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CICLO XXXII

**A Path Through Sustainability, Ethics and Corporate Communication.
Are We "Walking the Walk" or just "Talking the Talk"?**

Coordinatore:
Chiar.mo Prof. Stefano Azzali

Tutore:
Chiar.ma Prof.ssa Federica Balluchi

Dottorando: Riccardo Torelli

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*To Eleonora, my beloved wife,
and our two little angels, Elettra & Ettore*

“When the Last Tree Is Cut Down,
the Last Fish Eaten,
and the Last Stream Poisoned,
You Will Realize That You Cannot Eat Money”

Native American saying

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As in any unfamiliar route it is important to have good guides at your side: luckily I have had several and all of them very significant.

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ABSTRACT

The challenges of today's world have represented also for the corporate field an important incentive to reflect on their practices and especially on their impacts on the external environment, whether economic, social or environmental. In the light of the ever-increasing attention and demand for concrete actions by the different categories of stakeholders that relate to each sector or individual company, there have been different types of responses, characterised by levels of commitment, in-depth consideration and adherence to different external needs. The point is, however, that on the corporate communication front, the responses have been, and are increasingly, numerous and aimed at providing the most accurate and exhaustive information possible. However, communicating something about social and environmental commitments, linked to the broad sphere of sustainability, does not always coincide with implementing something equally positive and concrete. Sometimes, styles and methods of communication are also strategically exploited with the intention of generating positive perceptions, misconceptions or simply confusion. These misleading corporate communication practices are a clear example of how corporate ethics, which should be the basis or, in any case, a cornerstone of these sustainability and responsibility practices, can in some cases be excluded or used as a tool to achieve specific reputational and legitimacy objectives, without, however, really being considered and possessed. It is precisely on these issues that this thesis focuses, proposing, through four papers, a path of critical analysis that begins with the analysis of the main types of social and environmental reporting used in Italy and the study of one of the main principles of non-financial reporting, materiality, and its important relationships with the process of stakeholder engagement. The path then continues by analyzing the functioning of corporate communication in a broad sense, deepening the various key concepts that determine the characteristics and methods of use, as well as the different results (credibility, perception, legitimacy). Finally, the critical analysis is focused on a type of strategic environmental communication that is defined by the term greenwashing and that for years has been widely used by companies around the world, in particular by deepening the influences that this type of communication has on the perceptions of stakeholders. This work, through the critical approach adopted, aims, first, to highlight the main behaviors

regarding communication, and the related strategies and underlying processes, adopted by companies in the field of sustainability and, second, to highlight the substantial differences between corporate communication and actual performance and then to differentiate key concepts that are closely related such as CSR (Corporate Social Responsibility) and SER (Social Environmental Reporting), dealing with their relationship with the concepts increasingly used, often in a confused or erroneous way, of sustainability and business ethics.

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LIST OF THE ORIGINAL PUBLICATIONS

Paper 1:

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Paper 2:

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Paper 3:

Balluchi F., Lazzini A. & Torelli R. CSR and Greenwashing: A Matter of Perception in the Search of Legitimacy. *Springer Series Book “Accounting, Accountability and Society”* (forthcoming)

Paper 4:

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1. INTRODUCTION

1.1. Preface

Nowadays, "sustainability" is a very widely used terms in policy contexts, businesses and third-sector organisations. However, the unfortunate paradox is that environmental degradation and destruction are occurring at unprecedented levels. Key in this respect is climate change and its deleterious impacts in terms of the changing frequency of extreme weather events, melting glaciers in polar regions, reducing forest extension and so on (IPCC, 2019). It really is important to emphasise that, despite the worsening of the conditions in which we live, on the one hand, and the increased diffusion and uptake of concepts related to sustainability on the other hand, conditions are continuing to deteriorate. This, hypothetically, could signal two phenomena: (1) we have not yet achieved the requisite dissemination of knowledge, concepts and practices related to sustainability as to be able to halt and then reverse the trend of worsening environmental conditions of the Planet; or (2) the sustainability practices implemented thus far are not effective and / or sufficient.

The concept of sustainability is usually divided into environmental, social and economic (ESE) dimensions. More broadly, sustainability/unsustainability has impacts on political, institutional and cultural contexts as well. It is from these tangible impacts and the changes taking place, particularly with respect to ESE dimensions, that attempts to respond began to emerge from different actors and from national and supranational institutions. In 1972, the first United Nations (UN) environmental agreement came into force, but only three countries were signatories. The latest such UN agreement, with 176 countries as signatories, appears to signal that we have come a long way since then¹ (UNEP, 2019). At the supranational level, the "Sustainable Development Goals (SDGs)" warrant acknowledgement and, relatedly, objectives contained in Agenda 2030 shared on 25 September 2015 by the 193 States of the UN General Assembly: 17 fundamental objectives (for a total of 169 specific targets) to be achieved by 2030 pursuant of ensuring

¹ The UN points out, however, that these laws or agreements are often not implemented due to corruption, lack of information, general disengagement and lack of power of governmental environmental agencies (UNEP (2019), Environmental Rule of Law: First Global Report).

truly sustainable development around the world².

The challenge of social and, in particular, environmental responsibility has been taken up by most large companies over the last decade. These firms, wearing the corporate social responsibility (CSR) hat, have taken different paths but all oriented in some way to give a response to the external environment³ on actions taken towards greater protection of the natural environment, greater consideration of the social aspects inside and outside the company itself (including the welfare of workers and impacts on communities and wider society), as well as towards sustainability and ethics that guide business practices and processes in the broadest sense. Companies, but even more so their stakeholders, have recognised that the microeconomic system is comprised of key players, and therefore they should be kept under observation (Freeman, 2010; Thijssens et al., 2015; Wolf, 2014) in the current game to achieve economic sustainability, which is an objective that is increasingly coveted and in demand. It would be wrong to consider companies outside this game because they are merely entities set up for the sole purpose of achieving an economic and financial profit. If we look at their “basic” purpose of value creation, we cannot consider this process only from a purely monetary point of view. To create economic value, companies use and therefore consume various types of resources (financial, natural, human, social/relational and intangible). If we configure a simple calculation of initial economic resources compared to the final resources embodied in the goods/services proffered by companies, we would not consider most of the processes of destruction/creation of value that take place around and within the activity of a company and that concern spheres other than the economic one. If, instead, we look at the company within its context of reference, we cannot consider it as an entity separate from and independent of the external environment. Rather, it is an integral part of the context in which it is inserted, and that context is affected (positively, negatively or neutrally) by the company’s use of inputs and by its final production of outputs and outcomes.

² For further information, see the official website of the UN Sustainable Development Goals: www.un.org/sustainabledevelopment.

³ Here “environment” is used in the sense of external context that includes not only the natural environment but also society, other companies, associations, institutions, communities and so on.

1.2. Aim of the thesis

Based on the foregoing, this thesis, through a unitary and comprehensive discussion which is expressed in four papers that focus attention on specific topics, intends to provide through a critical approach, a path of study starting from analysis of social environmental reporting (SER) (Paper 1) and some of its key principles (Paper 2), then reflecting on the processes of perception and legitimacy that guide both the choices of companies in this situation and the reading and response of stakeholders (Paper 3), before analysing an extreme but widespread phenomenon related to these practices (greenwashing), which through deception and confusion, creates direct and indirect effects and impacts on the external environment that cannot be ignored (Paper 4).

In other words, this thesis aims to critically reflect on the practices of CSR and SER. This is accomplished by, first, outlining the ways in which companies approach issues related to social and environmental responsibility and especially how they communicate their commitment and their actions to their stakeholders. In this context, the present work is part of a wide field of research concerning the various non-financial reporting practices, voluntary or mandatory, implemented by companies. Different studies have focussed on different issues ranging from the determinants, drivers, benefits and risks of SER as well as the different tools used and their basic characteristics (e.g. Brammer & Pavelin, 2008; Cho & Patten, 2007a; Cormier & Magnan, 1999; da Silva Monteiro & Aibar-Guzmán, 2010; Fifka, 2013; Frías-Aceituno et al., 2013; Haniffa & Cooke, 2005; Jensen & Berg, 2012; Kouhy et al., 1995; Michelon et al., 2015; Mio, 2010; Mock et al., 2007; Stubbs et al., 2013; Vaz et al., 2016; Venturelli et al., 2017; Yongvanich & Guthrie, 2006). These studies have increased collective understandings of the characteristics of CSR and SER in companies operating in different countries, although it appears that some basic concepts are still underdiscussed and underexplored. Key questions in this regard are as follows:

- Is the concept of SER synonymous with CSR, should it be defined differently, or is it just an information tool?
- Does the central theme of CSR concern how and why commitments are communicated?
- Do CSR and SER support and facilitate companies meeting sustainability objectives?

Following an in-depth study of CSR and socio-environmental communication tools, and given the prevailing unsustainable trends with respect to environmental, social and

economic dimensions, it is clear that these are key questions to be answered to understand whether the path commonly undertaken by companies, institutions and the academic world in recent years is optimal or whether the real goal has been lost.

This work also intends to focus on some key concepts regarding these types and strategies of communication and involvement that concern the relationship between the company and stakeholders, between the messages sent and received and between communication and the facts that underlie it. This in-depth analysis will focus on certain CSR and SER behaviours aimed at deceiving salient stakeholders by providing partial, inaccurate or even false information. This second focus is part of a field of theoretical and empirical research aimed at studying the functioning of communication between companies and stakeholders and information strategies that are put in place to achieve specific objectives through communication to specific targets. A key issue to consider is how communications and related CSR documents reach target stakeholders and what effects they can have on them, both positive and negative (Cho et al., 2009a; She & Michelon, 2018; Wagner et al., 2009). In this respect, key concepts of credibility and perception (Lock & Seele, 2016, 2017; Musgrove et al., 2018; Orazi & Chan, 2018; Seele & Lock, 2015) are studied and explored. Both play an important role in changing the way in which a recipient of communication understands, processes and makes decisions based on that communication. We have therefore progressed from studying and evaluating the content, reasons and practices of SER to analysing how this form of reporting impacts on the stakeholders for whom it was intended, and trying to understand why there are differences in the way in which similar information can be dissimilarly received or otherwise constructed. Without this step, we would focus only on the content of non-financial communication without paying attention to the form of the message, to its specific modes of transmission or to its mode of reception (Brunton et al., 2017; Rodrigue, 2014; Schoeneborn et al., 2019). Some key questions concerning this transition from the creation of communication to its transmission and transposition are as follows:

- What role does perception and credibility play in relation to non-financial communication?
- Does communication lead to deception and untruths in an attempt to obtain legitimacy and credibility?
- Are all SER practices ethical?

