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Greenwashing: A Business Model Perspective

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Abstract

Is greenwashing a business model? The paper is a conceptual effort to advance the discussions of greenwashing though the lenses of business model thinking. We argue that the business model literature can offer a useful supplement to existing conceptualisations of greenwashing by linking talk-action disconnects to the underlying business architecture. Greenwashing characterizes organisations that deliberately disconnect the promises to the stakeholders (i.e. value proposition) from the other elements of the business models. Moreover, we contend that the concept of greenwashing can contribute to the business model literature by drawing attention to organisations with imperfect business architectures, which fail to deliver on the value propositions communicated to their stakeholders. This study paves way for future research into how flawed business architectures cause greenwashing and how business models can be transformed to improve organisations' relationships with their stakeholders

Keywords: Greenwashing, business models, sustainability, decoupling, organisational hypocrisy, corporate social responsibility

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Introduction

The integration of social and environmental issues within the organisation and in its relationship with external stakeholders is often regarded as a key goal of corporate sustainability (Hengst *et al.*, 2020). However, it is widely acknowledged that many companies pay only lip service to the sustainability agenda. Inconsistency between corporate 'talk' and 'action' on sustainability has led to accusations of greenwashing, which can be broadly defined as: '(…) communication that misleads people into adopting overly positive beliefs about an organization's environmental performance' (Lyon and Montgomery, 2015, p. 226). Greenwashing is by no means marginal phenomenon (Kim and Lyon, 2015). On the contrary, the literature has reported product greenwashing of more than 90 percent (Delmas and Burbano, 2011; Lyon and Montgomery, 2015). Recently, the European Commission (EC) stated that 42% of green claims online were exaggerated, deceptive, or false (EC, 2021). Google's global survey of over 1,500 executives also reached the following conclusion: 'Over half (58%) of executives say their organization is guilty of greenwashing — conveying a false impression or giving misleading information that says a company's products or practices are more environmentally friendly than they actually are. This is especially true in North America, where 72% of respondents believe that their organization has overstated its sustainability efforts' (Google, 2022, p. 5). Therefore, greenwashing frequently appears to be 'business as usual', rather than an exceptional case on the outskirts of the business community.

The purpose of this study is to analyse greenwashing through the lenses of business model thinking. Extant literature on greenwashing (see e.g. de Freitas Netto *et al.*, 2020; Siano *et al.*, 2017; Yang *et al.*, 2020) has made significant progress in categorising different types of greenwashing 'talk', but has paid less attention to the origin of the organisational 'action' to which the talk refers (for example, supply chain relations, manufacturing processes, distribution, etc.). Existing greenwashing taxonomies can benefit from a better understanding of the business areas that are the source of misleading environmental communication. In this regard, business model literature has the potential to enrich the greenwashing debate by providing a framework for the underlying business architecture that enables value creation, value delivery, and value capture (Lüdeke-Freund *et al.*, 2020; Osterwalder and Pigneur, 2010; Teece, 2010). Greenwashing literature, in turn, can contribute to business model thinking by drawing attention to the plethora of organisations with inconsistent, unbalanced, and broken business models. Ultimately, greenwashing can be regarded as an indicator of organisations that fail to align their communicated value proposition with their underlying transformation system and stakeholder relationships. Furthermore, greenwashing emphasises the lack of transparency that frequently exists between different business model components. Internal and external stakeholders often have incomplete information about the entire business model, making it easier for greenwashers to make false claims about the company's social and environmental performance.

The remainder of this paper is structured as follows: The next section provides a general introduction to greenwashing, its core characteristics, and relationship with other theoretical concepts addressing talk-action disconnects, such as decoupling (Crilly *et al.*, 2016) and corporate hypocrisy (Higgins *et al.*, 2020). The conceptual introduction is then used as a springboard to propose a new categorisation of greenwashing from a business model perspective. The fashion industry is used as a brief case example to demonstrate the different components of greenwashing from a business model perspective. The final section summarises the primary findings of the study and suggests future directions for greenwashing research.

