Greenwashing: Business implications and Consequences

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ABSTRACT

Greenwashing is the practice of making deceptive or false statements about the environmental benefits a product has but in reality, it is the opposite.

Greenwashing can be looked from three different perspectives the customers, the audience, and the company.

Greenwashing has become extremely common and widespread because of the lack of guidelines and regulations, and this can trick the customers into believing a product they are buying is environmentally friendly and the company is able to trick the customer into paying a premium for these products.

This research explores different case studies and companies which were found practicing greenwashing and we will explore how the practices have impacted the company and the customers.

This research project explores how the companies have performed greenwashing, how greenwashing has impacted the companies on their decisions and what all steps the companies have taken to win back their reputation, it also explains how the companies have advertised their products to deceive the customers into buying their products.

Keywords: Greenwashing, Volkswagen, Deceptive Manipulation, Ryanair, Amazon, sustainability, emissions, Shipment Zero Program, Decoupling Greenwashing, Ikea, Evgeny Bakurov, innacurate disclosure strategy, Starbucks, plastic lids, Halo effect Strategy

TABLE OF CONTENTS

S.NO	CONTENT	PAGE NO
1.	Introduction	4
2.	Literature review	6
3.	Research Questions	7
4.	Methodology	7
5.	Findings Case Study 1: Volkswagen Case Study 2: Ryanair Case Study 3: Amazon Case Study 4: Ikea Case Study 5: Starbucks	8
6.	Conclusions	24
7.	Citations	26

INTRODUCTION

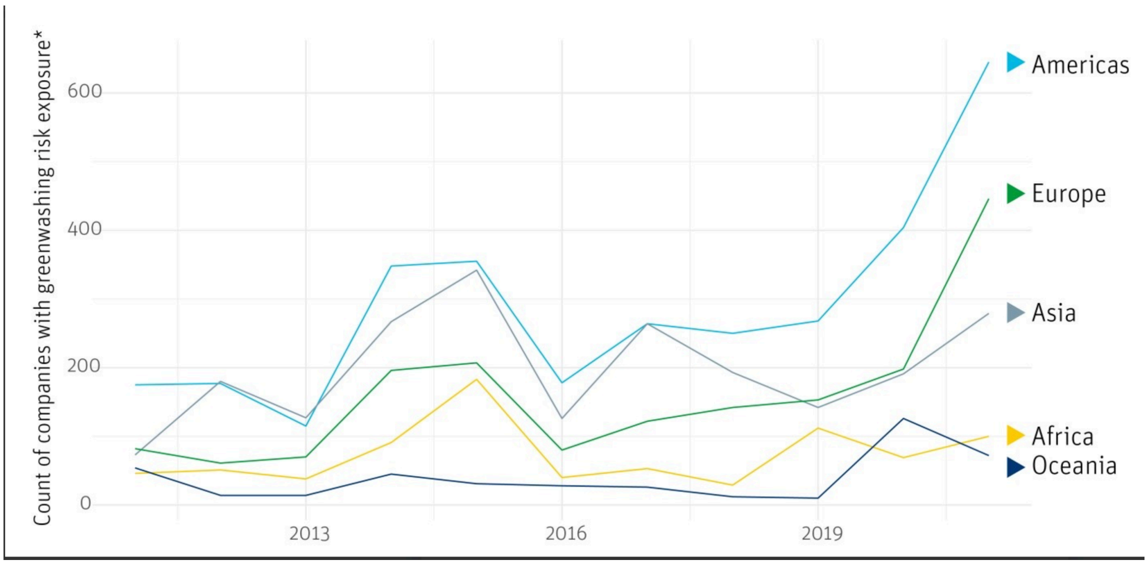
Environmental degradation is the scariest problem which the world is facing in this day and age, and we are not far away from potentially destroying the environment forever.
Environmental degradation and pollution have adverse effects on people living and it is the reason for the causes of many deaths and diseases, and pollution causes almost 9 million premature deaths which means that a person is dying before the expected age up to which that person is supposed to live, and this is a huge problem for the existence of humankind.
Pollution and degradation are also a cause for lower standards of living and conditions which. One of the main reasons for this happening is greenwashing by companies and organizations.