Linked to the theme of perception, deception and ethics the final topic of this thesis is related to environmental reporting and communication: greenwashing. This is a concept that can be correlated to aspects of marketing and misleading advertising (Du, 2015; Musgrove et al., 2018; Nyilasy et al., 2014; Prakash, 2002; Wilson et al., 2010). It is a concept that is fundamental from the point of view of accounting, accountability and CSR although there remains ample scope for further research in these domains. Several studies have attempted to define greenwashing as a concept and to understand its drivers while others have outlined some of its uses and how these impact on stakeholders (e.g. Berrone et al., 2017; Blome et al., 2017; Delmas & Burbano, 2011; Greer & Bruno, 1997; Guo et al., 2017; Laufer, 2003; Lyon & Montgomery, 2015; Mahoney et al., 2013; Marquis et al., 2016; Ramus & Montiel, 2005; Wolniak, 2016). However, there is still disagreement and confusion about its definition and how it actually affects the perceptions and decisions of stakeholders. Extant attempts to explore greenwashing in the context of company strategies, the choices made by management personnel and the different objectives that the company has set itself have not been sufficient. These aspects are relevant in that they "create" and model different forms of greenwashing which will give rise to different impacts and responses. It is probably from this polymorphism of greenwashing and its adaptation to different realities that the omnipresent difficulty to cage it and force it into a single and unequivocal definition with well-defined and clear characteristics arises (Seele & Gatti, 2017; Siano et al., 2017).

In sum the main goal of this thesis is to *understand and highlight how the main types of reporting, related to CSR and SER, are built and how these can be manipulated to move away from the objectives of responsibility and sustainability so that they become misleading and unethical communications*. An attempt will also be made to answer the question "Are we "walking the walk" or just "talking the talk"?" after having considered and dealt with the concepts of sustainability, CSR, SER and ethics in the business environment and after having analysed the current and most widespread practices of non-financial responsibility and communication implemented by companies.

In what follows, the three cornerstones of this thesis are considered, namely sustainability, CSR and SER, ethics. The four papers that represent the heart of this work will then be introduced and summarised, before, conclusions are offered.

1.3. "The walk" and "the talk"

1.3.1. Sustainability

Sustainability can be defined as "The ability to be maintained at a certain rate or level" or, more specifically in an environmental context, as "Avoidance of the depletion of natural resources in order to maintain an ecological balance"⁴. The concept of sustainability is now widely used, known and debated (see Preface) but it is not always easy to understand whether our behaviours, those of others, and those adopted by companies are really sustainable (Bebbington et al., 2007; Bebbington & Larrinaga, 2014; Eccles, 2016; Tregidga et al., 2018). We could pose the following question, for example. *There is a company operating in the chemical sector that produces harmful emissions and discharges pollution into the aquatic environment; if that company installs a large photovoltaic cover on the roof of its premises and claims to be sustainable, is it really sustainable?* It is clear that if this company continues to operate as per the status quo, it will never be able to guarantee an ecological balance and the corollary of this is obviously that the more companies there are which act similarly to this, the greater will be the negative environmental impacts. Focussing on how the social system and relevant institutions are reacting to this important challenge, it is prudent to reflect on the concept of sustainable (economic) development and the United Nations' SDGs. The United Nations is pursuing these Goals with conviction and commitment, motivated by the aim of changing the practices and behaviours of all actors involved in the challenge of global sustainability. However, one of the main criticisms levelled at this laudable international project stems from the assumption that without a radical change in the current economic/production system, sustainable economic development is not possible (Huetting, 2010; Laine, 2009). Moreover, others with a more extreme view, argue that it is impossible to integrate the concepts of economic development and sustainability including, in particular, supporters of so-called "Degrowth" (e.g. D'Alisa et al., 2014; Latouche, 2006, 2007; Shrivastava, 2015). Despite some exceptions⁵, most companies operate in a "standard" economic context in which their only purpose is to create

⁴ Definition taken from the Oxford English Dictionary (2019).

⁵ See for example: forms of cooperation between small producers/processors directly targeting the consumer; solidarity purchasing groups; associations/organisations set up for the purpose of exchange, bartering or sharing; farming communities focusing on the principles of sharing, solidarity-based aid, self-provision and so on.

economic/financial value without due attention to other forms of capital or value. However, most of these companies have implemented (in their strategic, operational and communication planning) concepts, processes and operations related to achieving forms of sustainability. CSR and SER are particularly salient in this respect and, more and more often, we see different forms of communication, characterised by different levels of detail, focused on the themes of SDGs and sustainable development (Aras & Crowther, 2008; Mio & Venturelli, 2013). Before dealing with the relationship between the concepts of sustainability and CSR/SER, it is essential to ask ourselves a basic question. If we are talking about sustainability, if we are talking about certain sustainable behaviours (regardless of whether we implement them or not) are we already achieving results on the road to effective sustainability? Several studies analysing SER practices argue that one of the key roles that corporate communication plays is precisely the fact that talking about sustainability or practices related to it is spreading a positive message and is encouraging other companies, other types of organisations, and individuals to deal with it (e.g. Laine, 2010; Pérez-López et al., 2015). It is believed that if this actually happens it can have an important impact on actual behaviours. For decades we have been talking about climate change but this "talking" has not had tangible and effective results vis-à-vis mitigation and adaptation. This is a problem that is also closely linked to CSR/SER practices. The majority of company communications⁶ regarding achieved objectives, changes made or being implemented and future objectives, provide a more or less detailed and precise explanation of the specific issue but almost never, with the exception of the performance indicators recommended by the GRI Standards, a system for timely, reliable and useful recording of progress made (or even deterioration). It is extremely important to provide reports that deal with the most important issues with a timely system for collecting relevant data as well as a system for measuring the final performance achieved (even if this is negative / worse). With communication of this kind, complete, clear and sincere⁷, one could at least understand how much and how CSR, communicated through SER, has contributed and pushed the company to become more sustainable, in the true sense of the word. While the external communication of such data, measures and performance may

⁶ Mostly in the form of annual reports, mainly sustainability reports and integrated reports, but sometimes also through websites, interviews and press releases.

⁷ This also includes the difficult and rare practice of communicating bad news, deteriorating conditions, defeats and unfulfilled goals.

represent a competitive and market problem, this form of attention to the actual path of sustainability undertaken can still be implemented through exclusively internal and dedicated practices aimed at planning, managing and controlling sustainability performance. SERs can certainly be a valid support and a valid tool for promoting and communicating⁸ the degree of sustainability achieved or predetermined by a company and the actions implemented, as well as their actual results, but it is clear that it cannot be the primary means through which it aspires to sustainability (about some important critical aspects of SER see Adams, 2004; Boiral, 2013; Brennan & Merkl-Davies, 2014). Therefore, the SER is not as a deceptive and useless means of communication (or pure image/marketing), but not even as a primary means of achieving sustainability; an intermediate way, a material and instrumental driver.

1.3.2. CSR and SER

The concept of corporate social responsibility needs to be considered in more depth in the context of the concept of sustainability. CSR is usually defined around the fundamental concept of "type of international private business self-regulation" (Sheehy, 2015) and covers not only organisational policies and practices but also ethical strategies and responses to the pressures of the external environment. CSR and, relatedly, social environmental reporting are usually linked to voluntary practices⁹ undertaken by companies (Brammer & Pavelin, 2006) and this includes the communication of commitments and results achieved. This voluntary approach has been extensively studied by many researchers as being of great interest. The official motivation through which companies implement practices of this type can, in most cases, be framed in terms of attention to problems of the internal and external environment, current social and environmental challenges and demands/pressures from different stakeholder groups (Garriga & Melé, 2004). It is an acknowledgement of one's active and decisive role in the environment, in its most general sense, and an acknowledgement of the main responsibilities that the company has. Sometimes, however, the real motivation for these

⁸ If used appropriately, according to the principles of truth, completeness, relevance and ethics.

⁹ In recent years, as far as reporting practices are concerned, there has been a shift from a "voluntary" logic to a "mandatory" one, as various international and national entities are adopting regulations that require certain types of companies to communicate their commitments and results in terms of social and environmental responsibility. The extent to which this obligation to communicate impacts on the effective sensitivity and responsibility of companies is an important issue to be examined in greater depth.

practices does not lie in a genuine and real sense of ethics and/or social and environmental responsibility but in a search for competitive advantage, higher profits, a better corporate image or to mask negative behaviour¹⁰ (Porter & Kramer, 2006; Testa et al., 2018). Through CSR, companies should take on, accept and address the sustainability challenges delineated in section 1.3.1. (Sustainability). Attention to one's own direct and indirect impacts which are a function of the use of different inputs (different types of resources or capital) and the production of outputs and outcomes, should be the basis of a meaningful and sincere CSR logic. This is difficult to achieve or can be concrete and complete but without taking into account the voices and thoughts of internal and external stakeholders (other than shareholders) (Boesso et al., 2015; Boesso & Kumar, 2016). Yet it is precisely the stakeholders (for different reasons and at different levels) who can provide a broader view of the impacts that the company is having in all areas of the so-called "Triple Bottom Line" (Elkington, 2018), i.e. economic, social and environmental. Through the involvement of salient stakeholder groups (Boesso & Kumar, 2016; Mitchell et al., 1997), companies can understand which issues are of interest to them and then identify, also considering the point of view of company management, the main issues of internal and external interest that will be further investigated, addressed and discussed in the annual reporting documents (Paper 2). This complex and articulated process is called "materiality analysis" (Fasan & Mio, 2017; Jones et al., 2016; Torelli et al., 2018) and is encouraged by key international organisations¹¹ that deal with social and environmental reporting. If companies adopt a robust and serious approach to CSR and SER, the external environment can only benefit, first of all by reducing the information asymmetry that usually affects the soundness of decisions taken by stakeholders about the company, but also through a greater commitment of the company and its management in addressing the main issues related to its business and the impacts created. It is through this virtuous behaviour that companies obtain legitimacy (Cho & Patten, 2007; Guthrie & Parker, 1989; Lai et al., 2016; Suchman, 1995) and, consequently, a better reputation. This is a goal coveted by the majority of business realities and which is often achieved, or at least there is an attempt to achieve it, through practices that have little or nothing to do with

¹⁰ Some of these practices can be classed as "window dressing" and "greenwashing" as will be discussed in Section 3.3.