Greenwashing and Related Concepts

Extant literature is divided on the definition of greenwashing (Kassinis and Panayiotou, 2018; Seele and Gatti, 2017; Zharfpeykan, 2021). In general, greenwashing can be defined as the act of misleading people into holding favourable opinions about an organisation's or its offerings' environmental performance (Delmas and Burbano, 2011; Lyon and Montgomery, 2015). Greenwashing takes many shapes and forms, ranging from the selective use of vague sustainability claims to outright lies about a product's or an organisation's sustainability performance (Gacek, 2020; Lyon and Montgomery, 2015; Siano *et al.*, 2017). Greenwashing is not an unintentional error, but rather a deliberate attempt to mislead stakeholders. The Volkswagen scandal, in which the manufacturer manipulated the emission data of their cars, is a well-known example (Aurand *et al.*, 2018; Lane, 2016; Siano *et al.*, 2017).

Over the years, more specific types of greenwashing have emerged, such as CSR-washing (Pope and Wæraas, 2016), blue washing (misuse of United Nations Global Compact; Berliner and Prakash, 2015), and SDG washing (misuse of SDGs; Heras-Saizarbitoria *et al.*, 2022). Furthermore, overlapping concepts like window-dressing and smoke-screening are sometimes used as synonyms for greenwashing to describe selective disclosure of favourable environmental information that fails to provide an accurate account of a product's or company's actual environmental performance (Pedersen, 2006). Last, scholars have coined terms to describe the antidote to greenwashing, which occurs when a company intentionally under-communicates its environmental practises. For instance, the concept of brownwashing implies concealing the cost of sustainability activities through excessive modesty (Kim and Lyon, 2015). Greenhushing (Font *et al.*, 2017) and strategic silence (Carlos and Lewis, 2018) are two other terms used to describe companies that underreport rather than overreport their environmental performance.

Greenwashing crosses a variety of academic disciplines (Lyon and Montgomery, 2015). Theoretically, several other concepts also address the gap between organisational talk and actual behaviour. Several previous studies have examined *decoupling*, which was first used to describe how organisations protected their core operations from external expectations by symbolically adopting 'inefficient' policies and structures (Meyer and Rowan, 1977). In this context, decoupling refers to a disconnect between policy and implementation, which allows the organisation to continue daily operations while meeting a plethora of external expectations (Bromley and Powell, 2012; Hengst *et al.*, 2020). Decoupling has also been used in the study of sustainability and greenwashing, for example, when oil companies divert attention away from crises and environmentally harmful business activities (Bromley and Powell, 2012; Kassinis and Panayiotou, 2018). Scholars have also discussed means-ends decoupling, which occurs when there is an element of consistency between what is said and what is done, but the latter has little to do with the organisation's core goals and processes (Bromley and Powell, 2012). Fast fashion companies, for example, organise means-ends decoupling by compartmentalising their circular economy activities from their core business practises (Stål and Corvellec, 2021). However, decoupling can only be described as greenwashing when an organisation actively tries to mislead stakeholders about its sustainability practises to improve reputation, attract resources, or hide controversial activities (Crilly *et al.*, 2016). Decoupling can also be a result of situations in which the relationships between talk and actual behaviour is complex, ambiguous, and uncertain, and it is unclear what actions will allow the company to deliver on its promises (ibid.). In the words of Hironaka and Schofer (2002, p. 215):

> *'In certain cases, decoupling may be the product of strategic action. However, it may also reflect altruistic or norms-based action, or even incompetence, accident or chance (…). Whether or not strategic action is involved is an empirical question, not something that should be presumed.'*

Organisational *hypocrisy* is another stream of literature addressing the talk-action disconnect (Brunsson, 1993, 2002). Extant literature on hypocrisy assumes that talk-action consistency is difficult to achieve, for example, due to a lack of knowledge, resources, time, and feasibility (Brunsson, 1993). Organisations are confronted with multiple, and not always consistent, stakeholder demands, necessitating the organisation's serving of various interests through various types of talks and actions (Christensen *et al.*, 2020). Furthermore, talkers and doers may differ in organisations, resulting in inconsistency in what is said and done. In the words of Brunsson (1993, p. 496): *'(…) people who are free to express ideas without having to take action can often afford to defend views that are more moral, beautiful or true, and less feasible, than the view that the actors have to be guided by'*. While the term hypocrisy is commonly associated with a lack of moral integrity, scholars content that some inconsistency between talk and action is unavoidable and a normal organisational practise (Christensen *et al.*, 2020; Higgins et al., 2020). In some cases, hypocrisy may even create opportunities for change that would not have been possible otherwise (Cho *et al.*, 2015). In summary, hypocrisy and greenwashing overlap only when discrepancies between talk and action are rooted in deceptive attempts to mislead stakeholders about the organisation's sustainability performance.