Greenwashing is the practice of making deceptive and false statements about the benefits the product has on the environment or the benefits a practice has on the environment. It is done by companies to continue polluting the environment and also doing other harmful behaviors while deceiving the people and making money from the customers of the product who have good intentions. Companies also greenwash to appeal to an environmentally conscious market segment as the consumers in this segment are willing to pay a premium for the products which are said to not harm the environment, also to gain the investment of investors who are environmentally conscious.

Greenwashing can be categorized into two which are decoupling, and attention deflection. Decoupling is when an organization says that it has fulfilled the expectations of the stakeholders, but the organization has not done any changes in their practices. Attention deflection is the action which a company performs to deflect the attention of the stakeholders, and this also includes inaccurate disclosure or disclosing limited information.

Greenwashing was coined by Jay Westrveld in 1986 when he was staying at a hotel in Fiji and was told by the hotel to reuse the towels to save the environment while the hotel was expanding its business in the sensitive ecosystems of the island. Greenwashing has been increasing rapidly because of the profits which the companies practicing greenwashing are making which is a scary thought as companies are greenwashing with a goal to make profits and not thinking about the environment.

This graph shows how practicing greenwashing has been on the growth.



LITERATURE REVIEW

Greenwashing is the idea of only talking about being sustainable and environmentally friendly but not actually practicing sustainability (Aras & Crowther, 2009).

There were a few research papers on greenwashing and the strategies of greenwashing, however Greenwashing is always spoken as a strategy which had negative impacts on the company or organization which has practiced it, this is an unethical practice as it involved deceiving the customers, tricking them into buying the companies products and also this involved the unethical practice of unsustainability.

There were several papers which talk about how the companies have been affected by this strategy and yes the companies have been affected by this strategy but was the company able to recover and how many companies have actually had negative affects of this strategy? Lets take for example Starbucks, this company has shifted from its old plastic straw and lid combination into a new lid which uses more plastic and even though this is easier to recycle only around 9% of plastic in the world is recycled, there was no impact on the sales of the company and this company.

This research explain how the companies have used Greenwashing as a strategy to increase their revenues and sales and also they used this strategy to show how sustainable and environmentally friendly these companies are even though when they are not.

RESEARCH QUESTION

This research aims to answer the following questions:

1) What are the consequences of a company Greenwashing?
2) If Greenwashing is a strategy which the companies use does it work?
3) Business implications of a company which was caught practicing greenwashing.
4) Strategies which companies have used to manipulate customers into buying their products.

METHODOLOGY

The research methodology which we used are reading through different research papers to understand what the strategies are and then read other case studies of what the companies have done and how exactly they have performed their manipulation and decided on the strategies they used.

Found out about the effects on the companies by reading through the announcements, advertisements, shareholders reports and case studies on how the companies have reacted to these allegations and what are the steps the companies have used to regain their reputation.

We also went through the changes of the stock prices through yahoo finance for companies like Amazon and Volkswagen to see how the prices have changed.

FINDINGS

Case Study 1: Volkswagen

Volkswagen is one of the world's leading manufacturer of cars having more than 610,000 employees. This company does more than manufacturing vehicles, it is a company which offers financing, leasing, and fleet management services and in 2022 the company was the world's largest automobile manufacturer by revenue. The Volkswagen Group owns 12 companies which include the luxury car companies such as Bentley, Audi, and Porsche.

