

GREENWASHING AND THE CAPITAL MARKET REACTION THEORETICAL ANALYSIS AND RECENT CASE STUDIES

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Abstract

Greenwashing refers to the practice of companies exaggerating or providing misleading information about their positive environmental impact in order to improve their public image and attract green investment. The article analyzes the effects of greenwashing on the capital market, focusing on investor reactions and current regulations. In a global context where sustainable investments are growing exponentially, greenwashing represents a major threat to investor confidence and the integrity of financial markets. Through case studies and recent examples, it explores both why companies resort to greenwashing and how investors and regulators are reacting to combat these practices. It also discusses emerging regulations and standards aimed at protecting the integrity of financial markets.

Keywords: *Greenwashing, capital market, financial regulations, transparency, risk assessment.*

1. Introduction

Over the past two decades, concerns about sustainability have led to a significant shift in corporate and investor behavior. Demands for transparency in financial and environmental reporting have increased significantly, and investors have begun to actively allocate capital to support green initiatives. However, a problematic phenomenon has emerged in this context: greenwashing. This concept, defined as a form of deceptive marketing or deception, consists of promoting seemingly positive environmental practices without any real substance behind them. This article explores the impact of greenwashing on the capital market, analyzes the reasons behind this behavior, and how financial markets and regulations try to protect the integrity of the investment sector. Greenwashing [1] is a term used to describe marketing or advertising actions by which a company presents a product or service as being greener than it actually is. Greenwashing reflects a form of public opinion manipulation aimed at attracting consumers and investors increasingly concerned about the environment.

The use of greenwashing is driven by a combination of economic, strategic and reputational factors. First, pressure from institutional investors and ESG funds forces companies to adapt their public discourse to fit sustainability criteria, even when real internal transformations are costly or slow. Thus, greenwashing appears as a short-term solution to attract capital. Second, the information asymmetry between companies and investors favors the emergence of this phenomenon. Investors do not always have the necessary tools to assess the veracity of environmental claims, which creates an incentive for selective or exaggerated reporting. Another important factor is the lack of uniform and mandatory non-financial reporting standards at a global level. Differences between jurisdictions allow companies to exploit gray areas in the legislation and adopt reporting practices favorable to their own image, without immediate sanctions.

2. Definition of Greenwashing

Greenwashing is a term that comes from the English words “green” (green, ecological) and “whitewashing” (image washing) [2]. According to a study by Delmas and Burbano[4], greenwashing occurs when a company promotes environmental behaviors that are minor, irrelevant, or false, with the aim of attracting investors and consumers aware of environmental issues.

Essentially, greenwashing occurs when a company makes exaggerated or misleading environmental claims about its products or services, without actually meeting the stated environmental standards. Basically, instead of adopting an authentic and sustainable approach in its production process or in its commercial activities, the company focuses on “beautifying” its image, in order to take advantage of trends in the green market.

This phenomenon is not limited to the marketing of individual products, but can also affect broader corporate strategies, including advertising campaigns, financial reporting, and corporate social responsibility practices. Thus, greenwashing can damage a company's image and the trust of consumers or investors, without it having any real impact on the environment.

The term greenwashing was first used in 1986 by author and environmental activist Jay Westerveld, who described how some hotels and travel companies promoted superficial green campaigns, for example by urging people to save on towels, while continuing to use unsustainable practices in the rest of their operations. At that time, the phenomenon was less documented and less regulated, having relatively little impact on the capital market. However, with the rise of concerns about climate change and the growing interest in sustainable investing, greenwashing has become increasingly obvious and problematic. Many companies in various industries have begun to incorporate "green" into their brands, without implementing concrete measures to reduce their environmental impact.

In 2011, a landmark study by researchers Delmas and Burbano [4] defined greenwashing as the behavior of a company that starts promoting minor, irrelevant, or false environmental initiatives in order to attract “green” consumers and investors. This work became a reference point for subsequent research in the field and highlighted the importance of greater transparency in companies’ environmental communications.

Greenwashing is not a uniform phenomenon; it manifests itself in many forms, depending on the company’s marketing strategy and the industry in which it operates. Here are some of the most common types of greenwashing [5]:

- False environmental labeling: Some companies put up labels that suggest that their products are environmentally friendly, even if they do not comply with any environmental standards. For example, some food products may carry labels that say “100% natural” or “eco-friendly,” even though the ingredients in the product are not actually obtained through sustainable methods.

