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CSR and Greenwashing: A Matter of Perception in the Search of Legitimacy

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Abstract

In recent decades, corporate communication has undergone significant changes in terms of channel, content and receivers. To be accountable, companies are called upon to satisfy a plurality of stakeholders who are increasingly interested in non-financial information. In addition, the type and scope of information can significantly influence the competitive advantage of the company and especially, its credibility and reputation. Today, companies are required to engage in corporate social responsibility (CSR) initiatives to give response to the call for action from their stakeholders and society. However, some companies engage in CSR initiatives with the aim of only achieving or increasing their level of legitimacy. When companies offer misleading communication and then try to influence the perceptions of their stakeholders, they incur the phenomenon known in literature as "greenwashing". Thus, the aim of this work is to analyse the phenomenon of greenwashing, tracing its evolution in the extant literature. Greenwashing will then be analysed through the lens of the legitimacy theory and starting from Habermas's communication theory to define and broaden the relationships between the concepts of disclosure, credibility, legitimacy, perception and greenwashing.

Keywords

Corporate social responsibility; Disclosure; Greenwashing; Legitimacy theory; Habermas's communication theory; Communication credibility; Perception.

1. Introduction

In recent years, the number of studies on Corporate Social Responsibility (CSR) has increased significantly (Lyon and Montgomery, 2015; Aguinis and Glavas, 2012; Wagner et al. 2009). Interest in corporate social responsibility began to emerge in the 1960s when the idea became widespread that, although business is fundamentally an economic institution, firms exert significant influence in society (Roberts, 1992). Today CSR needs to be considered by firms in their strategy and can thus be a real source of social progress. Firms as social actors play a primary role in ensuring that present and future generations apply resources, expertise and insights to activities that benefit society (Porter and Kramer, 2006).

Nevertheless, there has been a worrying increase in the amount of misleading information produced by companies, including information on environmental and social aspects (Lydenberg, 2002). In different quarters, particularly among social and environmental activists, concerns are being increasingly raised about corporate deception, sometimes imbedded in rhetoric (McQuarrie et al., 2003). There is increasing he apprehension that some companies may be creatively managing their reputations with their stakeholders (customers, financial community, regulators, society, etc.) in order to hide faults and problems, improve their reputation or appear more competitive.

In the existing literature, interest in greenwashing has increased, although there is currently no single accepted definition of the term. Different definitions and perspectives have been put forward and adopted (Seele and Gatti, 2017; Wilson et al., 2010), but in general, it is recognised as a misleading communication practice concerning environmental issues. Numerous studies focus on why and how firms engage in greenwashing (Du, 2015; Testa et al., 2018; Vries et al, 2015) and find that one of the most frequent reasons to legitimacy (Walker and Wan, 2012). Because legitimacy leads to stronger relationships, companies try to achieve or preserve it through disclosure and may thus pursue strategies to influence stakeholder perception. Numerous studies find that information about social and environmental responsibility of a company influences stakeholders (customers, employees, investors, communities, etc.), which means that legitimacy is a critical feature (Walker and Wan, 2012). The only other way to legitimisation for a firm is to use credibility (Coombs, 1992; Seele and Lock, 2015) which exists when stakeholders' expectations coincide with what companies actually do (Lock and Seele, 2016; Sethi, 1975).

The aim of this study is twofold. Firstly, it aims to review the different definitions and perspectives used in management literature to study and analyse greenwashing, Secondly, it traces the relationship between the concepts of communication, credibility, legitimacy, greenwashing and perceptions through the lens of legitimacy theory, starting from Habermas's communicative action theory (1984).

The study comprises three main sections. The first focuses on the definition of greenwashing and the different perspectives in which it is analysed in current literature. The second section describes the relationship between greenwashing and

four key variables (communication, credibility, legitimacy and perceptions). In the final section some conclusions are drawn.