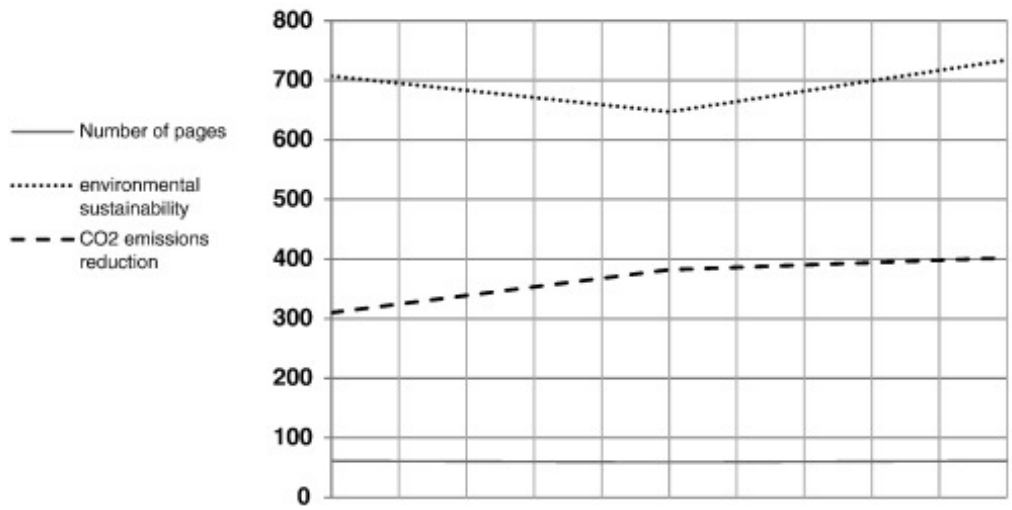
Volkswagen has been involved in a scandal in early 2014 when the result of the International Council on Clean Transportation report (ICCT) came out. The results showed that the three versions of Volkswagen cars in Europe released pollutants mainly Nitrogen Oxide higher than that of the real driving situation which led to the investigation by the U.S. Environmental Protection Agency (EPA) and to the California Air Resources Board.

From the investigation which EPA conducted they found out that Volkswagen have been using a defeat device which is a software which made Volkswagen cars detect when they are being tested and it made the cars emit far less CO_2 than the limit. The car company has admitted to having around 500,000 cars installed with this software on the 18th of September 2015. This scandal was known as 'Dieselgate' and Volkswagen was fined the highest or the most expensive of any scandal which amounted to $30 billion.

The effects of this scam were that Volkswagen had to suspend the sale of their four-cylinder diesel engine Volkswagen and Audi models in the United States. Around 11 million vehicles worldwide were affected. Provisions totaling 16.2 billion Euros were recognized for operating results, 7 billion Euros was the amount which the company had to recognize for legal risks, the rating agency Moody has downgraded Volkswagen AG's short- and long-term ratings by one level from P-1 to P-2 and A2 to A3 and the long-term ratings Volkswagen Financial Services AG and Volkswagen Bank GmbH to A1 from Aa3. After the emergence of the scam which the company was a part of was knows to the world the share price of Volkswagen has decreased from $26 to $11.54.

The steps which Volkswagen has undertaken since this scandal was that the Chairman of the Board of Management of the company Prof. Dr. Martin Winterkorn stepped down and he took the blame for this fiasco and the Supervisory Board has appointed Matthias Muller as the new Chairman of the Board and a new position called Integrity and Legal affairs was created where Christine Hohmann-Dennhardt took responsibility for and there was a realignment of the group and a five point plan was announced.

This graph shows the frequency of the usage of lexical units associated with Environmental sustainability and CO2 emissions reduction in their sustainability's report.



Years	2012	2013	2014
No. of pages	61	59	61
Frequency - environmental sustainability	707	647	734
Frequency - CO_2 emissions reduction	310	38	402

This was a deceptive manipulation technique which Volkswagen has used, to cheat and deceive the people. This was a deliberate manipulation of the practices of business by Volkswagen. This strategy was working, and Volkswagen was able to reap the benefits of this strategy till they were caught and after they were caught the company had to pay hefty fines and they lost their reputation in the market which made a huge dent to Volkswagen as people lost their trust in them.

Volkswagen has changed its confident slogan from Das Auto which means The Car (left) to simply Volkswagen.

Communication message of Volkswagen after the scandal and the company could have used these costs into research and development instead.

Case Study 2: Ryanair

Ryanair was accused of Greenwashing after the Advertising Standard Authority of the United Kingdom banned an advertisement campaign by Ryanair which claimed that the airline has the lowest carbon emissions out of all the airlines in Europe.

Ryanair is a budget airline in Europe which was named as one of Europe's top 10 emitters in a European Union report and then Ryanair's response was to release an advertisement which claimed it was "Europe's lowest fares, lowest emission airline". The advertisement of Ryanair claimed that the airline had the lowest carbon emissions of any major airline based on the emissions of CO2 per kilometer flown per passenger as it was the youngest fleet it had newer engines which are more fuel efficient.

