How can we limit greenwashing by the fossil fuel industry?

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Introduction

As Greta Thunberg states in the beginning of her Climate Book (2022): *"*After all, this is the age of communication, where words soon outweigh actions. That has led many of the countries that produce the most fossil fuel – and emissions – to now call themselves climate leaders, even though they have not adopted convincing policies against climate change. *This is the era of the big greenwashing machine." The Climate Book (2022).*

She claims, and maybe rightfully so, that greenwashing is everywhere around us.

The goal of this paper is to investigate how we can limit greenwashing by the fossil fuel industry. But before we try to answer this question, we need to define the term "greenwashing" the best we can and thereby give meaning to the subject. Preferably, we eventually define greenwashing in ways it can be measured, thereby creating the possibility to compare the level of greenwashing. Most importantly though, recognition greenwashing and then limit the phenomenon can only be done when knowing what to look for in the first place. So, what do we mean when we state that an organisation or an individual is 'greenwashing'?

What is Greenwashing?

In everyday life, we use this term to describe a false or misleading action about the positive impact a company, product or service has on the environment. Greenwashing is making something look more sustainable then it actually is.

To determine if something is false or misleading however seems a highly subjective matter.

Looking at scientific research, Ruiz-Blanco et al. (2022) state that there is no generally accepted definition of greenwashing. It is a rather confusing concept that may be described and understood differently by different participants (Seele and Gatti, 2017). Steiner et al. (2018) contrast reputational intention and real sustainability performance, suggesting that, at least partially, it could be justified by the "incongruent explicit and implicit sustainability orientation of its executives" (p.1002). Lyon and Maxwell, (2011) suggest that greenwashing occurs when there is symbolic communication, but no substantive actions on environmental issues. Mahoney, Thorne, Cecil and LaGore, (2013) add a key point to the greenwashing conceptualization, when they consider it as a selective (not necessarily false) positive disclosure to impress stakeholders and mislead them. Furthermore, Contreras-Pacheco and Claasen, (2017) posit that companies that present an inconsistency between a low CSR performance and a high communication standard (e.g. level of reporting quality, transparency, etc.) are candidates to greenwashing.

Now let's look at what an active anti-greenwashing organisation states about the term. According to Millieudefensie, an independent Dutch association that runs nationwide campaigns for climate justice, greenwashing is a marketing ploy. Companies use this trick to appear sustainable and thus polish their image. They have a lot of nice talk about being green, while they continue to pollute the climate and the environment. As Milieudefensie rightfully state, the largest polluters make the most use of greenwashing. Their biggest profit comes from activities that are harmful to the climate heating and environment in general. But they also feel that more and more people are against polluting companies. Moreover, their Climate case against Shell has shown that they are at risk of going to court. The longer they can pass themselves off as sustainable, the more money they make from pollution.

Milieudefensie certainly views greenwashing as a deliberate action, as misleading the public.

Looking at the oil and gas industry (OGI) specifically, it is in the interest of them to go to extensive efforts to present themselves favourably within climate change debates through countermovement framing, since much is to be lost or gained by fitting with the expectations of corporate social responsibility (CSR) and the promotion of "green" business practices. It is, therefore, imperative to compare corporate environmental claims to company actions that have hazardous ecological consequences, thereby obscuring the negative impacts of dependency on a fossil fuel-based economy (Scanlan, 2017).

Concluding, for this essay we will define greenwashing by the fossil industry as *a deliberately incongruent sustainability orientation to impress and mislead stakeholders*.

Identifying greenwashing, and more specifically within the fossil fuel industry

Delmas and Burbano (2011) found that greenwashing is becoming an alarming universal behaviour that is not only imputable to firms. Interestingly, multiple agents are apparently engaged. Lyon and Montgomery, (2015) identify profit organizations, governments and politicians, research organizations, international organizations (e.g. United Nations, World Bank), NGOs, and social and environmental movements.

Milieudefensie claims it is important for people to develop a radar for greenwashing, since it is so widely used in everyday business and because the costs of the environment is extremely high. They give some idea's how greenwashing might be recognized in a practical way. Furthermore, they provide a practical idea: check if the company or brand have been approved or rejected by sustainable banks.

When we zoom into the fossil fuel industry, it's quite clear that regarding climate change, this industry contains the number one cause of heating up the planet (Grasso, M. ,2019).

The combination of pressure from IPCC reports and society as a whole on this particular industry, while they try to continue their core business because they make a lot of money by doing so, is a contradiction that generates an incentive for deliberately incongruent sustainability orientation.

