

THE ROLES OF ORGANIZATIONAL AND INDIVIDUAL DRIVERS

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ABSTRACT

Significantly, the alarming number of greenwashing incidence can have tremendous negative effects on consumer confidence in green products, diluting the consumer market for green products and services (Furlow, 2009). Likewise, greenwashing can adversely affect investor confidence in ecologically friendly firms, weakening the socially responsible investing capital market. Greenwashing also entails some risks for greenwashing firms when consumers, non-government organizations (NGOs) or government entities argue the firms' claims. Despite the highlights of Malaysian greenwashing in the online media, there is a tremendous scarcity of academic literature covering the issue. In relation to this, this study is aimed at exploring Malaysian greenwashing practice further. In addition, it is hoped that this research will come out with a proposed model of greenwashing behavior among Malaysian organizations.

Keywords: greenwashing; firms; behaviour

Introduction

The consumer and capital markets for eco-friendly products, services and firms have been growing tremendously in the last decade. Tolliver-Nigro's (2011) study found that the consumer market for eco-friendly products and services was estimated at \$230 billion in 2009 and predicted to grow to \$845 billion by 2015. A larger number of companies are now communicating about the eco-friendliness of their products and practices in order to harvest the benefits of these expanding green markets. The research by TerraChoice Group (2009) indicated green advertising has increased almost ten times in the last 2 decades and nearly tripled since 2006. As of 2009, more than 75 percent of S&P 500 companies had website sections purposely to disclose their environmental and social policies and performance (Alves, 2009). At the same time, the number of firms committing greenwashing is increasing, misleading consumers about firm environmental effort or the environmental benefits of a product or service. Over 95 percent of products surveyed by TerraChoice in 2008/2009 committed at least one of the TerraChoice "Seven Sins of Greenwashing" (2009).

According to TerraChoice Group, greenwashing is the act of giving the wrong idea or impression to consumers regarding the environmental practices of a company (firm-level greenwashing) or the environmental benefits of a product or service (product-level greenwashing) (2009). DiMaggio and Walter (1983) gave an example of firm-level greenwashing that is General Electric's "Ecomagination" campaign, which advertised the company's work in the environmental field while it concurrently lobbied to fight new clean air EPA requirements (p. 147-160). An example of product-level greenwashing is the wrongly certified Energy Star refrigerators, products of LG Electronics. Energy Star, a government-backed third party eco-label showing that a product meets a set of energy saving guidelines, certified many of LG Electronics' refrigerator models. It was noticed, however, that ten of the certified LG refrigerator models had listed misguided energy usage quantification on their labels and were below the efficiency standards required to earn the certification (Lane, 2010, p. 742 – 773). Work categorizing and quantifying product-level greenwashing is produced more than that of firm-level greenwashing. For example, Gillespie identifies "ten signs of greenwash", ranging from "fluffy language," words or terms with uncertain meaning such as "eco-friendly," to "outright lying," totally made up claims or data (2008). The TerraChoice Group assorts product-level greenwashing into "seven sins." These sins range from the "sin of the hidden tradeoff," committed by suggesting a product is green based on an unreasonably thin set of characteristics without attention to other environmental issues, to the "sin of fibbing," which is committed by making erroneous environmental claims. The other sins are the sin of no proof, sin of vagueness, sin of irrelevance, sin of lesser of two evils, and sin of worshiping false labels (2014).

Problem Statement

Greenwashing bears some profound consequences to greenwashing firms. The alarming number of greenwashing incidence can have tremendous negative effects on consumer confidence in green products, diluting the consumer market for green products and services (Furlow, 2009). Likewise, greenwashing can adversely affect investor confidence in ecologically friendly firms, weakening the socially responsible investing capital market. Greenwashing also entails some risks for greenwashing firms when consumers, non-government organizations (NGOs) or government entities argue firms' claims. For example, several environmental groups targeted Green Mountain Power Corporation for purportedly using contaminating combustion technologies for their inexhaustible energy sources, which they portrayed in the public eye as "green energy" (www.boycottgreenmountain.com, 2014). In the same way, corporations have faced litigation for involving in environmental misleading advertising. For example, Lane (2010) reported that Honda settled a class action suit for untruthful and deceitful statements regarding the fuel efficiency of a hybrid vehicle (p. 742 – 773).