Ryanair was also sued by the Netherlands Authority for Consumers and Markets for misleading the public because of their statements of "fly greener" the ACM believes that there is no flying green and that this statement is simply a lie and hence it is greenwashing, Edwin Van Houten who is a Director of ACM's consumer department says that businesses must be honest with their sustainability claims and airlines cannot make flying sustainable.

The consequences were that the advertisement of Ryanair which said Europe's lowest fares, lowest emissions airline was banned. The company has pledged to be plastic free by 2023. This company also made changes to its website by changing the "fly greener" statement to "compensate your CO2 emissions" and green leaves from the website were removed and the website now shows how the estimated emissions for each ticket are calculated.

This is a deceptive manipulation technique which Ryanair uses to deceive people into believing that the company is sustainable whereas in reality they are not Ryanair has statements which say that it will reach "net zero carbon emissions by 2050" or "12.5% sustainable aviation fuel by 2030" and these are just proclamations which aviation companies make but never keep up.

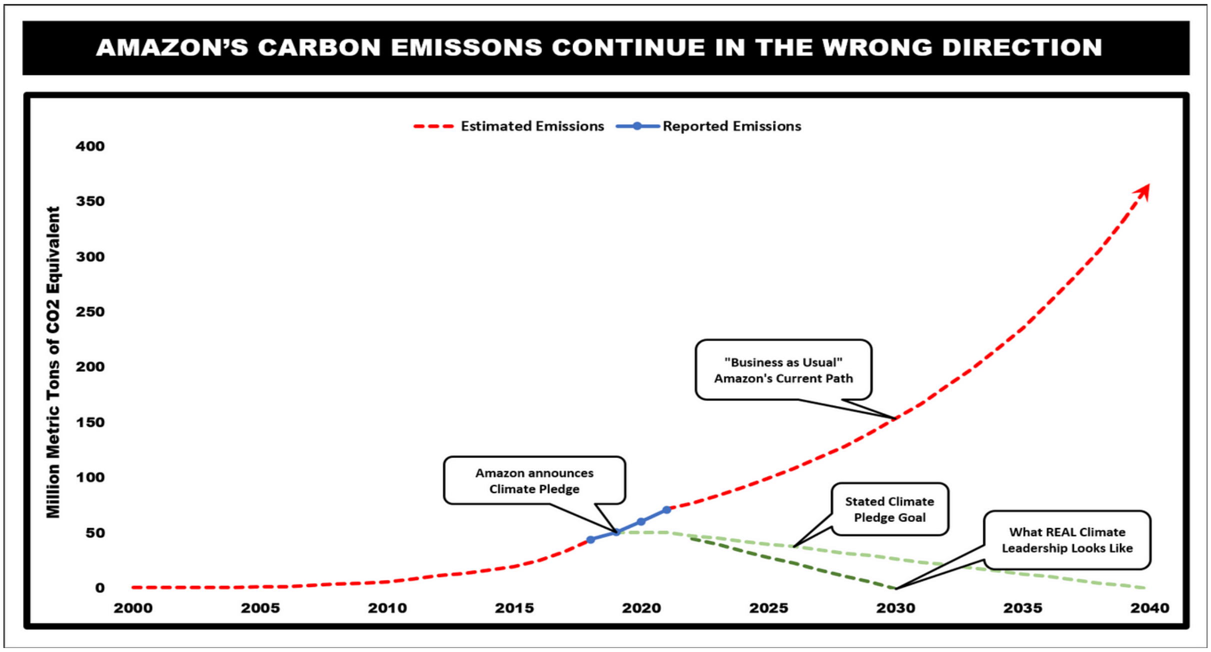
Case Study 3: Amazon

Amazon is one of the world's largest online retailer and marketplace, founded by Jeff Bezos in 1994. It was initially started as an online bookstore but later expanded into a marketplace that revolutionized global e-commerce. This growth helped amazon to enter into cloud computing, digital streaming, and artificial intelligence. Amazon always continues to drive innovation and redefine logistics, technology, and consumer behavior.

