

Research on the Impact of Social Trust on Corporate Greenwashing

Yuhan Wang

*Zhongnan University of Economics and Law, Wuhan, China
1125719582@qq.com*

Abstract. Under the changing conditions around us, companies now engage in "greenwashing" which creates problems about climate regulation since it affects how policies go around and money is used. Moving beyond traditional institutional analysis frameworks, this study focuses on social trust as a non-institutional factor. Using an empirical analysis with some sample Chinese A-share listed companies (2014-2022) combined with media attention as a moderator. The research shows that social trust significantly hinders corporate greenwashing. Further analysis also showed that increased media scrutiny intensified the inhibiting impact of social trust upon greenwashing which created a sort of governance synergy through greater information disclosure. More over it's influence of social trust shows heterogeneity, it becomes greater among non-state-owned enterprises other than state-owned enterprises. These findings enrich existing literature on corporate greenwashing and provide decision-making references for mitigating such practices.

Keywords: Corporate greenwashing, Social trust, Media attention

1. Introduction

Since the reform and opening-up, China has consistently established resource conservation and environmental protection as fundamental national policies, elevating sustainable development to a national strategy. General Secretary Xi Jinping emphasised in the report to the 20th CPC National Congress: "We must firmly uphold and practise the concept that clean rivers and green mountains are as valuable as mountains of gold and silver, and plan development from the perspective of harmonious coexistence between humanity and nature." To expedite the realisation of the "Beautiful China Initiative", the state mandates technological upgrades and optimised capacity allocation in traditional high-energy-consuming industries, imposes stringent entry requirements for new projects to rigorously control energy consumption and emissions, and requires enterprises to reduce fossil fuel consumption, develop non-fossil energy sources, and construct new power systems to advance energy structure transformation.

At the same time, it increases the punishment for environmental violations, promotes corporate responsibility, guides enterprises towards greener practices, carries out green transformation, and strengthens environmental oversight and green innovation. However, stringent environmental performance requirements and high environmental compliance costs have some companies do "greenwashing" practices. The Concise Oxford English Dictionary (10th edition) defines greenwashing as: "false information disseminated by an organisation to project an environmentally responsible public image; a public image of environmental responsibility presented by or for an organisation, but regarded

as unfounded or deliberately misleading." Such practices not only go against business ethics, but also carry profound implications for society, the environment, and the economy.

The causes of greenwashing are examined, showing there are two main areas: outside and inside the company. Firstly, the growing market for green products and services, along with the necessity for businesses to stay competitive, encourages firms to use greenwashing strategies to draw customers [1]. External regulations' intensity also affects this kind of behavior; big companies under greater regulatory threats are more prone to greenwashing [2], similarly, firms located in places where the law isn't enforced as strictly tend to do more greenwashing [3]. Secondly, the corporate characteristics decide how much outside pressure and expectations are placed on firms. To deal with those stresses and hopes, firms might do greenwashing. For instance, some scholars discovered that growth-focused companies were more inclined to perform greenwashing because they could have future regulatory interactions [4]. And improper incentive systems, bad ethical atmospheres, and inadequate internal environmental management systems (EMS) give both reasons and situations for greenwashing [5].

Though there are some policies and regulations that have been made to deal with the problem of corporate greenwashing, such as the Anti-Unfair Competition Law which has classified it as an act of unfair competition that will be fined or have its business license revoked, however, the effectiveness of these formal institutions differs greatly among different regions because of differences in the quality inspection department resources and regulatory coverage of each region. Informal institutions complement formal ones such as laws [6] and can even replace them when they are weak [7]. Could informal institutions also impose some kind of restriction on corporate greenwashing apart from formal institutions?

As the foundational structure of social order, institutions are essentially "human-designed systems of constraints regulating mutual relations" [8]. Excessive dependence on formal institutions may lead to a situation of "rule overload," where the proliferation of regulations begins to undermine their effectiveness: if legal provisions try to comprehensively cover all kinds of social situations, they might become disconnected from real-life circumstances and therefore unworkable. Moreover, it has been argued that many countries are able to achieve rapid development despite relatively weak governance, challenging the view that "good governance is a prerequisite for growth." [9]. This shows that informal institutions can work well without formal ones. New institutional economic studies show that informal institutions, which are rooted in cultural traditions and social networks, often have a stronger influence on people's behavior than formal institutions. For example, in the field of environmental governance, when formal means such as legal norms and administrative supervision meet with obstacles during implementation, the environmental protection actions based on informal methods such as community norms and moral consensus may instead form more adaptive governance models. Thus, in improving environmental governance systems, we need to reconsider the special role of informal institutions in making up for the deficiencies of formal institutions and promoting the possibility of social self-management [10].