¹¹ The Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC) are key in this respect.

sustainability and CSR (Paper 3). Even if there is a real assumption of responsibility on the part of the company and therefore of genuine CSR, the same may not be the case with respect to SER. As discussed in the previous paragraph, socio-environmental (or non-financial) reporting cannot and must not be the only means to achieve sustainability and responsibility objectives towards the internal and external environment, but it is an important and sometimes decisive driver and tool. Various types of communication and annual reporting on social and environmental commitments are used by companies. These may be built on structures that are standardised (if recognised standards of SER are adopted) and named in similar ways. These outputs can be highly heterogeneous in terms of information, data and topics and above all in terms of the degree of depth and extent of truth. The process of building and conveying communication is fundamental as it is designed specifically for target stakeholders (Habermas, 1984). The credibility of communication, or lack thereof, is becoming an increasingly important topic both in academic (Lock & Seele, 2016, 2017; Seele & Lock, 2015) and managerial domains. When faced with an abundance of information the stakeholder has the arduous task of trying to understand which of the information he/she receives is true. However, it is rarely easy to establish truth by reference to available facts, thus the concept of credibility becomes the determining factor (Paper 3). However, credibility is a rather subjective concept, so it is difficult to determine and measure. Through receiving social and environmental communications and the subsequent processing and judgement of those communications, perceptions play a key role in guiding the recipients of information messages in their choices (Cho et al., 2009; She & Michelon, 2018; Vries et al., 2015; Wagner et al., 2009). The game of the success or failure of corporate communication in reaching the objective of credibility and therefore legitimacy is often played on the field of perceptions (Paper 4). As management can strive to ensure clear, comprehensive and accurate information to ensure robust stakeholder understanding and therefore a good reaction (if content allows it), it can also attempt to follow a different path. To instil the perception of a positive message, manipulation of data and information is often used (Aji & Sutikno, 2015; Alniacik et al., 2011; Berrone et al., 2017; Nyilasy et al., 2014; Orazi & Chan, 2018; Vries et al., 2015). With this type of deception or misconduct, the objective is to shift towards "how" communication is transferred and "how" it is perceived, rather than focusing on "what" is contained in the communication and whether that "what" is

relevant, material and treated appropriately¹² (Orazi & Chan, 2018; Walker & Wan, 2012). These practices often result in a targeted and studied use of numerous images, colours, graphics and drawings¹³ to build and highlight a positive corporate image (Hooghiemstra, 2000) which may not adequately reflect realities and thus there is a risk of diminishing the confidence of the academic community and civil society in the different practices of CSR and especially SER. To maximise stakeholders' confidence in CSR, first of all, and the reporting of these activities and commitments, secondly, towards an effective reunification in the search for greater sustainability and corporate responsibility, it is necessary to focus on certain essential characteristics: reliability and adequacy, completeness and accuracy, verifiability and adherence to reality. In addition to ensuring comprehensibility, clarity and credibility, systems must be used to measure performance and the objectives set so that a company can first of all self-assess and self-regulate itself towards more virtuous behaviour and also allow stakeholders to understand the real state of the path towards greater sustainability (see the MultiCapital Scorecard for example - Thomas & McElroy, 2016).

1.3.3. Ethics

When we talk about corporate social and environmental responsibility and sustainability, we cannot exclude the concept of ethics (Crane et al., 2019). Ethics can be defined as "moral principles that govern a person's behaviour or the conducting of an activity" or "the study of what is morally right and wrong, or a set of beliefs about what is morally right and wrong"¹⁴. Closely related to the use of manipulated or misleading communications and reporting documents is the concept of business ethics. Business ethics is an important branch of research between philosophy and economics that studies the behaviour of companies vis-à-vis how respectful and compliant they are with ethical standards and moral values. If we want to behave sustainably and responsibly towards society and the environment, can we do so without complying with ethical and moral standards? It is posited herein that it would be difficult for a behaviour (in our case of a company, but this reasoning can be extended to other actors) to be conducive with long-

¹² It is what is called here (and also by the authors mentioned) "talk the walk" or "talk the talk and not walk the walk" or "not walk the talk".

¹³ So-called "impression management".

¹⁴ Cambridge English Dictionary (2019).

term sustainability and responsibility while violating universally or generally accepted moral norms and principles. If, to be sustainable, a company adopts in its CSR policies a commitment to reduce direct impacts on the fauna and flora of the external environment in which it operates, it will have adopted a behaviour that is truly sustainable but also ethically and morally acceptable and desirable. If, on the other hand, an economic entity adopts CSR practices that lead to substantive monitoring, filtering and maintenance of industrial water discharges to protect the environment but by doing so this exploits its human resources, it could be classified as environmentally sustainable but certainly not as ethical towards the people it employs. Thus, this behaviour could not be classified either as socially sustainable or socially responsible because human rights and, in particular, the well-being of workers are violated. Faced with such a situation, these employees could suffer in terms of their physical and/or mental health as a consequence of the company putting excessive demands on them in terms of workload. If there is a lack of respect for basic ethics, even in business practices and management behaviour, then CSR practices and processes will be inappropriate and ineffective and it will not be possible to make discernible progress towards meeting sustainability objectives (Fassin et al., 2011; Pedersen, 2010; Rushton, 2002). When SER practices or the form in which they are packaged and communicated are manipulated, there is a serious risk of going beyond the boundaries of business ethics and therefore of fundamental moral principles. If this basis is missing, the entire CSR process risks collapsing under the weight of unbelievability and illegitimacy (Paper 3), thus becoming a mere exercise in fictitious and/or misleading communication. Lacks in terms of business ethics may well be the reason for the ineffectiveness of CSR practices to date (about the concepts of ethics and CSR see Signori & Rusconi, 2009). Management with poor ethical and moral principles will not seriously accept the contemporary challenges which are incumbent upon them. Instead, their desire to be legitimised and to improve the strategic positioning of the company will form the basis of their decisions vis-à-vis corporate policies of (ir)responsibility and (un)sustainability. As a direct consequence, this approach can then lead to the use of ineffective or distorted SER practices which, as their main negative effect, create erroneous and distorted perceptions in the different stakeholders of reference (Cho et al., 2009b; Porter & Kramer, 2006; Wagner et al., 2009) (Paper 4). In this regard, there are rather extreme practices from the point of view of business ethics in

which companies adopt and use incomplete communication and reporting practices (i.e. omitting information, behaviours and performance which are negative). These practices can be defined in terms of foggy and confused (to create a smokescreen), misleading (to over-emphasise positives and under-emphasise negatives) or even false (omitting facts and data) (Aji & Sutikno, 2015; Alniacik et al., 2011; Walker & Wan, 2012). As already noted, in environmental contexts, these behaviours can be described using the term greenwashing (or window-dressing). Greenwashing is a deceptive business communication practice that has been used extensively in recent decades to obtain benefits without actually having responded to concrete needs, problems and challenges, or having responded but only partially (Paper 4). The basic problem with these practices is that as they are by nature "misleading", they generate positive perceptions and sensations in the reader or recipient (the relevant stakeholder) about the behaviour undertaken. This false-positive perception creates positive feedback in much the same way as true-positive perception created by correct and effective CSR practices communicated in a correct and ethical manner (She & Michelon, 2018; Vries et al., 2015; Wilson et al., 2010). The stakeholder is induced to believe in this communication¹⁵, to build a positive image of the company (legitimising it), to consider the actions of the company and itself responsible and probably sustainable, and finally they will (erroneously) believe that it was underlying ethics that motivated this company to pursue this trajectory (Campbell, 2003; Cormier & Magnan, 2015; Dowling & Pfeffer, 1975; Guthrie & Parker, 1989). It is therefore a path that starts from a thought and a strategy deliberately outside the sphere of ethics and morals that through numerous and complicated steps is finally recognised as ethics, with all the consequences that arise for stakeholders, wider society and the company itself. It is quite clear that without sincere consideration of the ethical and moral aspects that affect the company's policies aimed at greater sustainability and the achievement of concrete social and environmental responsibility, these same practices run the risk of not withstanding the test of time, the final judgment of all stakeholders and the verification of the concrete results obtained with respect to the objectives set (Siano et al., 2017). Perhaps, rather than being a secondary and irrelevant aspect, the ethical basis instead represents a fundamental and

¹⁵ It should be noted that these are not only annual social and environmental reports, but also advertising, labels, press releases, newspaper articles, interviews, public interventions and so on.

indispensable starting point (but also a guiding light and an arrival point) in order not to fall into empty, unfair practices that do not resonate with the needs of society and the world of today.

1.4. Article abstracts

1.4.1. Paper 1

Balluchi F., Furlotti K., Mazzieri M. & Torelli R. (2019). Corporate Social Responsibility Disclosure in Italy: An Analysis of the Last Years. International Journal of Academic Research in Accounting, Finance and Management Sciences.