In December 2018, a group of amazon employees filed a resolution asking amazon to address its dependence on fossil fuels. This led to Amazon reveling its carbon footprint and has launched the Shipment Zero Program to reduce emissions from transportation.
Even after initiating this program, employees felt that was insufficient and planned a walkout to demand more significant actions. This movement has gained a lot of attraction, prompting Jeff Bezos to announce the climate pledge, that is pledging that the amazon will be net carbon zero by 2040. Additionally, in 2020, he announced the Bezos Earth Fund, committing $10 million of his personal wealth to climate change.

Amazon, known for prioritizing data-driven decisions and positive impacts, faces serious scrutiny over its environmental commitments and the resulting social implications. Despite starting up the Climate Pledge in 2019 to achieve net-zero carbon emissions by 2040, Amazon has shown troubling symptoms that undermine trust in its environmental goals. A significant action that raised doubts was the business enterprise's quiet cancellation of the Shipment Zero program, which was its first primary commitment aimed toward reducing emissions from its transportation community.

Since the pledge, Amazon's carbon emissions have alarmingly elevated by using 40%, growing approximately 18% annually whilst the organization itself grows at about 24% per 12 months. This discrepancy highlights a loss of effective measures to control and decrease its carbon footprint as the enterprise expands. More concerning issue is the disproportionate effect of Amazon's emissions on communities of color, where most of its warehouses and shipping facilities are located. These communities suffer from increased air pollutants, traffic congestion, and protection issues, receiving minimum benefits from web hosting Amazon's operations. Research and reviews, inclusive of the ones by Consumer Reports and environmental scientist Sacoby Wilson, label this burden as a form of environmental racism, due to the unequal environmental and health burdens located on these predominantly minority communities.



The cancellation of the Shipment Zero initiative is particularly alarming as it suggests a step backward in Amazon's commitment to reducing its environmental impact. With the removal of this program, there is an increased risk of pollution, primarily from diesel trucks, further impacting these vulnerable communities. The inconsistency between Amazon's public environmental pledges and its actual practices calls for a critical assessment of its actions and commitments to genuinely address and mitigate its ecological impact and ensure fairness and health in the communities it affects.

Recent investigations have exposed that Amazon significantly underreports its carbon emissions. The company only accounts for emissions from its Amazon-branded products, which constitute merely 1% of its online sales, omitting the majority of its carbon footprint related to the manufacture and disposal of other sold products. This selective reporting has been criticized as a method for Amazon to diminish the perceived impact of its operations on the environment, effectively sidestepping the broader implications of its retail business on climate change.

Furthermore, Amazon's reporting of emissions from employee commutes is also limited to only those from corporate shuttles. This approach results in 29% fewer reported carbon emissions compared to Target, despite Amazon having three times the number of employees. Other major retailers like Target, Walmart, and The Home Depot include broader estimates of employee commuting emissions, encompassing all forms of transportation used by their workers. This difference in reporting standards highlights an underestimation of Amazon's true environmental impact. Even if Amazon were to meet its Climate Pledge, these practices suggest it would not achieve a genuine net-zero emissions status, as it fails to account fully for its extensive environmental footprint.

This is an example of Decoupling Greenwashing where the company has promised that it would reduce its carbon footprint and launched the Shipment Zero Program to reduce the emissions from transportation and the company has pledged that it will be net carbon zero by 2040. The problem arose when the company silently cancelled the Shipment Zero Program and that the Carbon emissions elevated by 40% showing that the company was performing empty promises hence making this a Decoupling Greenwashing.

Case Study 4: IKEA

IKEA is a global leader in furniture and home furnishings known for producing cheap, flat-pack products that can be easily shipped and assembled by the customer. Established in 1943 in Sweden by Ingvar Kamprad, IKEA has evolved into an iconic brand that operates stores all over the world. IKEA advocates the philosophy of democratic design – the combination of functionality, quality, sustainability, and affordability. Moreover, IKEA brands are characterized by huge, store-house-type stores, extensive goods options, and its Swedish heritage rooted in its food courts.