The cases of greenwashing have not only flourished abroad. Here, in Malaysia, though only a few reported in the mass media, some greenwashing cases caught the attention of environment-advocate groups. As an example, Malaysia Palm Oil Council (MPOC) was accused of allegedly running greenwashing public relations. The attacks on MPOC present on several websites. For instance, a pro-conservation website, www.conservationbytes.com, claims that MPOC misleads the public by making a false statement stating that an oil palm plantation does not contribute to deforestation since it is a "planted forest" and is equally biodiversified to the forest it replaced (2008). In other instance, a Sarawak NGO website, www.sarawakreport.org exposes a so-called greenwash proposal submitted by FBC Media, a public relation media appointed by the government, to the Sarawak state.

Despite the highlights of Malaysian greenwashing in the online media, there is a tremendous scarcity of academic literature covering the issue. Therefore, this study is aimed to explore Malaysian greenwashing practice further. Subsequently, this research will come out with a proposed model of greenwashing behavior among Malaysian organizations.

Research Questions

This research focuses on the following research questions:

1. What are the determinants that affect the the greenwashing behavior of Malaysian firms?
2. To what extend the organizational drivers associasted with Malaysian firms' greenwashing?
3. To what extend the individual psychological drivers associated with Malaysian firms' greenwashing?
4. How strong organizational drivers and individual psychological drivers influences each other?

Significances of the Study

As stated earlier, the greenwashing literature pertaining Malaysian firms is barely at its infancy stage. This research is an attempt to render a base research framework to future researchers who may add value later on.

This research will also add to the understanding of marketing communication parctitioners in Malaysian firms about the risks and consequences of greenwashing. Other than that, the organizational and individual psychological drivers discussed in this research can provide a more rigorous insight on how greenwashing may affect an firm's reputation and performance in the long run.

Research Framework

This research draws from a foundation of institutional theory, which emphasizes the importance of regulatory, normative and cognitive factors in shaping firms' decisions to adopt specific organizational practices (Dimaggio and Powell, 1983, p. 147-160). The researcher observes that regulatory context are indirect, while the interest of this research is to focus on the normative and cognitive contexts, which become the the base of organizational and individual psychological drivers of firm greenwashing.

1. Organizational drivers

a. Firm characteristics

Firm-level characteristics such as size, industry, profitability, lifecycle stage, and particular resources and competencies undoubtedly influence the overall strategies available to a firm, the costs and benefits associated with any particular action, and the degree to which a firm experiences the external pressures.

b. Incentive structure and culture

In addition to basic firm-level characteristics such as size, profitability and industry, it has been shown that firm incentive structure and ethical climate can be determinants of firm ethical behavior (Wimbush, et. al., 1997, p. 1705 -1716). Unethical behavior has been described as behavior that has a harmful effect on others and is either illegal or morally unacceptable in the larger community (Brass, et. al., 1998, p. 14-31) ; greenwashing fits this definition of unethical behavior. As such, we can draw from existing literature on incentives and ethical climate as drivers of unethical behavior to further inform our understanding of why a firm might engage in greenwashing. Somewhat related to incentive structure is ethical climate. Organizational behavior scholars describe a firm's ethical climate as composed of organizational members' shared perceptions and beliefs that certain ethical reasoning or behaviors are expected norms for decision making (Cullen, at. al., 2003, p.127-141).