The first paper is exploratory and aims to build a clear and in-depth image of the practices of voluntary SER adopted in the Italian context from 2008 to 2016, the last year before the entry into force of Legislative Decree no. 254 of 30/12/2016, which established the obligation of a minimum form of social and environmental information from financial year 2017 onwards. The study is motivated by the need to understand the situation regarding SER in Italy before it became mandatory, pursuant of laying the foundations for a better understanding of the effects that the Legislative Decree will have on the panorama of corporate information and on the choices made by the companies concerned. A survey is designed and distributed to a sample defined in terms of the 165 Italian companies that were continuously listed on the Italian stock exchange during the period 2008-2016. The aim is to analyse trends in the publication of voluntary non-financial disclosure documents, the types of documents drawn up, the standards of reporting and processes used and finally differences in practices across the various industrial sectors in which companies can be classified. The results of the survey underline the important evolution of processes of production of socio-environmental reports of different types and names over the period under investigation, as well as a rapid increase in the number of companies that have adopted the Global Reporting Initiative (GRI) standard over time. It is pointed out that so-called sustainability and integrated reports are at the centre of a constantly increasing trend, while other types of voluntary reporting (such as environmental, social and intangible) are now abandoned. The results also show that different industrial sectors play a key role in encouraging or not encouraging companies to prepare social-environmental communication. In particular, in sectors with a higher

environmental impact, companies tend to use more forms of communication related to aspects of social-environmental responsibility. Drivers and pressures from institutions, associations and stakeholders in general play a decisive role. The conclusions of this study lay important knowledge foundations concerning the Italian context which are useful to understand the practices in place before the change from "voluntary" to "mandatory". Deep and robust contextual knowledge such as this offers clear advantages in terms of providing a bedrock for the thesis, although it is duly acknowledged that the scope for broad generalisations beyond the Italian context is limited.

1.4.2. Paper 2

Torelli R., Balluchi F. & Furlotti K. (2019). The Materiality Assessment and Stakeholder Engagement: A Content Analysis of Sustainability Reports. Corporate Social Responsibility and Environmental Management.

The second paper offers an in-depth analysis of the concept of materiality in the field of accounting and SER, as well as the complex process of materiality analysis and its final outputs present in annual non-financial reporting documents. This focus is justified by the importance of this principle in allowing corporate management to understand and deal with topics that are relevant and interesting not only for the company itself, but also for all major internal and external stakeholder groups. The fruits of this process, which are principally revealed in the final document of socio-environmental reporting, have implications in many other moments of company life and management. To optimise outcomes it is important to stress the necessity of continuously monitoring, updating and reworking the real-time needs and expectations of stakeholders with whom the company engages and/or from whom it receives pressure and demands. For this reason, the involvement of stakeholders is clearly fundamental. The study takes into consideration the social and environmental reports of all Italian companies that published such a report for fiscal year 2017 in accordance with the new Legislative Decree on mandatory non-financial reporting (transposing European legislation). The total sample is composed of 152 reports/firms. The sample excludes companies in the financial, banking and insurance sectors as per analytical norms in this respect. A quantitative manual content analysis is used to explore the reports pursuant of making inferences concerning the relationship between the level of application of the principle of materiality vis-à-vis (1) different

industrial sectors, (2) differential applications of the Global Reporting Initiative guidelines, (3) different levels of stakeholder involvement. In addition to a significant relationship with membership of certain industry sectors and the level of application of GRI reporting standards, results also revealed a positive relationship with the level of stakeholder involvement. This latter result is considered to be particularly important because it suggests that without the broad and direct involvement of various stakeholder groups the company cannot and does not succeed in carrying out an appropriate and effective materiality analysis. This aspect also has direct influences and impacts on the social and environmental reporting documents because it will not be able to respond to the information needs of stakeholders through narrative treatment, data and information provided. The impact does not stop at the non-financial reporting document alone, but can obviously also affect the underlying processes of business management and improvement, as management will not have been able to fully understand and adequately classify the issues that internal and external stakeholders consider important and worthy of being managed and studied in depth. The results of this work suggest to international standards setters, stakeholders themselves, and company management that the desire to follow a path aimed at sustainability and the recognition of social and environmental responsibilities towards the external environment cannot be fully and effectively pursued without the direct and appropriate involvement of the various groups of stakeholders interested in the performance and behaviour of the company.

1.4.3. Paper 3

Balluchi F., Lazzini A. & Torelli R. (forthcoming). CSR and Greenwashing: A Matter of Perception in the Search of Legitimacy. Springer Series Book "Accounting, Accountability and Society".

The third paper is a theoretical analysis of the following concepts and their mutual relationships: CSR, legitimacy, credibility, perception and greenwashing. The study aims to propose a theoretical model that allows understanding of the roles and effects that greenwashing practices can have on corporate communications and, in particular, on stakeholders who receive and process them. To do this, the analysis is based on Habermas's (1984) communicative action theory and adapted to the corporate context to investigate how the functioning of the communication process that starts from the

company (sender) and reaches the stakeholder (receiver). Following and adapting the concepts proposed by Habermas, the study deepens and attempts to reconstruct the path that, starting from a given corporate communication, passes through the important and inevitable filter of stakeholder perception, which may or may not generate credibility of the same, to get to the achievement or not of legitimacy, which is the ultimate goal that most companies seek to improve their strategic position and their results. The paper extensively discusses the key role played by perceptions at the time of receipt of corporate communication in making the stakeholder lean towards different decisions regarding their judgment of that communication, but also to the company in general. The issue of greenwashing and therefore misleading corporate communications is closely related to perceptions. Greenwashing exploitatively leverages the recipient's perception (target stakeholder) to create impressions and judgments that are often not based on reality. These practices create decisive distortions in the process of corporate communication and information to the outside world because starting from negative performance and behaviours, they are able to create non-negative judgments. The consequences of these distortions are considerable and affect not only stakeholders who "fail" in their judgments, but also society in general, the environment, competitors and so on. Understanding these processes can help salient actors to thwart and mitigate greenwashing. The reasons for this work come from the real concept of CSR and from what are often the objectives that a company wants to achieve through related practices of SER. Obtaining credibility for one's own communication activities and for one's own company legitimacy is a fundamental objective which, however, can be achieved in very different ways: by means of practices and processes aimed at listening to all salient stakeholders and dealing with their requests with a view to improvement and sustainability, or by means of artificial communications built ad hoc to create well-defined feelings and reactions, in the face of real performance and commitments that are null or partial. It is therefore clear that these processes can represent one of the brakes on the final effectiveness of CSR and SER practices implemented by companies around the world. This paper, which represents an intermediate critical and analytical reflection and a conceptual and logical link between the other two research works presented here, lays the theoretical and conceptual foundations for the fourth and final paper.

1.4.4. Paper 4

Torelli R., Balluchi F. & Lazzini A. (2019). Greenwashing and Environmental Communication: Effects on Stakeholders' Perception. Business Strategy and the Environment.

The fourth paper that closes the main body of this thesis is dedicated to the theme of greenwashing and its influences on stakeholders, in particular on their specific perceptions and reflections regarding three elements: perception of effective environmental responsibility, perception of the risk of greenwashing and reactions following an environmental scandal. These three elements are measured in this study, which starting from a qualitative-quantitative approach adopts the experiment as a methodology for the investigation, to verify the hypothesized theoretical experimental design. This is about the fact that there is not a single well-defined type of greenwashing, but different types directly linked to different influences and effects on stakeholders. After analysing and exploring the salient literature on this issue and after noting the absence of a universally accepted and all-inclusive definition, the study assumes the existence of four different types (levels) of misleading environmental communication: corporate, strategic, dark and product. The basic hypothesis that the experiment verifies is the existence of these different levels of greenwashing, obtained through the identification of different impacts on stakeholders as a result of the experiment (impacts measured through a questionnaire). Results suggest that perceptions and reactions of stakeholders change significantly (statistically) depending on the category of greenwashing. The individual and specific results are revealing in terms of understanding which levels of greenwashing have a greater impact on different perceptions. Further, it is clear that misleading environmental communication in business terms is multifarious. It is important to understand what kind of greenwashing we are talking about so as to try to predict or better understand the effects that this has or could have on the target stakeholders. Starting from the confusion and uncertainty about the attempt to put a unique definition on the concept of greenwashing and in the face of a growing awareness of the importance of the perceptions of people involved in these communication practices, this study aims to open an academic debate that could lead to greater awareness of existing misleading practices and their complex and heterogeneous consequences. Further, this research also hypothesises the existence of four different macro-typologies of greenwashing, which

will have to be analysed and confirmed by further theoretical and empirical research to be generally accepted. The main result that this work wants to communicate is that greenwashing is a complex phenomenon which thus requires approaching and analysing from different points of view to understand its objectives, methods, strategies, possible effects and influences. Deeper and more analytical understanding of these practices could certainly help rival companies, institutions, authorities, civil society and stakeholders to receive and correctly perceive these communications, to defend themselves from their misleading strategies, to reject and recognise them in good time and not to fall into the same practices in an unconscious or naive way.

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2. PAPER 1

Corporate Social Responsibility Disclosure in Italy: An Analysis of the Last Years

Federica Balluchi, Katia Furlotti, Michele Mazzieri, Riccardo Torelli

University of Parma

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Abstract

Corporate Social Responsibility Disclosure (CSR) is the process of communicating the social, ethical and environmental effects of organizations' economic actions. It is a formal commitment to inform and involve stakeholders with an adequate flow of communication through suitable channels, focusing on relevant content. The aim is to study voluntary disclosure implemented by Italian listed companies in the last 9 years (2008-2016). The empirical survey covers data and information on 165 companies. We have analysed: 1) the extent of CSR in Italy; 2) the characteristics of voluntary disclosure in terms of type of report published and guidelines or standards followed; 3) the main differences between the industrial sectors about the publication of non-financial reports and the types of report used. Our findings show a significant improvement in the practice of voluntary disclosure of Italian listed companies and a key role of industry in decisions regarding the quantity and quality of non-financial disclosure. The value of this research concern in the wide (in time, through the last nine years, and in space, through the different industries) point of

view through which is investigated the phenomenon of CSRD in Italy before the shift from a voluntary to a legislative perspective.