Analysing the relationship between CSR and Greenwashing

CSR has become an important means for addressing what Stiglitz (2002) sees as the fundamental problem with contemporary globalization: a system of global governance without global government (Blowfield, & Murray, 2014). The idea behind this is that companies are larger and more powerful then nations and use the lack of a so-called 'international government' for their benefit, by avoiding responsibilities like national regulations of paying their taxes, avoiding their contribution to social welfare and, instead of maintaining the needed levels of sustainability, they pollute the environment and thereby contribute highly towards dangerous climate change tipping points. This situation compromises the ability of future generations to meet their welfare needs and thereby conceals subtle notions of equity and fairness.

Given the seriousness of climate change in combination with biodiversity loss we know by scientific research we are facing today – meaning nothing less than the existential risk of humanity/future generations – greenwashing can be regarded as one of the main issues to tackle within the impact of business on society as a management issue (CSR). On the other hand, looking at the history of CSR and the relationship with sustainability/climate change, we must admit that the consequences for doing business, and certainly for the fossil fuel industry, are immense. This sheds another light on the origin and incentive of greenwashing: it might be considered as natural behaviour of trying to go on

with business-as-usual and looking away, because giving in to these consequences for real would mean lots of uncertainties for business, probably a renewal of the way business is done today and for some companies this might indeed mean the end of the road, unless they reform their entire enterprise.

What is the motivation for Greenwashing, especially by the fossil fuel industry?

At first, the paper of Delmas & Burbano (2011) tried to answer this question in general, so not specifically for the fossil fuel industry, by examining the external, organizational and individual drivers of greenwashing and offers recommendations for managers, policymakers, and NGOs to decrease its prevalence. A framework that organizes drivers into external-level drivers (the regulatory and monitoring context, as well as market drivers), organizational-level drivers, and individual-level drivers sheds light on why many non-sustainable (so called ‘brown’) firms choose to greenwash. They conclude that limited and imperfect information about the firm’s environmental performance, as well as uncertainty about regulatory punishment for greenwashing, contribute to greenwashing. Their recommendations emphasize that a *multi-stakeholder approach* including policymakers, managers, and NGOs could be effective to reduce greenwashing by:

1. improving the transparency of environmental performance
2. facilitating and improving knowledge about greenwashing
3. effectively aligning intra-firm structures, processes and incentives

Although this seems plausible recommendations, when we take seriously *the deliberated action* of misleading the outer world as part of the definition of greenwashing, this might all be measures taken in vain, unless they are implemented mostly from outside the company. That is to say, unless institutions and/or government bodies set strict rules for regulation to achieve these three goals, it might never happen. When this is true, then CSR might not be an adequate means for limiting the level of greenwashing in the fossil fuel industry, since CSR is by definition a voluntary (Blowfield & Murray, 2014).

According to E.S. Sijmons (2020), greenwashing can damage the overall reputation for sustainable investing. If financial companies falsely claim to have a greener portfolio or if market participants and consumers invest in products that look greener than they really are, investors can be cheated and thereby suffer financial and reputational damage. But also the issuers and providers may face liability claims and suffer reputational damage, which has implications for their financial health.

Currently, companies still regularly use general ESG criteria* or the generic UN Sustainable Development Goals, but these are not always sufficiently appropriate or focused on the specific business-related risks. A new taxonomy might help companies to choose workable indicators and risk management tools at a more detailed level, to establish a clearer framework for investment decisions and to generate clear expectations.

** ESG metrics are performance measures or indicators of a company's performance on environmental (E), social (S), and governance (G) issues. They are similar to other business metrics in that they are used to assess a company's operating performance and risk.*

The recent research paper *Green, blue or black, but washing – What company characteristics determine greenwashing?* by Ruiz-Blanco et al. (2022), concludes that companies in environmentally sensitive industries greenwash less than their counterparts in other industries, as well as companies following the GRI guidelines*. Also companies that issue a sustainability report greenwash less. And contrary to the intuition of the researchers, companies in industries with close proximity and high visibility greenwash more than their counterparts.