2. Misleading corporate communication: Towards a definition of greenwashing

Corporate social responsibility represents a voluntary approach taken by an enterprise to meet stakeholder expectations taking account of their different features (Donaldson and Preston, 1995; Freeman, 1984; Mitchell et al., 1997; Werther and Chandler, 2006). Engaging in corporate social responsibility initiatives is the main corporate response by stakeholders and society in general to the call for action.

CSR initiatives are extremely varied. They can be taken at different levels of corporate organisation and strategy, and can be voluntary or in response to an obligation, short, medium or long term, and targeted at different goals (profit, environmental protection, ethical, social behaviour). Organizations engage in certain CSR initiatives (e.g. environmental) in order to attain corporate legitimacy (Walker and Wan, 2012; Seele and Gatti, 2017) but in reality the engagement may in fact be purely symbolic. Simply giving the impression of being socially responsible can be easier, cheaper, and more flexible for companies, and at least at first may bring the same benefits as true commitment (Walker and Wan, 2012). When companies act through misleading communication only at symbolic level with the aim of strategically influencing stakeholder perceptions, *greenwashing* occurs in the context of pragmatic legitimacy (Seele and Gatti, 2017).

The debate on greenwashing first appeared in the 1960s because of the growth in environmentalism. Environmentalists termed corporate greenwashing actions and strategies "eco-pornography". The first to coin the term "greenwashing" was biologist and environmental activist Jay Westerveld, who, in 1986, interpreted an invitation about towel use in his hotel room[1] as the hotel trying to save money rather than protecting the environment by reducing water consumption.

Academic studies on greenwashing started only in the mid-1990s, when Greer and Bruno (1996) discussed it in their book on environmental marketing (Laufer, 2003). But because of its growing importance in practice and because it raises challenging issues and research opportunities lying at the intersections of various academic disciplines, greenwashing has become an increasingly significant topic in academic literature over the last decade. From 1995 to 2014, a total of 105 full-length peer-reviewed articles in academic journal articles focused on greenwashing from various perspectives. The number increased rapidly after 2007, particularly

[1] "Save Our Planet: Every day, millions of gallons of water are used to wash towels that have only been used once. You make the choice: A towel on the rack means, 'I will use again.' A towel on the floor means, 'Please replace.' Thank you for helping us conserve the Earth's vital resources".

in 2011 (Lyon and Montgomery, 2015).

Some studies focus on the *impact on financial performance* of both substantial and symbolic actions (Du, 2015; Walker and Wan, 2012). These discuss not only greenwashing but also the consequences of true positive environmental actions and performance properly advertised and disclosed. Walker and Wan (2012) call this "green-highlighting". These studies prove the negative effect greenwashing, when it is uncovered, on financial performance, but they do not agree on the impact of actually good environmental performance.

Other works analyse the importance of *motivation* (economic or true environmental motivation) in an investment in environmental performance (Vries et al., 2015). These authors find that there is a lower perception of greenwashing when there is economic incentive for environmental investment. Suspicion of strategic behaviours and scepticism can however mediate this relationship.

The concept of greenwashing is also studied from a *marketing* perspective:

- Nyilasy et al., (2014) focus on impacts on brand attitude and purchase intentions of green claims and true positive environmental performance;
- Guo et al., (2017) analyse the effect of decoupling 'green promises' from brand trust, brand legitimacy and brand loyalty;
- Wilson et al., (2010) discuss how consumer perception and attitude change towards a company, focussing on recent environmental scandals affecting active socially responsible companies.

Some researchers focus on impacts of *cultural beliefs* concerning competition and individual responsibility on corporate social actions (Roulet and Touboul, 2015). Others describe the effects of different types of corporate leadership (e.g. ethical or authoritative) and on corporate conduct and actions (Blome et al., 2017), finding that authoritative leadership is associated with a higher number of cases of greenwashing.

Two recent studies investigate the concept of greenwashing looking at the *process of accusation* after the discovery of the misleading communication (Seele and Gatti, 2017) and the new aspect of illegal/irresponsible action in greenwashing based on a detailed case study on a high profile emissions scandal (Siano et al., 2017).