Key Words: CSR; non-financial disclosure; voluntary disclosure; Italy; content analysis

2.1. Introduction

Corporate Social Responsibility Disclosure (CSRD) can be defined as «the process of communicating the social, ethical and environmental effects of organizations' economic actions to particular interest groups within society and to society at large» (Gray et al. 1987). It is part of the formal commitment to inform and involve stakeholders' with an adequate flow of communication through suitable channels, focusing on relevant content. CSRD plays a key role in this commitment: to provide transparent and reliable information is widely considered important for legitimacy (Gray et al. 2001; Campbell 2004; Kaptein 2007). Researchers in Italy and around the world have focused on CSR from various perspectives. Most studies focus on the spread of social and environmental reporting in different countries, studying the attitude of medium and large firms to social and environmental communication (Marimon et al. 2012; Hahn & Kühnen 2013).

A growing number of professional and academic institutions and organizations promote the implementation of CSR reporting and supply useful guidelines for helping company disclosure. In certain countries, such as France, Sweden, Norway, Netherlands, Denmark and Australia, firms are under legal obligation to disclose socio-environmental performance. In Italy, only since financial year 2017 have large companies been obliged to report on social and environmental performance (D.Lgs. 30/12/2016, n. 254). Before 2017, they could opt to disclose CSR information at their own discretion in standalone reports, such as social, sustainability or environmental reports, or to combine all economic, social and environmental information in an integrated report.

Starting from this premise and considering that in Italy most CSR studies have been performed on SMEs, and focusing mainly on issues related to CSR strategies rather than on CSRD (e.g. Maticena & Del Baldo 2009; Caroli & Tantalò 2010; Del Baldo 2010), we present an explorative study using a qualitative-quantitative approach. The aim of this work is to analyze voluntary CSR communication implemented by Italian listed companies for the period 2008-2016 i.e. before financial year 2017. The study focuses on

the following research questions:

RQ1: What is the extent of CSRD in Italy and how has it evolved during the last 9 years?

RQ2: What are the characteristics of voluntary disclosure in terms of type of reports and guidelines followed?

RQ3: Which are the main differences between the industrial sectors about the publication of non-financial reports and the types of report used?

The empirical survey covers qualitative-quantitative data and information on 165 Italian listed companies excluding the sectors of banking, finance and insurance. For each company we analyze the type of published report (social, sustainability, environmental, intangible and integrated report) and the reporting standard or guideline used.

The paper comprises four main sections: 1) literature review; 2) methodology; 3) empirical survey and discussion; 4) conclusions.

2.2. Theoretical framework

Given its importance, especially for strategy, CSRD has been an important focus of academic interest from the 1980s (e.g. Wiseman 1982; Guthrie & Parker 1989; Roberts 1992; Gray et al. 1995; Deegan & Gordon 1996; Neu et al. 1998).

Because of the large number of studies on CSRD, there are several overview studies, which specifically *review the existing corporate social responsibility disclosure literature*, proposing different classification frameworks (Gray et al. 1995; Mathews 1997; Gray 2002; Belal & Momin 2009; Parker 2011 and 2014; Fifka 2013; Ali et al. 2017).

Recent CSRD studies focus on several main topics. Some focus on the *theories* related to CSR and disclosure, in particular legitimacy theory (Tilling & Tilt 2010; Georgiou & Jack 2011), agency theory (Clarkson et al 2008; Dhaliwal et al. 2012) and neo-institutional theory (Campbell 2007; Hiss 2009). Other studies focus on the *reasons* why companies opt to disclose their CSR commitment at their own discretion (Kolk & Pinkse 2010; Schmeltz 2012). These reasons can be related to company reputation, customer loyalty and/or customer-company identification.

A further stream of literature focuses on the *relevance* of CSRD. Dhaliwal et al. (2012)

investigate the relevance of CSR information for the market: CSRD seems to offer relevant information to investors about firm's financial performance or to reduce the cost of equity capital. Moreover, CSR reporting can indicate the ethical values of the company better than mandatory disclosure (Lewis & Unerman 1999). It can contribute to the democratic development of an effective social responsibility policy, underscoring the key role of "civil society" in supporting these changes (Spence 2009) and it can increase transparency and thus enhance democracy (Brown 2009; Spence 2009). Other research underlines the relevance of CSR stand-alone reports because they can signal higher firm commitment to social and environmental issues (Mahoney et al. 2013).

An important part of the literature focuses on *completeness and credibility* of CSR information (Gray 2010; Amran et al. 2014) and its potential benefits relative to investors and financial stakeholders (Dhaliwal et al. 2012 and 2014). Some researchers raise doubts over the significance of CSRD for investors (Kolk et al. 2001) by suggesting that voluntary social disclosures in the annual report is simply an attempt to gain legitimacy (Kent & Zunker 2013) or to influence public perception (Neu et al. 1998). Among these studies, several analyse the *effectiveness* of CSR disclosure (Peterson 2004; Weber 2008). They examine its role as a signal of concern for social and environmental issues, or an opportunity to camouflage corporate activities and insinuate a corporate image which differs from reality (Cho et al. 2010; Mahoney et al. 2013), enabling the falsification of company image (Hopwood 2009).

Furthermore, with regard to the credibility of CSRD, several studies underline the importance of the *assurance* of the documents, although with some critical viewpoints (Adams & Evans 2004). Many studies emphasize a scarcity of technical abilities and assurance-provider independence (Dando & Swift 2003); other studies reveal that the benefits of assurance are limited to perceptions of the company image (Cho et al. 2014; Wong & Millington 2014). On the other hand, other studies indicate the importance of rigorous independent verification processes (Zorio et al. 2013).

Otherwise, an important stream of research focuses on the *instruments* of CSRD and on *standards* used for drafting the reports. In recent years, these studies have focussed on the *integrated report* (Frias-Aceituno et al. 2014; Stubbs & Higgins 2014; de Villiers et al. 2016), and several researchers analyse the differences between an integrated report and

other types of standalone report, especially a sustainability report (Mio et al. 2016).

Regarding *standards* and *guidelines* used to determine reporting content, several studies point out the importance of developing standards to meet the need for transparent and reliable information (Christensen 2002; Dando & Swift 2003). This field of study underlines the importance of the Global Reporting Initiative (GRI) guidelines (Brown et al. 2009; Marimon et al. 2012), which are considered the best available option for companies in reporting on CSR issues (Gray 2010; Mahoney et al. 2013). Several studies confirm the importance of GRI guidelines for company reporting activities (Marimon et al. 2012; Mahoney et al. 2013; Michelon et al. 2015) and underline that they support transparency in reporting (Fernandez-Feijoo et al. 2014). The GRI is however also subject to the criticism that the sustainability principle can appear vague and thus allows companies to make subjective use of guidelines (Moneva et al. 2006).

Many studies explore the *relationship between a firm's propensity for CSRD and company characteristics*. Characteristics include:

- industry: studies show a strong relationship between industry and CSRD (Brammer & Pavelin 2008; Buniamin 2010; Kansal et al. 2014);
- size: studies are coherent and show that company size has a significant positive relationship with social and environmental disclosure (Brammer & Pavelin 2008; Holder-Webb et al. 2008; Cho et al. 2010; Bayoud et al. 2012);
- financial performance: studies show different results; a significant positive relationship (Tagesson et al. 2009), and an insignificant relationship (Cormier et al. 2005; Reverte 2009; Chih et al. 2010).
- corporate governance: governance structures (Jo & Harjoto 2012; Michelon & Parbonetti 2012) and corporate executives' attitudes toward disclosure (Adams 2002; O'Dwyer 2002);
- stockholder composition (Chau & Gray 2002; Ghazali 2007).

Finally, the majority of Italian CSR studies focus on SMEs, and mainly on issues related to CSR strategies rather than CSRD (Matacena & Del Baldo 2009; Caroli & Tantalo 2010; Del Baldo 2010). Until financial year 2016, medium and large firms in Italy could opt to disclose CSR at their own discretion in standalone reports. For both these reasons, Italy is a fruitful field for new research.

2.3. Empirical research

2.3.1. Methodology: aims and data collection

With these premises, the present study analyses voluntary CSRD implemented by Italian companies listed on the Italian Stock Exchange in the period 2008-2016.

The research questions are as follows:

RQ1: What is the extent of Italian CSRD and how has it evolved during the last 9 years (2008-2016)? (Marimon et al. 2012; Hahn and Kühnen 2013);

RQ2: What are the characteristics of voluntary disclosure in terms of type of report and guidelines or standards followed? (Frias-Aceituno et al. 2014; Mio et al. 2016);

RQ3: Which are the main differences between the industrial sectors about the publication of non-financial reports and the types of report used? (e.g. Brammer & Pavelin 2008).

The empirical survey considers qualitative-quantitative characteristics of information processes, and consists of three main phases:

- 1) an exploratory examination of Italian listed companies to identify the number of firms disclosing CSR information in specific stand-alone reports in the period 2008-2016;
- 2) an analysis of the reports published in that period in terms of type of document (social, sustainability, environmental, intangible and integrated report) and reporting standards used (especially “Gruppo di Studio per il Bilancio Sociale” - GBS and “Global Reporting Initiative” - GRI);
- 3) an analysis of the differences between different industries focusing on the number of non-financial reports published and on the type of non-financial reports used.

Companies in our sample were required to meet the following requirements for the entire nine-year period:

- 1) continuous listing on the Italian Stock Exchange;
- 2) not belonging to banking, financial or insurance industries. This is because of the different characteristics of their equity and because these firms are not comparable with firms of other industries (La Porta et al. 2002).

Our final sample comprised 165 companies for which we have nine years of observations.

2.3.2. Results and discussion

The number of observations is constant throughout the time period 2008–2016. Companies are from nine industries. We adopt the Industry Classification Benchmark (ICB), a globally recognized industry classification taxonomy. 0) Oil & Gas; 1) Basic Materials; 2) Industrials; 3) Consumer Goods; 4) Health Care; 5) Consumer Services; 6) Telecommunications; 7) Utilities; 8) Financials (excluded for the reasons mentioned above); 9) Technology. Our sample contains a prevalence of industries 1) Basic Materials and 3) Consumer Goods (Table 2.1).