There is also a small but growing stream of literature on organisational *bullshit*, which can be defined as corporate rhetoric that creates a positive image of someone of something regardless of the actual organisational reality. From being mostly associated with spoken language, the concept of 'bullshit' has recently been subjected to scholarly inquiry in management and organisation literature (Morgan, 2010; Spicer, 2013). A bullshitting company is distinguished by its general disregard for the truth and organisational reality (Frankfurt, 2005; Morgan, 2010; Spicer, 2013). In the words of Spicer (p. 657): *'(…) a good portion of talk and text in organisations seems to be fundamentally 'empty', bearing little relationship with the reality of what goes on in the organisation'*. Bullshit can thus be defined as talk and text that is unconcerned with truth (Spicer, 2013, p. 664). However, not all organisational bullshit is a deliberate attempt to mislead its stakeholders. For instance, corporate jargons like 'disruption', 'resilience', and 'agility' are not always about plotting against others or oneself. While bullshit certainly benefits the bullshitter, some 'empty talk' and 'hot air' in organisations can also be socially acceptable codes that reflect membership in a community regardless of its proximity to the truth. Unlike a greenwashing organisation, which intentionally misleads stakeholders about its environmental practises, a bullshitting organisation is simply unconcerned about the truth and organisational reality (Morgan, 2010, p. 1577). According to Frankfurt (2005, p. 13):

> *'The fact about himself that the bullshitter hides (…) is that the truth-values of his statements are of no central interest to him; what we are not to understand is that his intention is neither to report the truth nor to conceal it. This does not mean that his speech is anarchically impulsive, but that the motive guiding and controlling it is unconcerned with how the things about which he speaks truly are.'*

In summary, a number of terms in the management and organisation literature address gaps between an organisation's communication and its actual practises. Greenwashing differs from the concepts described above in that it focuses exclusively on environmental issues and emphasises deliberate efforts to mislead customers or other stakeholders. However, as stated by Seele and Gatti (2017), greenwashing cannot be fully understood unless the individuals or groups accusing the organisation of greenwashing are taken into account (activists, media, consumer agencies, and so on). Just as one organisation may have an incentive to greenwash, another organisation may have an incentive to accuse others of greenwashing, for example, by blaming them for not doing enough or for failing to 'walk the talk'. Therefore, a greenwashing analysis must consider both the accused and the accuser.

A Business Model Perspective on Greenwashing

Business model thinking offers an interesting perspective to understand greenwashing and talk-action gaps more broadly. As previously stated, although existing greenwashing taxonomies provide a detailed overview of different types of misleading environmental communication, they rarely address the connection between the communication and the underlying business characteristics (e.g. manufacturing activities, input materials, or supplier relationships). In this regard, the various frameworks proposed by extant literature for conventional and sustainable business models can be used to broaden the general understanding of greenwashing (Johnson *et al.*, 2016; Lüdeke-Freund, 2009; Osterwalder and Pigneur, 2010). These frameworks share the goal of outlining the fundamental building blocks required for creating, delivering, and capturing value. However, while the literature on conventional business models focuses on the company and its customer relationships, the literature on sustainable business models adopts a broader and more holistic approach, emphasising economic, social, and environmental value as well as a broader range of stakeholder relationships (Freudenreich *et al.*, 2020; Pedersen *et al.*, 2018). According to Lüdeke-Freund *et al.* (2018, p. 147):

> *'A sustainable business model is about creating significantly increased positive effects and/or significantly reduced negative effects for the natural environment and society through changes in the way a company and its network create, deliver, and capture value.'*

The inclusion of social and environmental concerns into business model thinking has led to the expansion and redesign of existing business model typologies, such as the triple layered business model (Joyce and Paquin, 2016), beyond-profit business models (Osterwalder and Pigneur, 2010), and the sustainable business model canvas (Bocken *et al.*, 2018). Acknowledging the differences between these frameworks, we focus on five common building blocks: the value proposition, the customer interface, the business transformation system, the finance and accounting system, and the non-market stakeholder environment (Lüdeke-Freund, 2009; Osterwalder and Pigneur, 2010). These five building blocks resemble the core structural aspects of a business model as identified by extant literature (e.g. Morris *et al.*, 2005; Peric *et al.*, 2017) and allow for the inclusion of social and environmental dimensions.