Social trust is an informal institution that is considered an important part of "social capital" [11], it reflects the degree of mutual trust between members of an organization or group. It not only promotes economic growth and enhances economic efficiency [12] but also contributes to improving the rule of law and educational standards to a certain extent [13]. And social trust can lower transaction costs [14], and promote enterprises' innovative investments [15], which can improve their ability to bear risks [16] and reduce the motivation for greenwashing. Moreover, in regions with high trust, management is more inclined to disclose adverse information, exhibits greater accounting conservatism, and demonstrates heightened integrity [17], thereby reducing the likelihood of greenwashing. Consequently, higher social trust may put some constraints on corporate greenwashing.

Based on this, this paper uses the data of Chinese A-share listed companies from 2014 to 2022 to explore the effect of social trust on corporate greenwashing. Compared to prior research, this study

offers the following marginal contributions: First of all, most existing studies focus on how formal institutions affect greenwashing. This paper adds social trust as an informal institution into the discussion of greenwashing which makes the discussion about greenwashing more comprehensive. Secondly, it introduces media attention as a moderating variable, showing different impacts depending on the region's level of trust. Lastly, it suggests that there may be some interaction between social trust and formal institutions, which could provide new perspectives on regulatory methods.

2. Theoretical analysis and research hypotheses

2.1. Reputation constraints and internal optimization mechanisms of enterprises

High trust areas have much greater reputational damage and restoration costs for corporate greenwashing compared to other places. Institutional trust theory states that high-trust societies depend on established, standardized shared expectations. A company does not meet those expectations, so people don't trust it anymore, which makes things harder for them. Furthermore, high-trust regions generally have well-developed civic foundations and strict moral standards, improving the efficiency of social supervision over corporate environmental responsibilities. Consequently, restoring damaged reputations proves considerably more challenging. Moreover, in high-trust regions, breaches of trust are amplified. This kind of bad behavior spreads quickly because there are lots of ways people get involved in their community. Therefore, if a company's reputation is harmed in a high-trust setting, the time needed for recovery will be lengthy, the expenses will be great, and the return on investment will be abnormally low. BCG empirical research shows that only 12% of companies can recover from major trust crisis in three years. It shows that the profit from greenwashing is probably much smaller than the cost of rebuilding trust. Therefore, companies in high-trust areas, given these results, will to some degree give up on greenwashing.

Conversely, social trust increases the awareness of corporate social responsibility and eases the financing problems, thus promoting the green innovation activities [18] and lowering the cost of environmental compliance. Furthermore, in high-trust environments, managers show more integrity and less concealment of bad news [19] & [20], which reduces the motivation for greenwashing; at the same time, built-up trust promotes long-term thinking for companies. Management will put more emphasis on actual environmental performance rather than just looking good if they want to protect their company's image.

2.2. The moderating effect of media attention

Media creates a more open information platform which makes it easier for consumers to watch over companies and expose their greenwashing activities [21]. And media scrutiny also increases corporate social responsibility. Managers start making decisions based on "responsibility maximisation" rather than just "cost maximisation" when they see continuous media attention; this encourages firms in high-trust areas to adopt ethical standards more deeply [22]. Moreover, with the increasing digitalisation of media, the accuracy of identifying greenwashing has improved. This has prompted media to shift from "post-event" exposure towards "pre-event" prevention, which stops corporations from doing greenwashing. Based on the above perspectives, this paper proposes the following hypothesis:

H1: Social trust will inhibit corporate greenwashing behaviour.

H2: Media attention will enhance the inhibitory effect of social trust on corporate greenwashing behaviour.

3. Materials and methods

3.1. Data

This study employs a sample of Chinese A-share listed companies from 2014 to 2022, subject to the following exclusions: financial sector firms; companies designated as ST or *ST; and observations with missing variable data. The final dataset comprises 10,568 observations, with continuous variables trimmed at the upper and lower 1% tail. Data sources: social trust data derived from the China General Social Survey (CGSS); environmental rating data sourced from Bloomberg, Hexun, Huazheng, Tonghuashun Green Finance, and Wind ESG databases. Textual data from company annual reports obtained via the Wingo platform, alongside environmental penalty data from CSMAR and CNRDS databases. All other data originated from the CSMAR database.