Table 2.1. *Frequencies over industries*

N.	Industry	Frequency	Percent
0	Oil & Gas	55	3.70
1	Basic Materials	459	30.91
2	Industrials	63	4.24
3	Consumer Goods	341	22.96
4	Health Care	63	4.24
5	Consumer Services	99	6.67
6	Telecommunications	135	9.09
7	Utilities	126	8.48
9	Technology	144	9.70
	Total	1485	100.00

With reference to RQ1 and RQ2, we found that in 23% of 1485 total observations over the entire period, firms opted for a voluntary reporting system, using different types of report (Table 2.2). The item “Other report” covers a small number of very specific tools such as the SA8000 and ethical rating reports, usually one or two page CSR documents which cannot be considered real reports.

Table 2.2. *Descriptive Statistics of variables*

	Voluntary Disclosure	Social Sustainability	Environmental	Intangible	Integrated	Other report
N.	1485	1485	1485	1485	1485	1485
Mean	0.2276	0.0094	0.1751	0.0168	0.0000	0.0121
Std. Deviation	0.4194	0.0967	0.3802	0.1287	0.0000	0.1095
Minimum	0.00	0.00	0.00	0.00	0.00	0.00
Maximum	1.00	1.00	1.00	0.00	0.00	1.00

Focussing on the year-by-year situation, Figure 2.1 shows clearly a steady increase in CSRD (RQ1). In fact in 2008 only 26 companies out of 165 made voluntary disclosure (16%) and in 2016, the number was 51 (31%). Among the various CSR tools (RQ2), the sustainability report is the most widely used type (43 companies out of 51 in 2016).

Figure 2.1. *Voluntary Disclosure by year*

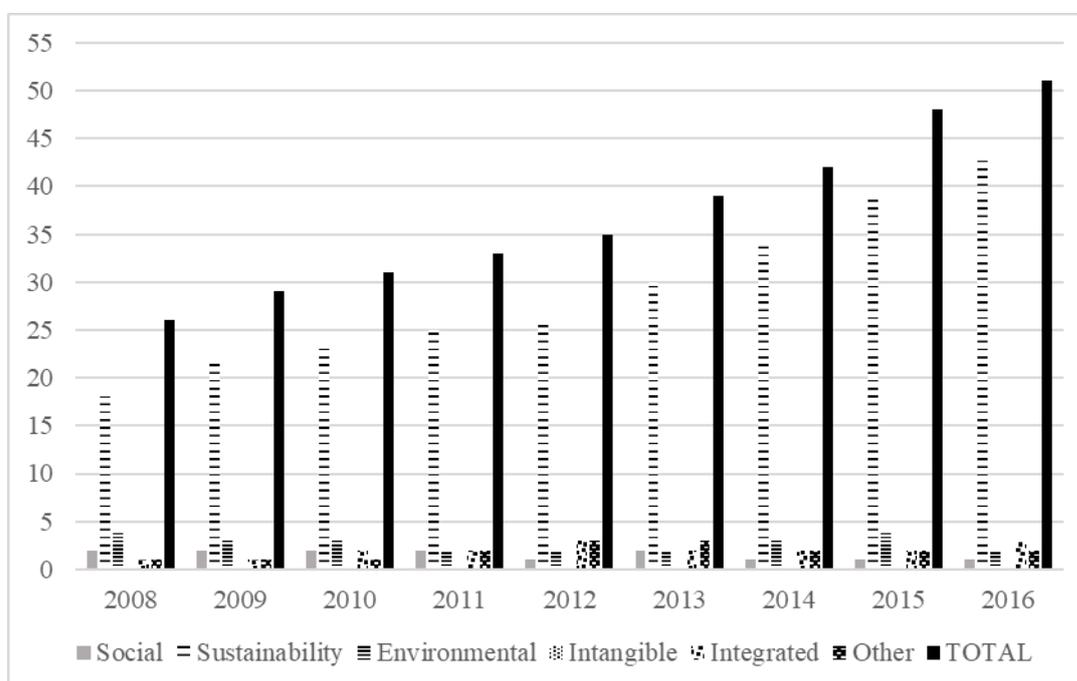
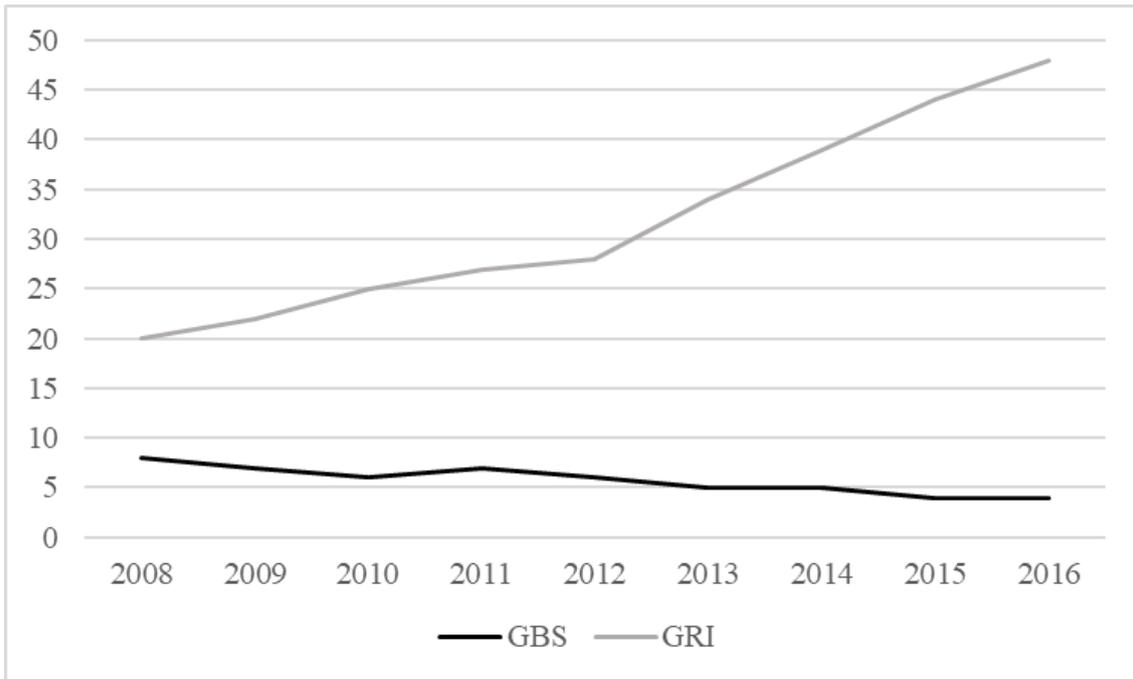


Figure 2.2. *GRI and GBS by year*



Among the guidelines used to draw up voluntary disclosure documents (RQ2), GRI Standards are the most frequently used including when the company discloses CSR information with a social or integrated report. In 2008, 20 firms adopted the GRI Standards and in 2016 48 firms. Apart from GBS which is used by 4 companies in 2008 and 8 in 2016, the other guidelines or standards are proxy to 0% in all years (Figure 2.2).

Regarding the RQ3 we have conducted an industry-level analysis and submitted the differences calculated to a T-test (Table 2.4). The T-test assumes the null hypothesis that the average of voluntary disclosure values in each of the nine industries (1 if it is present, 0 if it is not present) is equal to the average of the same values in the rest of the sample.

Table 2.4. *Group mean-comparison test: Voluntary Disclosure in different industries*

n.	Industry	Industry mean	Rest of sample mean	Difference	T-test
0	Oil & Gas	0.6545	0.2112	0.4434	-7.8482***
1	Basic Materials	0.2352	0.2242	0.0110	-0.4721
2	Industrials	0.3968	0.2201	0.1767	-3.2832***
3	Consumer Goods	0.0850	0.2701	-0.1851	7.2753***
4	Health Care	0.0476	0.2356	-0.1880	3.4939***
5	Consumer Services	0.2222	0.2280	-0.0058	0.1322
6	Telecommunications	0.1556	0.2348	-0.0793	2.0958**
7	Utilities	0.6270	0.1906	0.4364	-11.6706***
9	Technology	0.1042	0.2409	-0.1367	3.7327***

* p<0.10; ** p<0.05; *** p<0.01

Table 2.4 shows that companies in Oil & Gas, Industrials and Utilities industries have a higher industry mean value compared to the rest of sample mean value, and a significant result in the T-test. Firms belonging to these industries tend to produce significantly more voluntary disclosure reports than other firms. Conversely, Consumer goods, Health Care, Telecommunications and Technology industries are less inclined to adopt a CSR reporting tool than firms belonging to the other industries.

These results confirm previous findings. Brammer & Pavelin (2006), for example, found that companies operating in high-tech and finance industries are less inclined to use a voluntary disclosure process (the finance industry was not considered in our sample), whereas companies operating in industries with a high environmental impact are more inclined to use one.

It is interesting and important to understand in which industries, in Italy, there is a greater use and dissemination of voluntary disclosure tools and reports. The previous results show us that also in the last nine years of voluntary non-financial disclosure in Italy we find a greater propensity to produce and publish social/environmental information in companies with a particular social and environmental impactful activities. Stakeholder pressures, general need of more information about corporate activities, the even more attention and importance that is given to the social and environmental impacts, but also

local and national regulations about these particular activities and impacts could be the motives behind the greater use of voluntary disclosure tools. It is then fundamental to understand in which sectors we find this phenomenon, not only to measure the attention paid by stakeholders, society in general and local/national legislators, but also to understand which the approaches of the companies in these industries are and what are their answers. This is particularly interesting and useful for the legislator because this study is based on the nine years before the change from a voluntary approach to the non-financial disclosure to a mandatory one and in these firsts years of the new regulatory it could be very useful to understand the previous practices in the different industries, where there were a greater (or lesser) inclination to give this type of information, and where to identify and study the best-practice (or the more expert) companies in this field of reporting.