c. Organizational inertia

Organizational inertia is the strong persistence of existing form and function that underlies and hampers strategic change. Organizational inertia is more likely to be prevalent in larger, older firms than in smaller, newer firms (Hannan and Freeman, 1984, 149-164). Thus, particularly among larger, older firms, organizational inertia could explain a lag naturally occurring between a manager's declaration of green intent and implementation of this intent, or between a CEO's declaration of commitment to greening the company and the rest of the company's alteration of structure and processes to truly green the company (Maxwell, et. al., 2007, p. 118-134). This disconnect could be particularly prevalent in firms that are transitioning between CEOs or during mergers and acquisitions.

d. Effectiveness of intra-firm communication

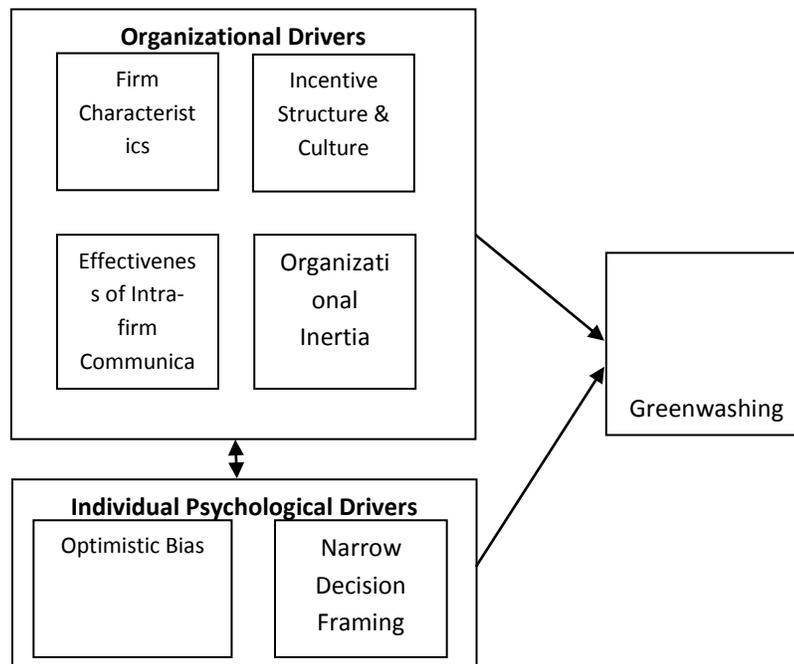
Another internal firm characteristic that is cited in the management literature to explain firm behavior is effectiveness of intra-firm communication. Internal transfers of knowledge within a firm are often sticky or difficult to achieve, and suboptimal internal transfer of knowledge can help to explain firm behavior such as less innovation (Szulanski, 1996, 27-43). Suboptimal transfers of knowledge within a firm could also help explain inadvertent greenwashing by errant firms, suggesting that firms with ineffective communication between marketing/PR departments and product development, production or packaging departments are more likely to greenwash, all else being equal. For example, a marketing or PR department could overstate the greenness of a product due to a miscommunication or lack of communication with a product development department, packaging department, or suppliers of a product's components.

2. Individual psychological drivers

a. Optimistic Bias

Optimistic bias, the tendency for individuals to over-estimate the likelihood of favorable events and under-estimate the likelihood of adverse events, may also contribute to greenwashing. Optimistic bias arises in part because forecasts of future outcomes are often tied to plans and scenarios of success rather than on past results (Kahneman, 2003, p. 1449 – 1475). Pervasive optimistic biases can take three main forms: unrealistically positive self-evaluation, unrealistic optimism about future events and plans, and an illusion of control (Taylor and Brown, 1988, p. 193-210). A survey of new entrepreneurs about their chances of success and the chances of success for enterprises similar to theirs demonstrates this bias.