Through the lens of signaling and institutional theory, Berrone et al., (2017) analyse the *impact of environmental actions* as signals on environmental legitimacy, exploring the case of positive signals of firm's environmental stance and poor environmental performance (greenwashing). Research findings highlight the positive impact on corporate legitimacy of some types of environmental actions (e.g. patents, pay policies and trademarks) but also that pay policies and trademarks can only increase environmental legitimacy when companies have strong credibility. Berrone et al., (2017) also stress the role of environmental NGOs, which have a negative moderating effect on environmental performance impact and on corporate legitimacy.

Some studies analyse how and why *disclosure* on activities in environmental measures provided by firms can affect stakeholder perception of corporate

greenwashing. In particular, Vries et al. (2015) find that people often regard company communications on environmental issues as rhetorical 'hot air' rather than truthful. They emphasize that the characteristics of communication about investments and commitments towards environmental protection and sustainability have a significant impact on perceptions of corporate greenwashing. Other studies (Forehand and Grier, 2003; Vries et al., 2015; Yoon et al., 2006) observe that people may be suspicious of the truthfulness of claims and hypothesise underhanded purposes. Furthermore, some researchers show (Cho et al., 2009; Milne and Patten, 2002) that under certain circumstances, transparent environmental disclosures have successfully offset public perception of the negative effects of liability exposures. This phenomenon frequently occurs when companies take purely symbolic actions in signalling to stakeholders their values and refer to the environment and green issues in a misleading way, choosing to engage in 'green talk' without a 'green walk' (Ramus and Montiel, 2005).

Nowadays, the level of attention towards *corporate environmental impacts* and *commitments* is very high, and environmental scandals are a topical issue (Siano et al., 2017). Many studies have focused on the effects of stakeholder discovery of greenwashing; some have highlighted the effects on financial performance (Du, 2015; Walker and Wan, 2012), while others have examined the impact on trust and loyalty (Guo et al., 2017).

Finally, some studies analyse the impact of *industry* on stakeholder perceptions (Cho et al., 2006 and 2009; Patten, 2002). It is found that, especially in the case of firms operating in Environmentally Sensitive Industries (ESI), it is necessary to identify ESI firms with poor environmental performance which may engage in misleading environmental communication in order to gain legitimacy, counter suspicions of negative environmental impact and improve corporate perception and trust.

The literature review up to this point has noted the different perspectives of greenwashing studies. Further studies can be classified into two levels: firm-level and product-level.

At *firm-level* greenwashing is related to a distorted disclosure of environmental topics concerning the whole firm. At firm-level, greenwashing is a sizeable phenomenon associated with distortive and selective disclosure, whereby companies divulge good environmental strategies and actions and conceal negative ones. This is done to create a positive, but misleading, impression of the firm's real environmental performance (Lyon and Maxwell, 2011). Nowadays, firm-level greenwashing is significant because of increasing stakeholder demand for high levels of accountability and transparency (Bromley and Powell, 2012) and because of the emergence and growing diffusion of "environmental greenwashing" frequently used by organized crime, eco-mafia and eco-criminals (Massari and Monzini, 2004; Rege and Lavorgna, 2017). At firm-level, greenwashing can be regarded as a specific strategy that companies adopt to engage in symbolic communications of environmental issues without translate them in actions (Walker and Wan, 2012). It can be associated with symbolic actions, referring to plans, or

with substantive actions, referring to what a firm is currently doing. At *product-level,* greenwashing is associated with an explicit marketing strategy, in which firms publicise elusive environmental benefits of a specific product or service to customers (Delmas and Burbano, 2011; TerraChoice, 2009).