- Vague Statements: Vague or imprecise claims that are not supported by clear evidence are another form of greenwashing. For example, a company may say that it is “green” without detailing what this means or providing relevant data. This can lead to confusion among consumers and investors.

- Hidden Trade-off: Some companies focus only on one aspect of the product that is green (e.g., packaging) and ignore the impact of other aspects of production (such as carbon emissions or water consumption).

- False Certification: Some companies use fake or outdated green certifications to give the impression that their product has been verified by a third party. For example, a product may carry a “green” label that has no legal or scientific basis.

- Minimizing negative impact: Companies may acknowledge their environmental impact, but choose to minimize it in a way that makes their product or service appear more sustainable than it actually is. For example, an oil company may say it is “reducing CO2 emissions” in a particular

sector, but this does not offset the overall impact of its operations. In conclusion, greenwashing represents an emerging systemic risk for capital markets, affecting both market efficiency and investor confidence. While it may generate short-term benefits for companies, the long-term negative effects are significant. The increasingly assertive reaction of investors and the strengthening of the regulatory framework suggest that transparency and genuine sustainability are becoming essential factors in assessing corporate value.

3. The Effects of Greenwashing on the Market and Investors

Greenwashing has a number of significant negative effects on capital markets, investors and the efficient functioning of capital allocation mechanisms. These effects manifest themselves in both the short and long term, affecting confidence, market stability and the financial performance of the companies involved [7].

Loss of investor and consumer confidence [9] - As greenwashing practices become more common and easier to identify, investors and consumers are increasingly skeptical of companies' environmental claims. Institutional investors interested in sustainable investments may end up allocating capital to companies that do not truly comply with ESG criteria, leading to financial losses and a decrease in confidence in “green” capital markets. Over time, this loss of confidence affects the attractiveness of sustainable financial products and can slow down the development of responsible investments.

Diminished brand value and corporate reputation [10] - When a company is publicly exposed for greenwashing practices, the reputational effects are often severe and long-lasting. Scandals involving false environmental claims can lead to consumer boycotts, investor withdrawals, and reduced market capitalization. In addition, the costs associated with restoring public image are high, and regaining credibility requires substantial investment and real structural changes.

Increased investment risk and market volatility [8] - Greenwashing contributes to increased investment risk by distorting the information available in the market. Investors make decisions based on incomplete or misleading data, which leads to an erroneous assessment of risks and returns. Once the real information comes to light, the market reacts by making sudden price adjustments, increasing volatility and instability in the capital market.

Inefficient allocation of capital [11] - A major effect of greenwashing is the diversion of capital to companies that do not effectively contribute to the transition to a sustainable economy. This phenomenon reduces the financing available to companies with real environmental performance and slows down progress towards sustainability goals. Thus, greenwashing affects the fundamental function of the capital market to allocate resources efficiently.

Increased regulatory and compliance costs [13] - In response to the proliferation of greenwashing, regulators are introducing stricter reporting and control requirements. Although these measures are necessary to protect investors, they can generate additional costs for companies, including those that comply with sustainability standards. In the long term, however, these costs can contribute to increasing transparency and strengthening market confidence.

Negative impact on the development of ESG markets [14] - Greenwashing affects the credibility of ESG financial products and can lead to investor “fatigue” towards sustainable investments. If investors perceive these products as lacking in authenticity, the appetite for such financial instruments may decrease, limiting the development of ESG markets and reducing the positive impact they could have on the environment and society.

4. Manifestations of greenwashing and their implications on the capital market

In recent decades, several companies have been accused of greenwashing, some of which have been involved in major scandals that have had a significant impact on financial markets and investor confidence. These examples illustrate the various ways in which greenwashing manifests itself in capital markets and how investors can be wrongly influenced by such practices.

Example 1 – Volkswagen and the Dieselgate scandal:

One of the most famous and impactful cases of greenwashing was the Volkswagen Dieselgate scandal. In 2015, it was revealed that Volkswagen had used special software to manipulate the emissions tests of diesel vehicles. Thus, VW cars that were presented as having low CO₂ emissions during laboratory tests, in reality polluting much more under normal driving conditions. This is a classic example of large-scale greenwashing, in which the company claimed that its products were environmentally friendly, while the reality was completely different.

