way influence of "enterprise→environment and society" and "environment and society →enterprise" [15]. At the same time, it is also necessary to further distinguish the relationship between ESG and corporate social responsibility from the existing cognition; the two are equivalent or mutual replacement of the point of view; there are limitations, and they should be re-positioned as a higher form of corporate social responsibility. ESG realizes a substantial breakthrough and transcendence because the concept of the front is more reasonable, the core objectives are more consensual, and the essence of the requirements of a more scientific, more clearly defined management content.

This paper will discuss more detailed anti-greenwashing measures according to the subject matter:

5.1. Enterprise level: optimize internal management

First of all, to formulate a comprehensive ESG strategy, enterprises should conduct a comprehensive ESG assessment to understand their current situation and impacts on the environment, society and governance, including assessing the company's carbon footprint, social responsibility practices, governance structure, etc. On the basis of the assessment, specific targets should be set. Based on the assessment, identify specific goals and targets, develop a strategy that can promote sustainable development at a material level, and ensure that ESG objectives are aligned with the company's business strategy. It also actively participates in stakeholder dialogues and listens to the opinions and suggestions of all parties to ensure that the ESG strategy fully takes into account the expectations and concerns of all parties. Second, set up an ESG management organization to be responsible for ESG strategy implementation and internal drift green supervision, conduct regular assessment of corporate ESG investment activities, review green initiatives, and propose timely adjustments based on changes in the external economic environment. Finally, strengthen the construction of corporate green culture, embed ESG principles in corporate culture, cultivate employees' awareness of and participation in sustainable development through regular training and relevant seminars, and motivate employees to practice ESG principles by promoting corporate green ethics and values through performance evaluation and reward and punishment systems.

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5.2. Investor level: greenwash education

The main purpose of ESG "greenwashing" is to win the trust of stakeholders, especially investors, in order to attract capital and promote corporate development. From an indirect but critical perspective, enhancing investors' professionalism and alertness is one of the most important strategies to reduce the negative impact of "greenwashing", not only to help them improve their ability to recognize and respond to greenwashing, but also to enhance their independent judgment in assessing a company's true ESG performance. Education can include how to interpret ESG reports, how to recognize potential greenwash signals, and how to use the information to make more informed investment choices. In addition, investors should be encouraged to participate in the continuous monitoring of companies to create a transparent, interactive and self-improving investment environment. This will effectively prevent companies from using "greenwash" to mislead investors and create a healthier and more sustainable ESG investment ecosystem.

5.3. Government level

5.3.1. ESG Mandatory Disclosure Legislation

Under the voluntary disclosure principle, the lack of uniformity in ESG disclosure standards has led to uncertainty in the identification criteria for greenwashing, creating a gray area for enterprises to "go green". To fundamentally improve the standardization of ESG disclosure, it is necessary to comply with the trend of "anti-greenwashing", initially implement voluntary disclosure within the industry, and then gradually transition to more stringent semi-mandatory disclosure, encouraging enterprises to comply with the disclosure requirements on their own without being compelled by law, and ultimately implement mandatory disclosure in principle through domestic and international legislation. Mandatory disclosure. Formulate detailed guidelines for ESG investment disclosure, specify relevant data items such as emissions, labor practices, supply chain management and other important indicators, promote the unification of ESG disclosure standards, and clearly identify greenwash. On the one hand, correctly define what is "green investment" in the law, and clarify the boundaries of the green list and the use of funds, such as green certification, green bonds, green funds, etc. On the other hand, focus on evaluating the ESG performance of companies. On the other hand, we focus on assessing the sustainability of companies' ESG investments, and standardize the identification of behaviors in multiple dimensions: based on return intention, consistency, measurability, etc., we judge what kind of return companies hope to achieve through their investments, whether their words and actions in different situations during the investment process are consistent with their commitments, and whether the operations of companies or the behaviors of investors can be verified and measured, and whether they are capable of being professionally scrutinized and assessment. There are, of course, other criteria and dimensions, such as objective materiality and integrity.

5.3.2. Introduction of ESG Forensics

The introduction of ESG forensics can address the lack of transparency and low quality of ESG data, which may lead to wrong investment decisions and regulatory challenges of "greenwashing". different methods and indicators, resulting in poor reliability of data sources. The authentication of corporate ESG data and other reports by third-party organizations can improve the trust of external stakeholders in ESG reports. Therefore, it is necessary to formulate mandatory ESG authentication requirements based on the national conditions of each country, urge enterprises to use ESG third-party authentication services, and improve the quality and credibility of corporate ESG investments. At the same time, research shows that companies with good ESG performance are also more inclined to use third-party forensic services to distinguish themselves from their peers with poorer performance, which can better motivate enterprises[16].

6. Conclusion

This study systematically explores the manifestations of "greenwashing" behavior in corporate ESG investment through literature review and case study analysis, and reveals the multidimensional characteristics of "greenwashing" behavior. Secondly, internal and external motives such as the pursuit of interests, competitive pressure, policy drive, and insufficient internal management jointly drive the "greenwashing" behavior of enterprises. In terms of impact, the effects of "greenwashing" on enterprises and the market are analyzed from both direct and indirect perspectives.

In order to solve these problems, this paper proposes "anti-greenwash" strategies from the perspectives of theory, policy, enterprises, and investors, including redefining the concept of ESG, legislating for mandatory disclosure, optimizing the internal management of the company, carrying out education on "greenwash," and introducing forensics. However, this study has some limitations. However, there are some limitations in this study, which is mainly based on theoretical research, but the quantitative analysis of "greenwashing" behavior and cross-industry comparative research are insufficient. Future research can conduct more in-depth quantitative analysis using more data and cases to assess the specific economic impacts of "greenwashing" behavior. At the same time, exploring the differences in "greenwashing" behaviors in different industries and regions, and conducting comparative studies on a global scale will also be important directions for future research.

This paper hopes that through in-depth research and practice, we can provide more scientific and effective guidance for corporate ESG investment practices, and promote corporations to truly fulfill their ESG commitments and make greater contributions to the realization of the goal of sustainable development.

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