To conclude this literature review, note that there is no single accepted definition of greenwashing. Delmas and Burbano (2011) define greenwashing as "poor environmental performance and positive communication about environmental performance". Lyon and Montgomery (2015) in their review of the cross-disciplinary literature on greenwashing state: "the word greenwash is used to cover any communication that misleads people into adopting overly positive beliefs about an organization's environmental performance, practices, or products". Other researchers have focused on the concept of accusation to define greenwashing. Seele and Gatti (2017) say that: "Greenwashing is a co-creation of an external accusation toward an organization with regard to presenting a misleading green message". Walker and Wan (2012) focus on the difference between symbolic and substantive actions, and define greenwashing as "a strategy that companies adopt to engage in symbolic communications of environmental issues without substantially addressing them in actions". Many other definitions have recently been put forward by NGOs (e.g. Greenpeace) and main-stream media. In particular, TerraChoice Group Inc. (2009) define greenwashing as "the act of misleading consumers regarding the environmental practices of a company (firm-level greenwashing) or the environmental benefits of a product or service (product-level greenwashing)". This definition covers only one category of stakeholders (consumers) interested in greenwashing and only two levels of greenwashing (firm and product levels).

In conclusion, note that because the concept is wide, complex and interdisciplinary a clear definition of the concept greenwashing would probably be of limited usefulness.

3. The search for legitimacy: The role of greenwashing, credibility and perception

Greenwashing is rooted in the firms' need for legitimation, in the essential perception that the actions of a firm are desirable, proper or appropriate within a socially constructed system of norms, values and beliefs (Suchman, 1995). According to past studies (Dowling and Pfeffer, 1975; Lindblom, 1994) firms seeking to gain or maintain legitimacy have a greater incentive to use communication strategies to potentially influence stakeholders' perception. Studies like Alniacik et al. (2011) find that positive and negative information on corporate social and environmental responsibility influences purchase, employment, and investment intentions of various stakeholders. Consequently, legitimacy becomes a critical feature for companies because it can lead to stronger trade relationships, better job applicants, greater access to resources and financial performance

improvement (Aldrich and Fiol, 1994; Babiak and Trendafilova, 2011; DiMaggio and Powell, 1983; Deephouse, 1999; Oliver, 1991; Walker and Wan, 2012).

Recent studies (Cho et al., 2009; Forehand and Grier, 2003; Milne and Patten, 2002; Patten and Crampton, 2003; Vries et.al., 2015; Yoon et al., 2006) analyse the importance of affecting stakeholder perception of corporate communication, social and environmental responsibility and corporate greenwashing.

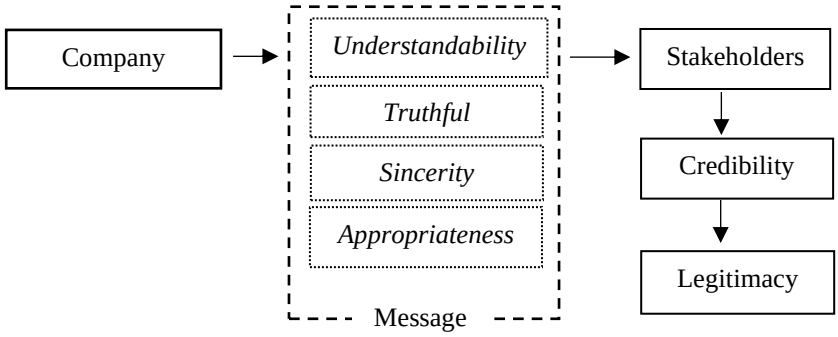
These studies reflect greater attention to CSR and CSR disclosure by academics and corporate management, and CSR reports are acknowledged to be the most effective CSR communication tool (Hooghiemstra, 2000) but perception of credibility remains a poorly understood issue. This section proposes a basic theoretical model of the relationships between the concepts of corporate communication, credibility, legitimacy, perception and greenwashing.