In the last analysis (see Table 2.5) we have deepened the dissemination of the different types of non-financial report among the different industries in the nine-year period under investigation.

Table 2.5. *Different reports (expressed in % on the total number of non-financial reports published in the 9 years in the particular industry) in different industries*

Industry	Social	Sustainability	Environmental	Intangible	Integrated	Other
Oil & Gas	0.00	66.67	0.00	0.00	8.33	25.00
Basic Materials	5.66	67.92	12.26	0.00	13.21	0.94
Industrials	0.00	100.00	0.00	0.00	0.00	0.00
Consumer Goods	0.00	84.62	0.00	0.00	0.00	15.38
Health Care	0.00	100.00	0.00	0.00	0.00	0.00
Consumer Services	0.00	100.00	0.00	0.00	0.00	0.00
Telecommunications	0.00	85.71	0.00	0.00	0.00	14.29
Utilities	0.00	84.52	14.29	0.00	1.19	0.00
Technology	66.67	33.33	0.00	0.00	0.00	0.00

Through this data we can appreciate the percentage of each type of report used by companies in the specific sector, calculated on the total of non-financial reports of the sector. It's very interesting and deserving of future new insights to notice that in the Italian context, in the years before the new law about mandatory non-financial information, there are notable differences between industries in the use of different kinds of reports. Basic Materials industry is where we have the highest production rate (13.21%) of Integrated Reports, and maybe in consequences one of the lowest production rate of Sustainability Reports (67.92%). In this industry we have also a moderate use of Environmental Reports and Social Reports. The only other industry where we have found a use of Environmental Reports (14.29%) is Utilities industry: in this case we may suppose that the particular activity of companies in this industrial sector is very related to environmental impacts and then with environmental information (and pressure/request of these information). While in the country there is a constant decline in the use of the Social Report is very interesting to see the high production rate of Social Reports (66.67%) in the Technology industry: we may suppose that companies operating in this industrial sector have to face above all problems concerning the social context and matters concerning personnel and working conditions. Regarding the use of the most recent Integrated Report we can see how, apart from the case of Basic Materials industry, the only two industrial sectors where we find the use are the Utilities industry (1.19%) and above all the Oil & Gas industry (8.33%). These are certainly the two industrial sectors with the highest environmental impact and where the attention of the main stakeholder groups, as well as public institutions, has recently been concentrated. This may be the reason to explain the use of one of the most complete and appreciated (but also criticized) type of non-financial report in the last years.

2.4. Conclusions

The analysis confirms the key role of sector of activity in decisions regarding the quantity and quality of non-financial disclosure. In line with previous studies (Brammer & Pavelin 2008; Buniamin 2010; Kansal et al. 2014) set in other countries we find that the industry influences corporate management on decisions about the type of disclosure to be published. Direct and indirect external pressures, social-environmental impacts of core business, stakeholder expectations and behaviours of competitors are all factors which

influence managerial choices on voluntary disclosure and related processes. We find that listed companies operating in areas with a strong social and environmental impact have a higher propensity to engage in CSR disclosure. In this respect, specific regulatory intervention for different sectors could be useful. The study of the characteristics of the companies (and industries) and their reports is particularly interesting also because in Italy, the nine-years period under investigation, is the last period with a process of non-financial disclosure entirely voluntary and not mandatory. It is therefore important to understand the real and deepen motivations and pressures behind the choice to disclose CSR information. The general study and the specific results can be useful and interesting for the nation legislator to understand the choices and the real use of non-financial disclosure tools not only in the country but also in particular industrial areas: it can benefit both to better understand the future impact of the new law and to take cues to intervene on individual cases of specific industrial sectors. Also the academic world can be interested in a study of this kind, to understand the peculiarity of the Italian situation before the new law and to use these findings in international comparison.

Future development of this research could be continued on other CSRD elements such as the use of other accountability tools; by improving the empirical analysis inserting other possible correlated elements of Social and Environmental Accounting (SEA) or understanding whether in the new law about mandatory non-financial disclosure there are key elements taken from experience of the last years and in particular from the more active industries. It could be also interesting to analyse the evolution of the production rate of different types of reports after the entry into force of the national regulation.

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3. PAPER 2

The Materiality Assessment and Stakeholder Engagement: A Content Analysis of Sustainability Reports

Riccardo Torelli, Federica Balluchi, Katia Furlotti

University of Parma

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Abstract

Materiality is the driver through which companies can select issues to be included in non-financial reports favouring the expectations of all stakeholders. The aim of this research is to investigate, under the lens of Stakeholder Theory and Instrumental Stakeholder Theory, the possible relationship between the application of the materiality principle in non-financial reports and the stakeholders' engagement processes, with a preliminary

focus on different industries that are characterized by different types of stakeholder and on the application of GRI and/or IIRC guidelines promoting their direct involvement. A manual content analysis has been performed on the Italian “public interest entities” that published, for the 2017 year, a non-financial statement (Legislative Decree No 254/2016). The statistical analysis highlights the importance of industry, GRI Standards application and stakeholder engagement in the reporting process, in particular in the materiality analysis, to achieve a high level of materiality application and good report quality for stakeholders.

Key Words: materiality, stakeholder engagement, stakeholder theory, sustainability report, integrated report, GRI, content analysis.

3.1. Introduction

The growing attention paid to sustainability, in all its environmental, social, ethical and economic aspects, has brought non-financial reports into widespread use. There are different frameworks and standards that guide the creation process and the content of such reports by defining many key principles; among these, *materiality* is the most significant and complex. This principle represents the driver through which companies can identify and select issues to be included and treated in integrated and sustainability reporting, as well as in other voluntary reporting, thus favouring the expectations and needs of all stakeholders. The Global Sustainability Standards Board explain that the report shall cover topics that reflect the companies’ important economic, environmental and social impacts, or influence the stakeholders’ assessments and behaviour (GSSB, 2016).

Since the eighties, studies have been undertaken to better understand this concept and how it was used and considered by the final receivers of the document when prepared in accordance with the principle itself (Deegan & Rankin, 1997; Eccles & Krzus, 2014; Holstrum & Messier Jr., 1982; Jones *et al.*, 2016; Vance, 2011). Several works stress the *importance* of the issue (Murillo & Lozano, 2006; Porter & Kramer, 2006; Unerman & Zappettini, 2014), while others have focused on the *determinants* of materiality and on the materiality *indicators* (Brammer & Pavelin, 2006; Cooke, 1992; Fasan & Mio, 2017; Hassan & Ibrahim, 2012; Patten, 2002; Webb *et al.*, 2008). This study begins from the research related to *materiality analysis* (Font *et al.*, 2016; Pfitzer *et al.*, 2013) and to the

connected set of stakeholder expectations. Some studies have investigated the crucial issue, for sustainability and integrated reports, of materiality analysis to achieve the highest level of coincidence between the interests of all stakeholders (Boesso & Kumar, 2009; Unerman & Bennett, 2004) and of the companies themselves (Adams, 2004; Calabrese *et al.*, 2106; De Villiers & van Staden, 2010; O'Dwyer *et al.*, 2005).

Calabrese *et al.* (2016) and Basu & Palazzo (2008) have opened spaces for new studies and investigations about this issue and, in particular, on materiality assessment in sustainability reporting and on the motives behind this type of activities, measuring impacts and determining links to stakeholder needs.

We aim to fill an investigative gap regarding the possible contribution that different levels of *stakeholder engagement* could provide to the process of materiality analysis and thus to the related production of the non-financial reports. The direct involvement of all company stakeholders, directly encouraged and guided by the main international standards, could be the way to truly understand stakeholder expectations and needs and to make companies capable of appropriately defining the report content.

Although *Stakeholder Theory* (Freeman, 1984) and the *Instrumental Stakeholder Theory* (Jones, 1995) are a widely used in this field of research, and the need to meet the information requests and expectations of all stakeholder groups as much as possible has been highly investigated, the process of engagement of these stakeholders has not been deeply analysed. The aim of this paper, therefore, is to investigate, through a manual content analysis and the lenses of these theories, the relationship between stakeholder engagement (considering their different types and groups with a focus on different industries and on the main international guidelines that promote it) and the application level of the materiality principle in the non-financial reports published for the 2017 financial year by Italian “public interest entities” companies (see Legislative Decree No 254/2016). Three hypotheses will be verified by empirical analysis of the collected data; in particular, the relationship between the materiality principle’s level of application and 1) the industry, 2) the application level of GRI standards and/or IIRC guidelines, and 3) the spread of stakeholder engagement in the materiality analysis process.

The paper is divided into three main sections: in the first, we present a literature review and some theoretical foundations; the second section shows the methodology of the

research, the results of the empirical analysis and a discussion of those results; and in the third and last section, we offer final considerations, limits and future research avenues.

3.2. Theoretical framework

3.2.1. Preliminary concepts: CSR, Materiality and Stakeholder Engagement

Corporate social responsibility (CSR) can be defined as the responsibilities of a company towards society and the environment, deriving from the idea that business and society are truly interlinked (Wood, 1991) and that companies must promote some social good in addition to what is required by law (McWilliams and Siegel, 2001).

In recent years, the quantity of studies devoted to corporate social responsibility has increased (Geng-qing Chi, 2019). In particular, numerous CSR studies have focused on the relationship between business and society, or the role of business with regard to CSR (Garriga & Melé, 2004; Scherer & Palazzo, 2007). Many researchers have analysed the reasons why companies decide to practise CSR and the link between CSR and performance (Servaes & Tamayo, 2013). Other studies have examined CSR from different perspectives related to the companies' stakeholders: employees (Lee *et al.*, 2013), local communities (Tsoi, 2010), nonprofit organisations (Arenas *et al.*, 2009), or consumers (Andrea *et al.*, 2011).

In this context, despite the strategic role that communication can play in the development of CSR activities, relatively little attention has been paid to CSR's communication aspects (Kim, 2019; Brammer & Pavelin, 2006).