Value proposition is at the heart of any business model, describing how a company's business activities generate a set of benefits for customers and other stakeholders (Lüdeke-Freund *et al.*, 2019; Osterwalder and Pigneur, 2010, p. 22). In this regard, companies can engage in greenwashing by deliberately creating a misalignment between the communicated promises and the realised benefits. In simple terms, the value proposition does not correspond with the underlying business realities. *Customer interface* is concerned with the relationships that companies form with their customer segments. Companies may resort to greenwashing by attracting environmentally conscious customer segments through misleading marketing. The *business transformation system* includes the infrastructure that allows an organisation to transform inputs into outputs. Key resources, core activities, and strategic partnerships are the critical components of the business transformation system (Osterwalder and Pigneur, 2010). The economic, social, and environmental impacts of a business model are assessed by an organisation's *finance and accounting system*. The impacts include not only the costs and revenues, but also the intended and unintended consequences for stakeholders, society, and the environment. Organisations can use this business model block engage in greenwashing by publishing sustainability reports that conceal significant environmental impacts in the upstream supply chain. Finally, the *non-market stakeholder environment* encompasses all relationships that an organisation maintains with stakeholders other than those directly involved in the core business activities. Non-market stakeholders include regulatory authorities, labour market organisations, community groups, and non-governmental organisations. Companies may engage in greenwashing by exaggerating their participation in sustainability initiatives (e.g. certifications, labels, and multi-stakeholder initiatives) that require minimal commitment or cover only a fraction of business activities. Figure 1 depicts how greenwashing can manifest itself in various components of a business model. A company, for example, can make deceptive environmental measurements of its supply chain activities to meet specific standard criteria, which can then be used as input in misleading marketing activities and fraudulent sustainability reports. Furthermore, a business model is made up of multiple actors who can collaborate in greenwashing activities. For example, companies can collaborate with business partners to develop low-level environmental standards designed to mislead customers and the general public.