To obtain legitimacy, corporate communication and disclosure requires a sufficient level of credibility (Coombs, 1992; Seele and Lock, 2015). There is frequently a credibility perception gap (Dando and Swift, 2003): a discrepancy between what stakeholders expect and what companies do, or rather what they perceive companies do (Sethi, 1975). Credibility has a key role as a basis of trust and in particular of legitimacy (Coombs, 1992). The same item of CSR communication can be considered believable at first sight in the eyes of the company and its managers, but at the same time can be perceived as not credible (Lock and Seele, 2016; Seele, 2016), a sort of fashionable distraction, or an attempt at greenwashing by a stakeholder.

Habermas's communicative action theory (1984) is very useful in analysing corporate communication. Habermas considers social action based on two main components: strategic action and communicative action. Strategic action is regarded as an action oriented to success achieved influencing the actions of other rational actors, and communicative action is oriented toward reaching mutual understanding. Through communicative action, the actors cooperate to define the context of their interaction with the aim of pursuing their own objectives. Habermas (1984) argues that communication is a process based on a set of norms, or validity claims, accepted by all communicators in order to develop and maintain a correct and ideal communication process and to construct a common understanding. The main norms in a communication process are:

- *Understandability*: ensures that the statement is clearly understandable by the actors;
- *Truthful*: The communicator provides a true and correct message. S/He does not deliberately give misleading information;
- *Sincere expression*: The communicator is truthful and believable. This norm is connected to the subjective beliefs underlying the statements;
- *Appropriateness* (social order): Communication is related to the social order of which each actor is part. The actor takes a position with respect to the normative or legitimate social order.

Figure 1. – From communication to legitimacy: a virtuous process

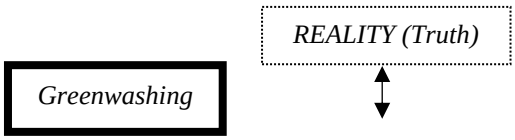


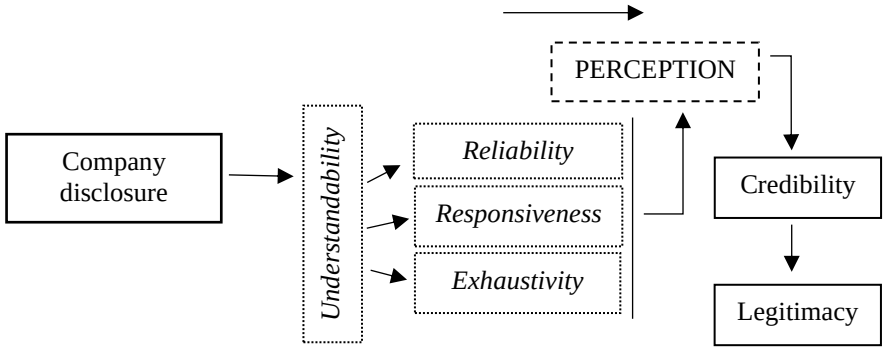
Source: Our elaboration

A critical role in corporate communications is played by stakeholder perception. (For details see Wagner et al., 2009; Lock and Seele, 2017). If it is true that in order to obtain legitimacy a communication must have credibility (Lock and Seele, 2017; Seele and Lock, 2015; Lock and Seele, 2016), built on the presence of all four of Habermas's principles, it is equally important to fully evaluate and consider the role of perception (in this stakeholder context) as moderator or amplifier both in achieving credibility and in obtaining legitimacy. The concept of credibility can be considered a multidimensional perception construct (Jackob, 2008). Likewise, the concept of legitimacy can be considered to be based on, or to be, a perception construct. Actually, legitimacy of an organisation is considered as its perceived conformity with norms, traditions and social rules (Suchman, 1995).

If we include in the model the concept of greenwashing, as misleading environmental communication based on either negative or partially positive environmental performance, (Walker and Wan, 2012; Delmas and Burbano, 2011; Lyon and Montgomery, 2015), the role of stakeholder perception in the transition from communication to legitimacy become decisive. Starting from Habermas's communication theory, we assume that greenwashing is the result of a strategic action which through the communication process aims to give stakeholders a misleading perception of environmental corporate performance in order to obtain legitimacy. Legitimacy is achieved if stakeholders perceive that the message communicated by the company is credible. Greenwashing is thus generated when there is a gap between the reality and the perception induced in the stakeholder by corporate disclosure, in other words when the norms of truthful and sincerity are violated so that the message communicated expressly contains misleading elements.