3.2. Variable measurement and description

1. Dependent Variable (Corporate Greenwashing CG): Following prior research, we measured companies' verbal green claims (Oral) and their actual environmental performance (Actual) [23]. We also constructed a set of green or environmentally related terms, including "green," "environmental protection," "low-carbon," and "environment." Subsequently, we analysed the frequency of these terms appearing in the Management Discussion and Analysis (MD&A) section of each company's annual report. If the frequency of these terms exceeded the median frequency among other companies in the same industry during the same period, the dummy variable Oral was set to 1. Conversely, it was set to 0. Concurrently, for the same period, we examined whether the company's annual observation incurred environmental penalties, setting Actual environmental performance equal to 1 if so. The opposite held otherwise. Combined, the proxies for corporate greenwashing behaviour (DCG) were calculated as follows:

$$DCG_{i,t} = \begin{cases} 1, & \text{if } Oral_{i,t} = 1 \text{ and } Actual_{i,t} \\ 0, & \text{o. w.} \end{cases} \quad (1)$$

Additionally, we conducted robustness tests following the approach proposed in previous studies, as detailed below.

$$CG_{i,t} = \left(\frac{ER_{i,t} - \bar{ER}_{dis}}{\sigma_{dis}} - \frac{ER_{i,t} - \bar{ER}_{per}}{\sigma_{per}} \right) \quad (2)$$

The two expressions respectively measure the standardised position of a company relative to its industry peers within the distribution of environmental rating (ER) disclosure scores and within the distribution of actual environmental rating performance scores. The mean values of the environmental disclosure score and performance score are denoted by \bar{ER}_{dis} and \bar{ER}_{per} respectively. The standard deviations for environmental disclosure scores and performance scores are denoted as σ_{dis} and σ_{per} respectively [24]. In this equation, we treat the environmental rating provided by Bloomberg as the firm's ER disclosure score, while the environmental rating from Wind is regarded as the firm's actual ER performance score.

2. Explanatory Variable (Social Trust): The China General Social Survey (CGSS) is China's earliest nationwide, comprehensive, and continuous academic survey programme. Launched in 2003, it covers multiple domains including social change, economic behaviour, cultural attitudes, and policy effectiveness. Regarding social trust, the relevant CGSS questionnaire item asks: "In general, do you agree that the vast majority of people in this society can be trusted?" Drawing upon prior research, this study utilizes CGSS data, where social trust is measured by the proportion of respondents selecting "Strongly Agree" or "Somewhat Agree" to question a33 relative to the total number of respondents in each province [25]. Respondents' views on the trustworthiness of the majority in society thus serve as an indicator of regional social trust levels [26].

3. Moderating Variable (Media Attention MA): News media exert supervisory and constraining effects on corporate conduct by disseminating public opinion and uncovering factual truths. In line with prior research, this study measures media attention using the frequency of news reports on relevant enterprises obtained through internet news search engines [13]. Specifically, media attention towards greenwashing enterprises is measured using the aggregate volume of print and online media coverage from the China Research Data Service Platform.

4. Control Variables: Drawing upon existing research, the following variables are selected as controls: firm size (Fsize), firm age (ListingAge), leverage ratio (LEV), return on assets (ROA), board size (Boardsize), and executive shareholding ratio (Eshare). Further controls are applied at the firm level. Details are presented in Table 1:

Table 1. Variable definitions

Variable types	Labels	Definitions	Abbreviation
Dependent Variable	Corporate Greenwashing	Measured using Equation (1)	CG
Independent Variable	Social Trust	The number of respondents who selected 'Strongly Agree' and 'Somewhat Agree' in the responses to a33" / Total number of provincial respondents	Trust
Moderating Variable	Media Attention	Aggregated volume of print and online media coverage	MA
	Firm Size	Natural logarithm of total assets at period-end	Fsize
	Listing Age	Years since listing	ListingAge
	Leverage Ratio	Total Liabilities at the end of the period / Total Assets at the end of the period	LEV
Control Variables	Return on Assets	Net Income for the period / Average Total Assets	ROA
	Board Size	The natural logarithm of the number of directors on the board	Boardsize
	Executive Shareholding	Total Executive Shareholdings / Total Shares Outstanding	Eshare

3.3. Model specification

To investigate the impact of social trust on corporate greenwashing behaviour, we construct the following model:

$$CG_{i,t} = \beta_0 + \beta_1 Trust_{i,t} + \beta_2 controls + Year_t + Ind_{i,t} + \varepsilon_{i,t} \quad (3)$$

Where the dependent variable is corporate greenwashing (CG), the independent variable is social trust (Trust), and Controls represent a series of control variables. The coefficient β_1 preceding Trust is the focal point. Should this coefficient be significantly negative, H1 holds: social trust inhibits corporate greenwashing behaviour.