**The GRI Standards are a modular system of interconnected standards. They allow organizations to publicly report the impacts of their activities in a structured way that is transparent to stakeholders and other interested parties.*

Stakeholders influence & greenwashing activities

Ramus & Montiel (2005) have argued that coercive, normative, and mimetic pressures from the institutional environment may motivate companies to commit to policies but that economic advantage is the most probable motivator for companies to implement specific environmental policies. Their findings indicate that an outside stakeholder should look with a sceptical eye at any company that commits to a policy if that company does not have an economic motivation for implementing it. Services sector companies do not benefit from the same economic incentives, and neither do they face the same potential costs from environmental policy implementation. Therefore, it is possible that companies in this sector are jumping on the bandwagon of policy commitment without creating new practices to implement specific policies. And in the cases of oil and gas and chemical manufacturing, there may be quite a lot of companies in these sectors that claim they want to be sustainable but that may not implement fossil fuel use reduction policies (in the case of oil and gas) or toxic chemical use reduction policies (in the case of chemical companies). The Natural Step principle would argue that no company is moving toward sustainable development without fossil fuel use reduction and toxic chemical use reduction policies being implemented (Robert et al., 2002). Third-party audits and verification may be the only method of assuring the public that environmental policy commitment indeed leads to policy implementation.

The research paper of Testa et al. (2018) discovered that while pressure from suppliers and shareholders contribute to corporate greening, pressure from customers and industrial associations tend to encourage greenwashing (i.e., the superficial and misleading adoption of environmental practices).

The positive impact of shareholder pressures can be explained by their ability to access relevant information on corporate environmental commitment and performance. In addition, shareholders may encourage managers to demonstrate their accountability in terms of sustainability through the internalization of certifiable EMSs, which are expected to improve economic performance and enhance corporate image (Bansal and Hunter 2003; Darnall et al. 2008; Russo 2009). The same applies to financial institutions, which attach increasing importance to the control of environmental risks and improvement of environmental performance (Ambec and Lanoie 2008). The positive impact of suppliers can be explained by the increasing interdependence between the greening of supply chain management and the internalization of EMS (Nawrocka 2008; Testa and Iraldo 2010). For example, suppliers can facilitate the use of greener raw materials and facilitate the achievement of EMAS objectives related to resources consumption.

Although the negative influence of customer pressures seems to contradict several studies on their role in the implementation of EMS (Christmann and Taylor 2006; Fryxell et al. 2004; Guoyou et al. 2012), it can be explained by their lack of information on real environmental practices and the commercial use of the EMAS standard. Given the globalization of economies, today’s market pressures come from increasingly distant customers, who tend to perceive certifiable EMS as a sort of ‘‘commercial certificate’’ rather than a tool to improve environmental practices. These customers are not able to verify the internalization of EMS in a direct way (e.g., through inspections or audits), so they tend to trust and rely on the existence of certificates such as EMAS and ISO 14001*, more than being interested in how they are applied.

** The EU Eco-Management and Audit Scheme (EMAS) is a premium management instrument developed by the European Commission for companies and other organisations to evaluate, report, and improve their environmental performance. ISO 14001 is the international standard with requirements for an environmental management system. The environmental*

management system is used to develop an environmental policy that is appropriate for the organization and to guarantee its implementation.

Finally, the negative role of pressures from industrial associations was unexpected and may be due to their lack of involvement in the implementation of the EMAS standard. Moreover, the values of these associations are not necessarily in line with those of corporate greening and some associations can even lobby to limit or counteract environmental pressures (Van Halderen et al. 2014; Gray and Milne 2002). These findings show that institutional pressures are not monolithic and need to be analysed in relation to the different stakeholders involved.

Besides the above findings however, structures that are responsible for improving a green economy, like the market of carbon credits and certificates with which companies can buy off their climate damage by, for example, having trees planted, is turned upside down. One scandal after another comes to light, and at the same time analysts and investors predict mountains of gold (FTM, February 3, 2023). Financial authorities are active almost everywhere to supervise the rules and monitor the integrity of the market: central banks and supervisors such as the Netherlands Authority for the Financial Markets (AFM). In addition, there are supranational authorities such as the World Bank, the IMF and the European Securities and Markets Authorities (ESMA). Anyone who threatens the credibility of the system, for example by counterfeiting a banknote, disappears unceremoniously in jail. But none of that exists for carbon credits. The guidelines that carbon credits must comply were outsourced: this market was allowed to regulate itself.

What does this mean in the light of fossil fuel industry greenwashing?

Taking all above into account, it’s clear that greenwashing in business of today is eminently problematic, and that tackling this problem will not be easy when considering the way business is done worldwide and considering the way the regulation fails to work objectively and transparent. Certain stakeholders within the fossil fuel industry will definitely struggle with more strict rules of regulation for avoiding greenwashing, although it seems pretty clear that without this, greenwashing will continue.

An example of this fear by certain stakeholders is the journalistic article of Reuters (2023), stating how fund industry groups have told that European Union regulators should not define greenwashing in law, citing concerns this would complicate a sector in "constant flux". Trillions of dollars have flowed into investments claiming to be climate-friendly, but there have been few sanctions for greenwashing, or exaggerated green credentials. Regulators on the other hand claim that sanctioning greenwashing could be easier with such legal definition, although the term is often used more broadly to describe deliberate or negligent practices regarding other environmental, social and governance (ESG)-related issues.