Figure 2. – The role of perception





Source: Our elaboration

Figure 2 shows the main relationships between the concepts of communication, credibility, legitimacy, greenwashing and perception, and certain key aspects are highlighted. In a corporate disclosure, the first validity claim proposed by Habermas (1984), understandability, can be considered a precondition (Zinkin, 1998), a necessary condition for the proper functioning of communication between sender and receiver, in this case company and stakeholders. Without understandability there is no basis for communication (Lock and Seele, 2016). In order for company disclosure to satisfy Habermas's conditions of appropriateness and sincerity, it needs to be reliable, responsive and exhaustive. The concept of truth, on the other hand, is very difficult to measure and is present only in real life, in other words it is what stakeholders use to evaluate the corporate communication received.

Misleading communication, such as greenwashing, can be an attempt by the sender to bypass the respect for the conditions set out by Habermas for correct communication that leads to credibility (Connelly et al., 2011; Berrone et al., 2017). Through the phenomenon of greenwashing, the company tries to communicate something that does not actually exist, or exists in part, or that exists but not as it is communicated (Walker and Wan, 2012; Ramus and Montiel, 2005). The communication is therefore artificial, not sincere, not true and not appropriate, but in some cases, it can still be considered as credible.

The concept of perception comes into play at different times in the act of communication. In the transition from Habermas' validity claims to the concept of credible communication, the perception by the receiver (stakeholder) plays a key role (Cho et al., 2009; Vries et al., 2015; Wilson et al., 2010). Apart from the objective truth of what the communication deals with, the other two validity claims are subject to a subjective judgement i.e. the perception of the individual receiver (Suchman, 1995; Seele and Gatti, 2017). The same communication can be taken as appropriate and sincere by one receiver and not credible by another.

As Jackob (2008) pointed out, credibility is the outcome of a subjective

evaluation process carried out by the receiver on the message and, above all, on its content, so that the result of this process can differ each time. Even if a company tries to go beyond the steps of a correct communicative process (Habermas, 1984) and uses greenwashing (e.g. Berrone et al., 2017), the message still has to be perceived by the receiver who receives the message and evaluates its credibility (Lock and Seele, 2017). Here, moreover, the risk for the company of gaining negative evaluation by stakeholders on the communication is likely to be greater because in not meeting the four validity claims, it is based not on facts and appropriateness, but on artefact, fashion, and impression management (Mahoney et al., 2013; Neu et al., 1998; Seele and Gatti, 2017). Whether it is sincere and credible communication or deceptive communication that has obtained credibility from the receiver, perception still has a role in the transition from credibility to legitimacy (Jackob, 2008). This is not immediately obvious. The transition cannot be attributed only to the presence/absence of the perception of credibility, but needs to be considered from the point of view of perception. This is particularly true given that stakeholders often consider CSR communication not credible but only a strategic tool from the start (Elving, 2013; Illia et al. 2013; Milne and Gray, 2013). A communication evaluated as credible, whether it is objectively credible or not, passes through further consideration, evaluation and discernment by the receiver in obtaining legitimacy. Here once again perception has an important role. Even the concept of legitimacy should not be considered as objective and certain concept, but as a construct of perception (Suchman, 1995). The issue of communication credibility is accentuated by the fact that stakeholders often see a lack of credibility in CSR communication (Coombs and Holladay, 2013) and by general cynicism toward CSR communication (Illia et al., 2013).