To test H2, examining the moderating effect of media attention, we construct the following model:

$$CG_{i,t} = \beta_0 + \beta_1 Trust_{i,t} + \beta_2 MA_{i,t} + \beta_3 Trust_{i,t} \times MA_{i,t} + \beta_4 controls + Year_t + Ind_{i,t} + \varepsilon_{i,t} \quad (4)$$

Here, media attention (MA) serves as the moderator variable. The coefficient β_3 for the interaction term (Trust×MA) is the focal point of this study. A positive coefficient indicates that higher media attention strengthens the inhibitory effect of social trust on corporate greenwashing behaviour, thereby substantiating H2.

4. Empirical results and analysis

4.1. Descriptive statistics

Table 2 presents descriptive statistics for the variables. Results indicate that the mean value for corporate greenwashing (CG) is 0.240, with a median of 0. The mean exceeding the median highlights significant variation in greenwashing practices across firms. The median for social trust (Trust) is 0.660 with a standard deviation of 0.080, indicating notable regional variations in social trust. Statistical results for other control variables fall within reasonable ranges, with additional variables presented as shown in Table 2:

Table 2. Descriptive statistics

Variables	N	Mean	Standard Deviation	Minimum	Median	Maximum
CG	10568	0.240	0.430	0	0	1
Trust	10568	0.640	0.080	0.370	0.660	0.790
MA	10568	5.490	1.100	3.180	5.400	8.670
Fsize	10568	23.02	1.350	20.24	22.920	26.72
ListingAge	10568	2.320	0.880	0	2.640	3.430
LEV	10568	0.460	0.200	0.060	0.460	0.890
ROA	10568	0.040	0.060	-0.20	0.040	0.220
Boardsize	10568	2.150	0.200	1.100	2.200	2.890
Eshare	10568	8.200	15.69	0	0.050	68.10

4.2. Baseline regression results

This paper conducted benchmark regressions for H1 and H2 to examine the impact of social trust on corporate greenwashing behaviour, with results presented in Table (3)(1). It also investigated the moderating effect of media attention on this impact, with regression results shown in Table (3)(2). After controlling for year and firm fixed effects, we observe that the regression coefficient for social trust (Trust) in (1) is significant at the 1% level and significantly negative. This indicates that social trust exerts a significant inhibitory effect on corporate greenwashing behaviour. Specifically, a one-unit increase in social trust reduces corporate greenwashing behaviour (CG) by 0.158 units. Hypothesis 1 is thus validated.

4.3. Moderation effect results

Regarding the moderating role of media attention, Column (2) of Table 3 shows that when media attention is controlled for, the coefficient for social trust becomes -0.689 and remains significant. This indicates that after controlling for media attention, the negative impact of social trust on corporate greenwashing persists and even increases in magnitude. Furthermore, the coefficient for the interaction term between social trust and media attention is 0.0974, significant at the 5% level. This indicates that media attention positively amplifies the inhibitory effect of social trust on corporate greenwashing. In other words, when social trust levels are high, the likelihood of firms engaging in greenwashing is further reduced if accompanied by high media attention. This validates Hypothesis 2.

Table 3. Baseline regression and moderation effects analysis

	CG	
	(1)	(2)
Trust	-0.158*** (0.0566)	-0.689*** (0.239)
MA		-0.0582** (0.0276)
Trust × MA		0.0974** (0.0426)
Fsize	0.104*** (0.00378)	0.102*** (0.00434)
Listing Age	0.00530 (0.00552)	0.00615 (0.00555)
LEV	0.0639** (0.0263)	0.0638*** (0.0263)
ROA	-0.197*** (0.0724)	-0.198** (0.0725)
Board size	-0.0148 (0.0202)	-0.0155 (0.0202)
Eshare	0.000500* (0.000296)	0.000514* (0.000296)
Year&Ind	Yes	Yes
Cons	-2.311*** (0.100)	-1.945*** (0.184)
N	10568	10568
adj. R ²	0.207	0.207

4.4. Robustness checks

4.4.1. Shortening the time window

In order to do robustness test, the paper reduces the period from 2016-2021. The original 2014-2022 window might have been too wide, possibly including policy changes and economic cycle variations. The exact results can be seen in Table 4(1). The regression coefficient for social trust (Trust) is -0.198, which is statistically significant at the 1% level. This means that every time social trust goes up by one unit, the amount of greenwashing behavior from companies goes down by 0.198 units. The regression

results are still consistent with the original ones, indicating that the benchmark regression results are robust.