However, in general there is more pressure for strict regulation right now, and looking at the importance of tackling greenwashing this is a positive development. Certainly, the multinationals try to use their influence and power to stop this phenomenon, f.e. through threatening to leave a certain country if greenwashing will be implemented in law. This can be tackled by setting these rules not in one country but within the European Union or, preferably but far more difficult to realize for obvious geopolitical reasons, in a worldwide agreement.

Discussion/recommendations for further research

Is better regulation in the making and can CSR help?

The Oxford university press book of Blowfield and Murray (2014), one of the best in this field, makes us understand how CSR is in it's very nature voluntarily. However, several voluntary standards can be distinguished, ranging from standards developed within the company, standards by consultation with stakeholders, industry standards developed by a peer group of companies or independent standards developed by NGO's. Interestingly, in this book from 2014, Blowfield and Murray state on page 210 that:

"While the European Union has chosen to emphasize CSR as a voluntary approach that places no extra legislative burden on business, the role of government and the links between CSR and regulation are central to debates in developing nations."

Recently however, the European Union seems to change their behaviour and approach in this matter, since they started an initiative on substantiating green claims (ec.europa.eu):

"Companies giving a false impression of their environmental impact or benefits. Greenwashing misleads market actors and does not give due advantage to those companies that are making the effort to green their products and activities. It ultimately leads to a less green economy. To tackle this issue, the European Green Deal states "Companies making 'green claims' should substantiate these against a standard methodology to assess their impact on the environment". The 2020 Circular Economy action plan commits that "the Commission will also propose that companies substantiate their environmental claims using Product and Organisation Environmental Footprint methods. These initiatives will seek to establish jointly a coherent policy framework to help the Union to make sustainable goods, services and business models the norm and to transform consumption patterns in a more sustainable direction. They aim to reduce significantly the environmental footprint of products consumed in the Union and contribute to the overall policy objective of EU climate neutrality by 2050."

And at the World Economic Forum in Davos in became clear that, in relative silence, a separate board of the IFRS (the mandatory standard for reporting by listed companies in the European Union) is working on a global accountancy standard for climate reporting, led by former Danone CEO Emmanuel Faber. *"Three years ago it was still unthinkable that accountants had to deal with this. China and US are also involved in the IFRS debates."* (NRC, January 20, 2023).

Is pressure from activism needed?

The companies analysed in the 2023 Corporate Climate Responsibility Monitor (CCRM, February 23, 2023) have put themselves forward as climate leaders. The 24 global companies that were assessed comprise of the largest three global companies from eight major-emitting sectors, including only those that are members of an initiative affiliated with the Race to Zero campaign. Through this, they have committed themselves to preparing and implementing decarbonisation plans that align with the objective to limit warming to 1.5°C. These companies serve as role models for other large, medium, and small companies around the world.

They discovered that the climate strategies of 15 of the 24 companies to be of low or very low integrity. Most of the companies' strategies do not represent examples of good practice climate leadership. Companies' climate change commitments often do not add up to what their pledges might suggest.

Looking at our definition of greenwashing – namely: a deliberately incongruent sustainability orientation to impress and mislead stakeholders – we can only conclude that even companies that serve as role models are still greenwashing.

According to the Dutch university WUR, they can only work with the fossil fuel industry when these companies align with a strategic plan within their projects; the project must not be used for greenwashing and must comply with their guidelines on scientific integrity, human rights, knowledge security, intellectual property, ethics and open science, and the project must have a positive impact and contribute to the SDGs (WUR).

On the other hand, a Dutch group of students recently demanded that university boards break all ties with these multinationals.

Conclusion

Greenwashing as deliberately misleading customers is a punishable offence. Although greenwashing is hard to prove because of the subjective nature of the phenomenon, the fossil fuel industry in particular still seems so apply greenwashing as a marketing tool. To tackle these kind of greenwashing activities within this, from clime change perspective, polluting fossil fuel industry, it's quite clear that pressure from outside those companies and from outside this industry as a whole is necessary.

While certain stakeholders can influence the company more directly in a positive way, customers can not. For customers, being foremost civilians, this means that they must put pressure on the industrial system through activism.

CSR alone is not sufficient because of its voluntary nature. Stricter regulation and better financial reporting is required through government bodies and global institutions like the IMF and for example the EU, both directed towards the behaviour of companies and, more indirectly, towards the market of carbon credits and certificates.

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