When situations occur in which corporate communication is not credible (credibility gap) or, although considered credible, fails to reach the concept of legitimacy (legitimacy gap), there is often inconsistency between what the company says and what the company does, or seems to do (Basu and Palazzo, 2008). It is thus important to assess the role played by perception among stakeholders. In these cases, the role of the moderator/amplifier of perception is crucial. The case of greenwashing is very interesting and complex because, in the case of misleading communication, the sender will base the entire communication on the exploitation of perception (Seele and Gatti, 2017; Suchman, 1995) in his/her role as an amplifier of credibility. If this role of perception does not work as expected, the construct of communication fails, because the four validity claims are lacking as supporting pillars (Habermas, 1984; Lock and Seele, 2017). Through misleading stakeholders, a company tries to meet the stakeholder requirement for the legitimacy of the firm in society, but not responding truthfully or completely (Claasen and Roloff, 2012). Neither will it succeed in filling the credibility gap which is only deepened by CSR communication and by corporate hypocrisy (Dando and Swift, 2003; Wagner et al., 2009).

CSR perception has an important role in affecting trust, reputation, firm image, propensity of consumers/investors and financial performance (Luo and

Bhattacharya, 2006). Vague or empty communications, in other words, communication without real performance, generate stakeholder perception of corporate hypocrisy (Wagner et al., 2009). Greenwashing is a perfect example of this process. CSR communications and then CSR perception are affected negatively by inconsistency. Perception of corporate hypocrisy, i.e. the difference between a statement and the real action, appears to be stronger when companies focus first on the statement by publishing it and only later the real action. This *proactive CSR strategy* (Wagner et al., 2009) is more damaging than reactive CSR strategy where actions are made before statements appear. Greenwashing could be considered as an extreme case of corporate hypocrisy because misleading here is crucial (see Seele and Gatti, 2017 and Delmas and Burbano, 2011). In the intention of disseminating positive CSR communication, a company attempting greenwashing focuses exclusively (or almost exclusively) on issuing its statement, and on perception, of course, and not (or not exclusively) on performance (Delmas and Burbano, 2011; Lyon and Montgomery, 2015). This is the problem of "talking the talk without walking the walk" (Ramus and Montiel, 2005).

4. Conclusions

Starting from the analysis and classification of the different definitions of greenwashing in extant literature, this study has focused on the relationships between greenwashing and legitimacy. In literature, it is commonly recognized that credibility (Dando and Swift, 2003) has become a critical feature for companies to gain trust and legitimacy. Nowadays, because of the increasing expectations of stakeholders, there is a high risk that corporate communication will be considered unreliable, creating a real gap in trust and legitimacy.

Starting from these assumptions and based on previous research (Habermas 1984; Lock and Seele, 2017; Patten and Crampton, 2003; Cho et al., 2009; Vries et al., 2015) this work has analysed role of information disclosure in gaining legitimation and improving stakeholder perceptions.

Misleading communications - greenwashing - can be used by companies to meet stakeholder expectations by avoiding the correct rules of communication, with the aim of communicating something that is not really true or only partially true (Walker and Wan, 2012; Ramus and Montiel, 2005). Stakeholder perception plays a decisive role in the process because the same message can be considered appropriate and sincere by one receiver, but not credible by another. Because credibility derives from a subjective evaluation process (Jackob 2008) companies using greenwashing risk negative evaluation by stakeholders and losing their legitimacy. This kind of risk is particularly real because stakeholders often consider CSR communication a strategic tool which is not in itself wholly credible. When there is a credibility gap between companies and stakeholders, there is a problem of inconsistency and perception comes to play a crucial role. If perception does not

work as expected, the whole construct of communication fails. Adopting greenwashing practices, companies aim to disseminate positive CSR communication "talking the talk without walking the walk" (Ramus and Montiel, 2005).

A critical role in the communication process is played by the perception of credibility generated by stakeholders. The perception of credibility seems to be affected by four fundamental conditions: comprehensibility, reliability, responsiveness and exhaustiveness.

Future empirical research will be useful to develop methods of measuring stakeholder perception of disclosure and its credibility. It would also be interesting to investigate the level of credibility of corporate environmental disclosure in different contexts and industries.

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