Ikea, before 2020, finds itself embroiled in a scandal that strikes at the core of its brand ethos. An investigative report by the environmental watchdog Earthsight has exposed Ikea's links to illegal logging activities in Russia's protected boreal forests. These revelations pose significant questions about corporate responsibility and the efficacy of environmental certifications.

The report elucidates that Ikea's children's furniture range, including popular items like Sundvik beds and Flisat dollhouses, likely contains wood sourced from illegal logging operations conducted by companies owned by Evgeny Bakurov, a prominent politician in Russia's Irkutsk Oblast province. Over the last decade, Bakurov's enterprises have been implicated in harvesting approximately 2.16 million cubic meters of wood from protected forests, an amount that starkly contrasts with the legal and ethical standards expected in forestry.

The investigation involved rigorous methods including undercover meetings, satellite imagery analysis, and a thorough review of court and customs records. These efforts unearthed that Bakurov's companies frequently misrepresented their logging activities as "sanitary logging," a practice supposed to clear only infected or dead trees. However, in reality, these operations extended to healthy areas, devastating vast tracts of the Siberian taiga, which is crucial for carbon sequestration and thus, global climate regulation.

Barge loads of logs from local politician Evgeny Bakurov's forest leases in Irkutsk, Russia, in Sept. 2020. Earthsight

This misconduct was facilitated, in part, by certifications like those from the Forest Stewardship Council (FSC), which unfortunately failed to identify or prevent the distribution of illegally sourced wood. Despite the FSC's role in promoting sustainable forestry, the certification did not reflect the on-ground realities of Bakurov's operations, as noted by Earthsight's investigation.

Before image: Sept. 30, 2018; After image: May 19, 2019; Maxar Technologies / Google Earth

Upon being approached with these findings in June 2021, Ikea responded by stating that the wood was "legally harvested" and denied any wrongdoing. However, the company later discontinued its association with Bakurov's firms citing "practices of concern" and announced a temporary ban on the use of wood from sanitary logging in the Russian Far East and Siberia. These actions, while commendable, were reactive rather than proactive, highlighting gaps in Ikea's supply chain oversight.

Ikea's predicament underscores a broader issue within the global timber trade— the reliance on certifications that may not always account for illegal practices effectively. The report criticizes the FSC for not adequately safeguarding against the misuse of its label, which is intended to reassure consumers about the sustainability of their purchases. This criticism points to a need for more stringent verification processes and enhanced transparency in certification practices.

Moreover, the implications of this scandal are not limited to environmental degradation. They also encompass the ethical dimension of business operations. Consumers, increasingly aware of and sensitive to environmental issues, expect brands to uphold high ethical standards. Ikea's involvement in this controversy may lead to consumer backlash, which can affect its market reputation and customer loyalty.

In conclusion, Ikea's case serves as a poignant reminder of the complexities in ensuring sustainable and ethical supply chains in a globalized economy. It highlights the necessity for multinational corporations to implement robust mechanisms for supply chain verification and for certifying bodies to reinforce their standards and scrutiny. As the global community becomes more attuned to environmental and ethical standards, it is imperative that corporations like Ikea lead by example, fostering transparency and responsibility to maintain their standing and contribute positively to global sustainability efforts.

Ikea has practiced a selective and inaccurate disclosure strategy of Greenwashing because when its supplier Evgeny Bakurov company has been supplying Ikea with illegal wood Ikea instead of verifying this they communicated with the media and told their shareholders that the wood they receive from Evgeny Bakurov's company is legally made wood. Ikea then realized their mistake and then cut ties with the company but they did not cite the reason of the company cutting wood legally but they just mentioned “practices of concern” this made the stakeholders of Ikea lose their trust in them.

Case Study 5: Starbucks

In 2018, with rising global concern over the devastating impact of plastic pollution on marine life, Starbucks has announced a significant environmental initiative in which the company promised to remove plastic straws at its more than 28,000 locations worldwide by 2020. This change was aimed to eliminate the use of over one billion plastic straws each year, a response to the unsettling images of wildlife suffering from plastic waste that had captured the public's heart and attention.