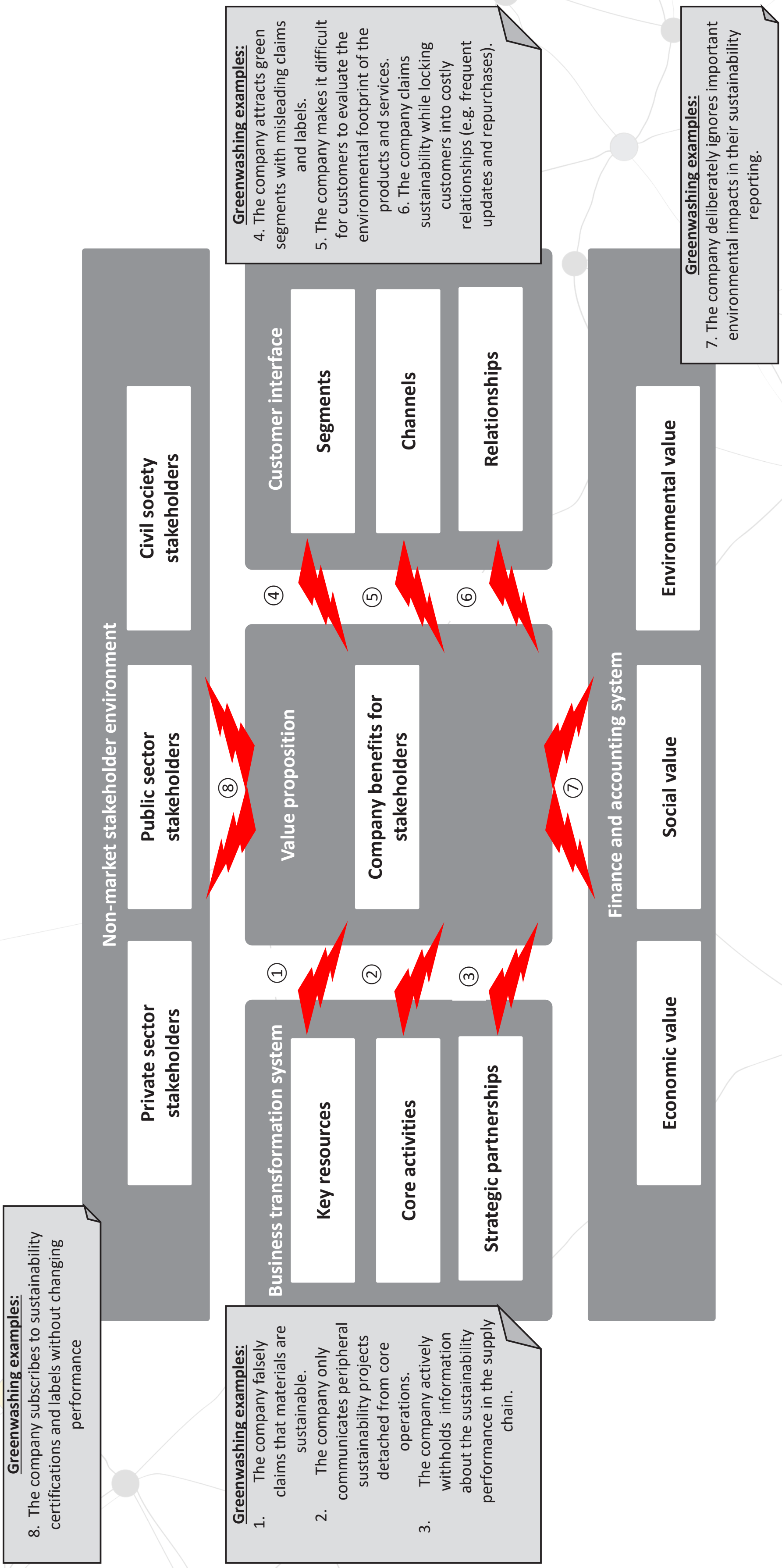

Figure 1: Greenwashing from a business model perspective.

Case example: Greenwashing in the fashion industry

The fashion industry is a high-profile, consumer goods sector with a significant social and environmental footprint (Pedersen and Andersen, 2015; Pedersen *et al.*, 2018). The fashion industry has engaged in a wide range of social and environmental initiatives over the years, including experiments with new materials, development of new take-back systems, and testing of new fashion rental models (Arrigo, 2022; Hvass and Pedersen, 2019). Despite these efforts, non-governmental organisations, journalists, public agencies and community groups continue to accuse fashion brands of greenwashing.

In terms of the *value proposition*, the concept of sustainable fashion has been rejected by some stakeholders as an oxymoron or a contradiction. Specifically, the fast fashion business model has been described as incompatible with the concept of sustainability. Therefore, Greenpeace Germany (among others) calls for the fashion industry to 'slow the flow', contending that fashion brands are 'hijacking circularity for greenwashing' and stating that, 'small pilot projects and fancy circular "token" products, used mainly for marketing purposes or even greenwashing, are not enough and will not make a difference' (Greenpeace Germany, 2021, p. 24-25).

In terms of the *business transformation system*, fashion brands have often been criticised for the lack of transparency regarding their supply chain and misleading claims about the sustainability of their products. For instance, a company like Canada Goose has been under attack for deceiving consumers about their fur and trapping methods (Burns, 2012). Furthermore, due to a disconnect between its sustainability commitments and core business activities, the Chinese online fast fashion retailer SHEIN has been accused of social offsetting (Karaosman and Marshall, 2022).

In terms of *customer interface*, fashion brands have frequently been accused of making misleading sustainability claims to consumers. For example, the Norwegian Consumer Agency (NCA) charged H&M with misleading marketing of their 'conscious collection' (NRK, 2019). Another company being accused of greenwashing is Zalando, an online fashion platform that has been criticised for using sustainability labels (ASHIFT, 2021).

In terms of the *finance and accounting system*, fashion brands' reports can be opaque and only disclose partial information. For instance, a fashion brand may employ questionable methods to assess the environmental impact of their operations. For example, when the NCA banned the use of Higg Index 'sustainability profiles' in consumer marketing, the question of how to account for sustainability was brought to the forefront (Shendrunk, 2022).

In terms of *non-market stakeholder environment*, fashion brands may oversell certifications and partnerships with public and private partners, despite doing little to ensure sustainability in their business activities. For instance, the Changing Markets Foundation (CMF) examined 10 common certification schemes and concluded: *'As the fashion industry is one of the least regulated sectors in the world, these schemes partially exist as a genuine attempt to move towards sustainability in the absence of environmental legislation. But they also enable the proliferation of "greenwashing" on a remarkable scale.'* (CMF, 2022, p. 9).