- **Impact on the financial market:** After the scandal was revealed, Volkswagen shares fell significantly and the company had to pay huge fines. It also suffered a major loss of trust from investors and consumers. The scandal led to the withdrawal of millions of vehicles from traffic and seriously damaged the company's long-term reputation. (bbc.com)

- **Involvement of greenwashing:** Volkswagen promoted diesel vehicles as environmentally friendly and economical, when in reality, their environmental impact was much worse. The company also used green marketing to attract investment by giving the impression of a commitment to sustainability.

Example 2 – BP and "Beyond Petroleum":

Another notable example of greenwashing comes from the oil industry, with British Petroleum (BP) and its "Beyond Petroleum" campaign (since 2000). BP tried to present itself as a "green" company investing in renewable energy sources, but in reality most of its revenue came from fossil fuel-related activities.

- **Impact on the financial market:** BP was long perceived by investors as a company making the transition to clean energy. This positive image was contradicted when it became apparent that BP was not making significant progress in the direction of renewable energy. This damaged the company's reputation and the confidence of investors looking for sustainable energy alternatives. (theguardian.com)

- **Involvement of greenwashing:** The "Beyond Petroleum" campaign was a marketing strategy that did not reflect the reality of the company's activities. Despite claims of "green transparency", BP continued to invest significantly in oil and natural gas.

3. Nestlé – Marketing of Mineral Water

Nestlé is another company that has been accused of greenwashing, especially in the context of its policy of extracting water from natural sources for bottling and sale. Despite promoting sustainability messages, Nestlé has been criticized for its impact on local water resources and for its lack of transparency in water resource management.

- **Impact on financial markets:** Nestlé has been the subject of controversy over its water extraction from natural sources, particularly in drought-stricken areas such as California. Although the company has promoted sustainability initiatives, investors and environmental groups have begun to question the company's true commitment to the environment. (reuters.com)

- **Involvement in greenwashing:** Nestlé has been accused of promoting an image of an "environmentally responsible company" while continuing to extract water from natural sources without an adequate policy for resource conservation. Its green campaigns did not reflect the reality of its activities and were considered a form of greenwashing.

4. Coca-Cola – "Green" Packaging

Another notable example comes from Coca-Cola, which has been accused of greenwashing for its excessive use of the term "eco-friendly" in its marketing campaigns. For example, Coca-

Cola launched a series of recyclable plastic bottles, promoting them as “green”, but the company has been criticized for not making significant progress in reducing plastic consumption or developing sustainable packaging solutions.

- Impact on the financial market: Investors and environmental organizations have begun to question Coca-Cola’s genuine environmental commitment, and the company has suffered a decline in its share value as awareness of plastic pollution issues has grown. (forbes.com)

- Involvement of greenwashing: Coca-Cola has been accused of greenwashing because, despite using green marketing to promote “green” packaging, it continues to be one of the largest plastic polluters

5. Conclusions

Greenwashing poses a significant risk to the integrity of capital markets, as it can mislead investors and lead to inefficient allocation of capital. It is essential that financial regulations evolve to prevent these practices and to ensure transparency in companies’ environmental reporting. In addition, investor education and the promotion of an ethical framework in the financial industry are necessary to counteract the negative effects of greenwashing. Companies also need to understand that environmental responsibility is not just a marketing ploy, but must be accompanied by real and sustainable investments in green technologies and production processes.

The above examples highlight that greenwashing not only affects public perception and a company’s reputation, but can also have a direct impact on financial markets. Investors, especially those pursuing responsible and sustainable investments, can be misled by greenwashing marketing, leading to inefficient allocation of capital and financial losses.

Therefore, investors need to be extremely careful in assessing the true environmental commitment of companies and demand clear and verifiable evidence before investing in “green” assets. At the same time, regulators and certification organizations need to implement stricter measures to combat greenwashing and protect the interests of consumers and investors. Greenwashing has harmful effects on both consumers and the capital market. Loss of consumer and investor confidence: As greenwashing becomes more evident, investors and consumers are starting to become more skeptical of companies’ environmental claims. For example, institutional investors looking to invest in sustainable assets may risk investing in companies that do not meet environmental criteria, which can lead to financial losses and a decrease in confidence in the green capital market. If a company is found to have resorted to greenwashing, it can suffer significant reputational damage. Such practices can attract the attention of regulators and lead to financial penalties, as well as a decrease in brand value in the long term.

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