Starbucks introduced straw less lids as an alternative to traditional plastic straws and lids. These new lids were already in use at about 8,000 stores at the time of the announcement which allowed the customers to sip directly from the lid, much like from an adult sippy cup. The new lids are made from a thicker type of plastic than the original combination. Defending their choice, Starbucks pointed out that these lids were crafted from polypropylene a type of plastic that is easily recyclable and reduce environmental impact due to its durability and lesser toxicity. The company argued that the durability and larger size of these straw less lids would make them less likely to break into harmful small pieces and more likely to be properly recycled. Indeed, polypropylene is seen as a safer material, potentially easing the recycling process.

Despite these claims, critics have raised significant concerns. While the lids may be more recyclable in theory, the harsh reality is that only about 9% of all plastic is recycled worldwide. This statistic throws a shadow over the effectiveness of Starbucks' new strategy in making a real dent in plastic waste reduction. Moreover, because these new lids are thicker, they will moreover take longer to break down in the environment than their thinner ones.

Many environmental advocates believe that Starbucks' move might be more about image and less about genuine environmental stewardship. They argue that if Starbucks were truly committed to environmental protection, it would have shifted entirely away from plastic and towards fully biodegradable options for all its disposable items including cups, lids, and straws.

While Starbucks' initiative seems to be a step in the right direction, it also reflects a broader corporate trend of adopting eco-friendly measures that are perhaps more about marketing than making substantial environmental impacts. The focus on recyclability, while important, overshadows the more critical need to reduce plastic use outright and to invest in truly sustainable, biodegradable materials.

Going forward Starbucks faces the challenge of not only refining its sustainability approach but also truly leading by example with impactful environmental initiatives. The journey of Starbucks is emblematic of the wider challenge faced by large corporations: to embed real environmental action into their operations and ethos, rather than settling for surface-level measures that might fail to address the root issues of plastic pollution. This ongoing saga underscores the importance of sincerity and depth in corporate environmental strategies, serving as a crucial narrative for other companies aiming to genuinely support planetary health.

Starbucks has used the Halo effect strategy of Greenwashing and Halo essentially means when a company speaks about something positive about the product to which they are greenwashing, and the stakeholders of the company develop a good impression based on some other positive qualities of the product. For Starbucks; the company emphasizes on how good of an alternative the new lids are compared to the old lid and straw as the new lids are made up of more recyclable plastic than the previous lids and reduces environment toxicity, reduces the likelihood of the lids to break down into smaller pieces making it easier for recycling but in truth the new lids use more plastic than the previous lids.

CONCLUSION

Our research sets to explore the ways companies perform Greenwashing and it explains the effects of Greenwashing on the company's and does this really impact a company in how it performs their business. The questions which we have answered are the "Consequences of a company Greenwashing ", following up with a question of "Greenwashing as a strategy which companies use and does it work?" and the "business implications of a company caught Greenwashing". These questions helped us find the answers and this research has given us more questions to answer.

Answering the first question, the consequences which the company faces is that its shareprice tends to fall when the news comes out for example amazon and Volkswagen shares dropped significantly, there is a huge outcry from consumers about the greenwashing scandals of these companies and the companies have lost the trust which consumers had in them.

Greenwashing as a strategy- does it work for companies? Unfortunately this strategy does work for companies as the sales of companies like Volkswagen and Ikea was affected in the short run but after the companies have apologized the sales and profits returned relatively quick but the other companies like Ryanair, Amazon, and Starbucks was not affected. There was no indication of fines on these companies for greenwashing. There must be stricter and more clear guidelines for the offences of greenwashing by companies.

Business implications were that – the customers lost their trust in the companies and the companies had to spend extra effort and amount into apologizing and advertising and they had to restructure their businesses and also had to come up with newer products to combat these scams.
The strategies which companies have used to manipulate the buyers into buying their products are that Volkswagen and Ryanair used the greenwashing strategy of deceptive manipulation, Amazon has used Decoupling Greenwashing as its strategy, Ikea practiced a selective and inaccurate disclosure strategy and Starbucks practiced the Halo strategy.

In conclusion we can say that the strategy of greenwashing unfortunately does work because of unclear guidelines as to what the companies can or cannot do and because of the lack of fines and people caring for greenwashing.

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