Greenwashing, from a business model perspective, is a deliberate misalignment between the communicated value proposition and the underlying building blocks of the business model. Greenwashing organisations challenge the assumptions about logic, consistency, and coherence that frequently underpin business model thinking. Ideal business models portray companies as having a coherent logic and a reasonable fit between their various building blocks. Attempts to formulate business model archetypes, typologies, and configurations become more difficult when an organisation's business model is imperfect, unbalanced, and broken. A business model that assumes consistency between individual building blocks, however, may fail to reflect the actual complexity and ambiguity that characterise real-life organisations. As discussed earlier, greenwashing appears to be the norm rather than the exception. Extant literature on greenwashing, decoupling, hypocrisy, and organisational bullshit consider companies as less integrated and more fragmented than business model scholars assume. More research into imperfect business models with inconsistency between the various business model components could benefit the business model literature in the future.

The core elements of greenwashing also provide critical insights into business models in practise. In a greenwashing company, decision-makers acknowledge the importance of social and environmental issues and how they benefit stakeholders. Otherwise, they would have no reason to exaggerate the company's social and environmental performance. The act of greenwashing here demonstrates how the core of a business model, the value proposition, can easily be manipulated. Furthermore, greenwashing indicates that, in the eyes of some decision-makers, the perceived costs of delivering on green promises to stakeholders outweigh the benefits. Otherwise, they would keep their promises to the stakeholders rather than deceive them. The widespread use of greenwashing sends the troubling message that many actors find the business model for greenwashing more appealing than the business model for sustainability. Moreover, greenwashing occurs when decision-makers are confident that stakeholders will not detect their opportunistic behaviour. If decision-makers were aware that the greenwashing would be exposed, they would be less likely to engage in these activities. In this regard, greenwashing draws attention to the fact that few actors have a complete understanding of the entire business model, including the supply chain, business operations, accounting practises, and customer relations. A lack of transparency about the 'real' business model creates a conducive atmosphere for greenwashing. According to Magretta (2002, p. 4), a business model is essentially a story about how an organisation works. Greenwashing companies turn the business model into fiction by fabricating the link between the value proposition and the underlying organisational infrastructure to impress stakeholders.

Conclusions

Greenwashing companies fail to keep their sustainability promises to their stakeholders. Based on existing typologies in the business model literature, we propose a new framework for categorising talk-action disconnects regarding sustainability issues in this study. Greenwashing can be considered as an indicator of organisations with broken business models that deliberately decouple different business model components. In general, this study draws attention to organisations with inconsistent business models, which appear to be a common occurrence in the context of corporate sustainability.

Whether the talk-action disconnect is a deliberate attempt to mislead others (i.e. greenwashing) or a consequence of something else is an empirical question that remains a major challenge for greenwashing research, which is complicated by a number of measurement issues (Hummel and Festl-Pell, 2015). Several empirical studies on greenwashing are retrospective and based on content analysis of corporate communications (Lyon and Montgomery, 2015, p. 231). Specifically, scholars struggle to grasp the intentional component of greenwashing. Other concepts used to describe talk-action discrepancies are easier to operationalise as they do not require knowledge of the motivation underlying the talk-action disconnects. More research into the practise of greenwashing is required in the future, even though this will be a difficult task as greenwashing companies seldom provide access to the organisation.

Future research on greenwashing must also investigate the organisational factors that enable and constrain greenwashing practises. The scale of greenwashing raises the question of whether the dominant business models we know today urge business personnel to exaggerate performance. After all, greenwashing is frequently a collaborative effort that necessitates the participation of multiple actors from various functions, professions, and/or organisations. The Volkswagen emission scandal, for example, was not just the result of a single scrupulous individual plotting against customers and the general public by manipulating the numbers (Higgins *et al.*, 2020). The widespread prevalence of greenwashing is most likely related to how businesses are currently organised, such as the division of labour, resource infrastructures, customer interfaces, and management control systems. Early organisational theories debated whether modern company hierarchies and structures made it difficult to address social and environmental issues (Mintzberg, 1983). While breaking down business models into interdependent building blocks improves analytical clarity, it may also inadvertently draw attention to the vertical and horizontal silos of modern organisations, which impede coordination, collaboration, and knowledge sharing. After all, greenwashing is most likely to succeed in organisations with impenetrable boundaries that prevent access to reliable information about economic, social, and environmental performance.

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