b. Narrow decision framing, sometimes called narrowing bracketing, is the tendency to make decisions in isolation (Kahneman and Lovallo, 1993. P. 17-31). An example of narrow bracketing or decision isolation is the statistical fact that consumption does not adjust downward when people receive bad news about future income shocks such as losing their job (Camerer, 1998, 163-183). Decision-makers within a firm may decide today to communicate about the greenness of a product or firm without adequately considering what is required to implement this in the future, resulting in greenwashing down the road. Or a decision-maker or firm leader may focus on the short-term gains from greenwashing without adequately weighing the long-term potential negative effects on loss of reputation when making a decision, resulting in greenwashing. To mitigate this tendency, psychology and behavioral scholars note that maintenance of a broader decision frame can be influenced by how performance is evaluated (Kahneman and Lovallo, 1993. P. 17-31). The tendency toward narrow decision framing can thus be moderated with an appropriately aligned incentive structure.



The proposed framework of Malaysian firms' greenwashing

Methodology

1. Population and Sample Selection

The target population of this study encompasses Malaysian firms which claim themselves green or/and offer the market with environmentally friendly products or services. Basically, areas or cities with green portrayal are kept in mind when conducting this research. The selection of sample is based on nonprobability quota sampling method. According to Sekaran and Bougie (2014), nonprobability quota sampling can be employed when the research purpose is to “obtain information relevant to and available only with certain groups” and there is a need of obtaining “responses of special interest minority groups” (p. 255).

2. Data Collection

In data collection, this study entailed distribution of self-administered closed-questionnaire survey adapted from previous researchers. Sekaran and Bougie (2014) mentions that closed questions help respondents to make quick decisions to choose among the several alternatives before them. Furthermore, they help the researcher to easily code the information for subsequent analysis. As such, this study utilizes the closed questions in the survey. In addition, as this paper is a study of opinions on how strongly the respondents agree or disagree with certain statements, Likert scale is the best to be used (Sekaran and Bougie, 2014). The researchers have decided to follow Sekaran (2014) by using five-point Likert scale in the study because it is able to elicit responses with regard to the object, event or person studied.

3. Data Analysis Methods

All coded data are keyed into the computer for further analysis by using Statistical Package for Social Sciences (SPSS) version 21. Both the descriptive and inferential statistical analysis techniques are used in the study. Specifically, percentage, mean, standard deviation, correlation and regression analyses are used to analyze data.

Percentage, mean and standard deviations are to be used in the initial phase. Subsequently, in hypotheses testing, Pearson correlation is to be employed to determine the relationship between independent variables and dependent variables. Meanwhile, multiple regression analysis is to be conducted to examine the simultaneous effects of independent variables on dependent variable.

Conclusion

The prevalence of greenwashing has skyrocketed in recent years; more and more firms have been combining poor environmental performance with positive communication about environmental performance. Greenwashing can have significant negative effects on consumer and investor confidence in green products and environmentally responsible firms, making these stakeholders reluctant to reward companies for environmentally friendly performance. This, in turn, increases the incentives for firms to engage in environmentally detrimental behavior, which has been shown to create negative externalities and thus negatively affect social welfare. For managers, regulators, and NGOs who seek to implement policies or take actions to decrease the incidence of greenwashing, it is critical to understand the factors that drive greenwashing in the first place in order to determine how best to counteract them. A simple framework that organizes drivers into organizational-level drivers and individual-level drivers sheds light on why many firms choose to positively communicate about their environmental performance and thus greenwash. Limited and imperfect information about firm environmental performance, as well as uncertainty about regulatory punishment for greenwashing, contribute directly to greenwashing and also indirectly influence greenwashing through the organizational and individual-level drivers. Indeed, cognitive tendencies such as narrow decision framing, and optimistic bias are heightened as individuals make decisions based on increasingly limited or imperfect information, and as uncertainty increases.

There is still much work to be done to fully understand, identify and measure firm greenwashing. In putting forth a framework which describes drivers of greenwashing along two dimensions – organizational and individual – the researcher hope to have contributed to an understanding of the causes of greenwashing, and in doing so, have moved forward the discussion about what policymakers, NGOs, and firms can do to reduce the incidence of greenwashing.

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