4.4.2. Modifying the fixed effects

To make it even more robust, this study changes the fixed effects to include year and firm-level (Symbol) controls. Corporate greenwashing might be affected by management's environmental awareness, company culture, and past reputation-elements that are hard to measure straight up and not much prone to change over time. Fixed individual effects can be addressed by adding firm-level dummy variables for those non-time-varying factors. As seen from Table 4(2), the regression coefficient for social trust (Trust) stays significantly negative at the 1% level, and its inhibitory impact grows when switching the fixed effects. This shows that social trust has a strong and stable effect on corporate greenwashing behavior that isn't affected by differences between individuals.

Table 4. Robustness checks

	CG	
	(1)	(2)
Trust	-0.198 *** (0.0749)	-0.344*** (0.115)
controls	Yes	Yes
controls*	No	No
Year&Industry	Yes	No
Year&Symbol	No	Yes
Cons	-2.400*** (0.131)	-2.407*** (0.372)
adj. R ²	0.204	0.408

4.4.3. Instrumental variables method

Given that this research might have endogeneity problems such as missing variables and bidirectional causality, we added instrumental variables. Number of dialects used in each province (Dialect) is chosen as the instrument variable [27]. The use of dialects could make it difficult to form interpersonal networks to some degree, because using different dialects makes it hard for people to talk to each other and creates more psychological obstacles; it can also reduce group consciousness and prevent the growth of social trust [28,29]. From the 2LSL regression result, after solving the problem of endogeneity, the coefficient of trust is still significantly negative. Moreover, the F-statistics from the weak instrumental variable test all exceed 10, which satisfies the empirical rule. Thus the null hypothesis of the existence of weak instruments is rejected and the robustness of the study is established.

Table 5. Instrumental variables results

	(1)	(2)
	OLS	2SLS
Trust	-0.158 *** (0.053)	-1.919*** (0.635)
_cons	-2.311 *** (0.093)	-1.375 *** (0.349)

Table 5. (continued)

Control variables	Yes	Yes
N	10568	7134
R ²	0.213	0.161

4.5. Heterogeneity

Then this paper does the heterogeneity analysis. Social trust's effect on corporate greenwashing behavior could have something to do with the ownership structure of enterprises (SOE). According to the ownership structure, companies can be divided into two categories: State-owned Enterprises (SOEs) are represented by 1 (SOE = 1), and Non-State-Owned Enterprises are represented by 0 (SOE = 0). The specific outcomes are shown in table 5. Column (1) stands for SOEs, the coefficient is 0.0794, it is insignificant. Column (2) stands for non-SOEs, the coefficient is -0.308, it is significantly negative at the 1% level, this shows that social trust has little effect on SOEs' greenwashing behavior, but greatly restrains that of non-SOEs. This may stem from SOEs being perceived as agents of the state and government, where public trust derives more from confidence in the state and government than from the enterprises' own environmental commitments. Even though there are changes in the overall social trust, people still trust SOEs quite a lot. Also, SOEs' performance evaluation is closely linked with the government's goals, environmental performance mainly affects the allocation of policy resources and promotion of leaders. Therefore, their environmental actions are more influenced by their own evaluations rather than external social trust pressure. Conversely, private enterprises depend much more upon consumers and investors; how they act environmentally matters greatly to what people who do business with them believe about them. So social trust greatly reduces their greenwashing behavior.

Table 6. Heterogeneity

	CG	
	(1)	(2)
Trust	0.0794 (0.0999)	-0.308*** (0.100)
controls	Yes	Yes
Year&Ind	Yes	Yes
cons	-2.284*** (0.164)	-2.490*** (0.181)
adj. R ²	0.223	0.226

5. Conclusion

With the accelerated restructuring of the global climate governance system in recent years, nations increasingly prioritise corporate green development as responsible major powers. Corporate greenwashing severely undermines national green development progress, making its curbing an urgent imperative. This study focuses on social trust as an informal institutional factor, introducing media attention as a moderating variable to examine social trust's impact on corporate greenwashing. Findings reveal that social trust greatly restrains corporate greenwashing, and media attention has a positive moderating effect. Moreover, the heterogeneity analysis shows that social trust has a smaller effect on the greenwashing behavior of SOEs. We tentatively attribute it to the public's trust in SOEs being based more on their confidence in the government and the country rather than the companies' own environmental performance.

According to the above research results, the following policy suggestions are made: (1) Promote environmental credit ratings, linking results with incentives such as tax breaks to improve social trust systems. (2) Acknowledge media organizations that do thorough investigations on greenwashing to improve journalistic supervision. (3) Include environmental performance as part of the evaluation system for SOE leaders so as to reduce the "political objective substitution" motive. Pilot mandatory environmental disclosure systems for SOEs, which would require the publication of environmental data along the entire supply chain for public scrutiny.

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