The implementation of CSR strategy requires companies to improve a process of communicating the social, ethical and environmental effects of their actions to particular interest groups within society and to society at large (Gray *et al.*, 1987). This responsibility is marked by the economic, legal, ethical and discretionary expectations that society has of organizations (Font *et al.*, 2016).

The commitment to inform and involve stakeholders, in fact, necessitates an adequate flow of communication through suitable channels, focusing on relevant content. CSRD plays a key role in this commitment, and transparent reliable information is also widely considered important for legitimacy. Therefore, in order to explain their CSR, companies must define their instrument of accountability (Adams, 2008). Therefore, responsibility

is the process of accepting the expectations placed by society and accountability and involves the duty of providing an account of meeting those expectations (Gray *et al.*, 1997). Many companies worldwide have gradually implemented social and sustainability reporting in order to establish a positive channel of communicating their corporate social responsibility to stakeholders (Hsu *et al.*, 2013; see also Lozano, 2013). Non-financial reporting, in fact, has become one of the best ways for communicating CSR initiatives, making the stakeholders aware of CSR efforts (Morsing & Schultz, 2006).

In this respect, the main dilemma for companies is how to recognize relevant issues to be disclosed in sustainability reporting and to prioritize those material issues in accordance with stakeholder demands (Hsu *et al.*, 2013). The process of accountability, in fact, requires the company to understand the need for information on the part of management, investors and all the stakeholders who can affect the company's long-term performance. In this respect, companies must consider and apply the concept of *materiality*.

The Sustainability Accounting Standard Board (2013) define materiality as a long-term focus on the issues that make a difference to both an organization's performance and management priorities and on the information needed to make sound judgements. According to the International Integrated Reporting Council (IIRC) and the International Federation of Accountants (IFAC) "a matter is material if it could substantively affect the organisation's ability to create value in the short, medium or long term" (IIRC, 2015, p. 8).

In conventional and symbolic use, materiality implies substance or importance in evaluating criteria and reaching judgements. In accounting, the term 'material' appeared, as an adjective, at the turn of the twentieth century in accounting and auditing texts issued by the American Institute of Certified Public Accountants (Edgley, 2014). Since then, several authors (i.e., Brennan & Gray, 2005) have recognized the common characteristics of materiality that help companies to disclose a true and fair view of themselves. Information is considered material if its omission or misstatement could affect the economic decisions of users (Edgley, 2014).

Materiality, in particular, is one of the most significant principles for companies wishing to disclose their CSR. Companies, in fact, can identify and select issues to be included and treated in integrated and sustainability reports favouring the expectations and needs

of all stakeholders through this principle. Such needs are to be carefully considered because no organisation is expected to disclose all sustainability issues, but the report should cover aspects that reflect a company's significant economic, environmental and social impacts (GSSB, 2018).

The concept of materiality is fundamental in the field of non-financial information, in which we find a lack of (or minimal) regulatory indications regarding the contents to be reported. In non-financial information, which is often totally voluntary in fact, it is essential to have a precise and correct principle that guides companies in identifying which topics to report and which level of detail to use. For this reason, a materiality analysis and the definition of a matrix of materiality are necessary in order to clarify which topics are relevant and, among these, which are most relevant and require a greater level of development in the report.

This analysis, as anticipated, aims to satisfy the information needs of the company and its stakeholders and, in this respect, is more effective if it can capture and understand the needs of a company's stakeholders. A correct understanding of these needs is an essential element to ensure the effectiveness of social and environmental reporting.

This is where the importance of the *stakeholder engagement* process comes into play. The direct or indirect engagement of all the stakeholders allows the company to properly understand the stakeholder's expectations and needs and, in this sense, allows companies to effectively formulate the report. Company management can identify which interests and issues are important for stakeholders and can report information about those issues.

3.2.2. *CSR disclosure and CSR engagement: Literature Review*

The widespread literature on materiality include studies evaluating topics ranging from *CSR disclosure* to those devoted particularly to *CSR engagement*.

Several studies analyse the *importance* of good CSR disclosure. Some researchers analyse the importance of gaining returns from companies' CSR, such as company reputation, customer loyalty and customer-company identification (e.g., Calabrese *et al.*, 2016; Du *et al.*, 2010; Schmeltz, 2012). Searcy and Buslovich (2014) show how stakeholders can or cannot appreciate a company through sustainability reports by reading if the company's actions are in line with their values and expectations. Bouten *et al.* (2011) show that

sustainability reports should provide stakeholders with information that will allow them to evaluate the companies' social and environmental performance.

Some studies focus on the *reasons* that move a growing number of companies to report about their CSR commitment by means of sustainability reports, websites and other CSR communication activities (e.g., Kolk & Pinkse, 2010), while other papers analyse the effectiveness of CSR disclosure (e.g., Castaldo *et al.*, 2009).

Therefore, a sizeable part of the literature offers many approaches to the *measurement* of company-disclosed CSR commitments (e.g., Bouten *et al.*, 2011; Longo *et al.*, 2005).

Among these studies, many focus on the *importance of the engagement* in order to ensure a good and effectiveness disclosure. Font *et al.* (2016) suggest four different frameworks to clarify the reasons for CSR engagement, which can explain the shift towards more material CSR practices, and therefore communication:

1. *Reputation and risk management theory*, based on the avoidance of factors that can have a negative effect on corporate brands (Bebbington *et al.*, 2008); in this sense, sustainability reports can restore the positive image of the firm and realize the importance of transparency to reputation (Adams, 2008);
2. *Resource-based view of the firm*, which suggests that companies act responsibly to maximize their competitive advantage (Russo & Fouts, 1997);
3. *Stakeholder Theory*, which suggests that corporations act in response to stakeholder desires, either in a preventive or a proactive way (Wood, 1991); sustainability reporting then becomes a channel to satisfy the information requirements of different stakeholder groups;
4. *Creating Shared Value (CSV)*, which explains engagement for the purpose of value creation and product distinction. This should combine with an attitude towards stakeholders to provide success and create value (Porter & Kramer, 2006; Wheeler *et al.*, 2003).

To close this overview of research on CSR disclosure, several studies concentrate on the specific *instrument of accountability* used by companies; in recent years, these studies have mainly considered the *integrated report* (e.g., De Villiers *et al.*, 2016; Frias-Aceituno *et al.*, 2014; Lai *et al.*, 2014; Stacchezzini *et al.*, 2016). On this issue, several

researchers aim to analyse the differences between integrated reports (IR) and other stand-alone reports, sustainability reports in particular (e.g., Mio, 2016). The studies analyse, among other things, the targets of IR (Hahn & Kuhnen, 2013), the focus (IR is concentrated on capital rather than on stakeholders), the higher degree of customization and the lower degree of comparability of IR, which aims at reporting on outcomes rather than on outputs (Mio, 2016).

3.2.3. *The concept of Materiality: Literature Review*

Moving towards the specific issue of *materiality*, studies can be divided into different groups. Several studies are focused on *materiality definition* (Iyer & Whitecotton, 2007); on the definition issue, see also SASB (2013), AccountAbility *et al.* (2006) and GRI (2013). Other examine materiality stress and the *importance* of the issue (Porter & Kramer, 2006; Unerman & Zappettini, 2014).

An important segment of these studies focuses on the *determinants* of materiality and on the materiality *indicators*. Fasan and Mio (2017) define some determinants of materiality related to the legal environment (Webb *et al.*, 2008), to industry (Brammer & Pavelin, 2006; Cooke, 1992; Patten, 2002; Hassan & Ibrahim, 2012) and to board characteristics (Frias-Aceituno *et al.*, 2013). Calabrese *et al.* (2016) focus on different companies' organisational characteristics, such as business models, cultural operating contexts, size and ownership (Adams, 2002; Hahn & Kuhnen, 2013; Spence, 2007). The authors analyse, in particular, the study by Baumann-Pauly *et al.* (2013) that presents a 'sustainability reporting gap' related to company size, as large companies embrace structured reporting, aiming to improve their image with the general public, while SMEs tend to adopt informal reporting, concentrating their communication efforts on their most important stakeholders, particularly employees (Russo & Tencati, 2009).

Another group of studies related to materiality focuses on the *process of materiality analysis* and the connected set of issues that stakeholders consider material; in particular, several researchers focus on the differences between what is considered material by stakeholders and what is considered material by management. This is a crucial and essential element of sustainability or integrated reporting: a materiality analysis must be implemented in order to achieve the highest level of correspondence between the interests

of all stakeholders. The direct involvement of all company stakeholders (stakeholder engagement) could be the way to obtain this result. Font *et al.* (2016) underline that materiality analysis is the essential process for ranking issues and strategic planning; it allows an integrated approach in defining a sustainability strategy and in the reporting itself (Pfitzer *et al.*, 2013). Calabrese *et al.* (2016) point out that one of the most serious problems with CSR reporting is the lack of completeness in covering all the aspects that are material from a stakeholder perspective (Adams, 2004; Calabrese *et al.*, 2106; De Villiers & van Staden, 2010; O'Dwyer *et al.*, 2005). Companies do not realize a standardized set of stakeholder expectations (Unerman & Bennett, 2004), and there are no practical tools that offer effective assistance in identifying and analysing the different groups of stakeholders (Boesso & Kumar, 2009). The process of stakeholder engagement is necessary to understand stakeholder expectations and needs and, in this sense, to enable companies to appropriately define the report's content (Calabrese *et al.*, 2016). With a careful and well-planned materiality analysis, company management is able to detect which interests and issues are dear to company stakeholders and which have a significant impact on the company in addition to those, stemming from the company itself, that have an external impact.

Several studies analyse the room for improvement in this area. Calabrese *et al.* (2016) observe that few studies have investigated the quantitative methods to support materiality assessment in sustainability reporting, and these have not addressed the issues of subjectivity or of completeness in the reporting. Current academic research focuses primarily on measuring CSR activity, rather than on assessing the motives behind those activities, measuring their impacts or determining links to stakeholder needs (Basu & Palazzo, 2008).

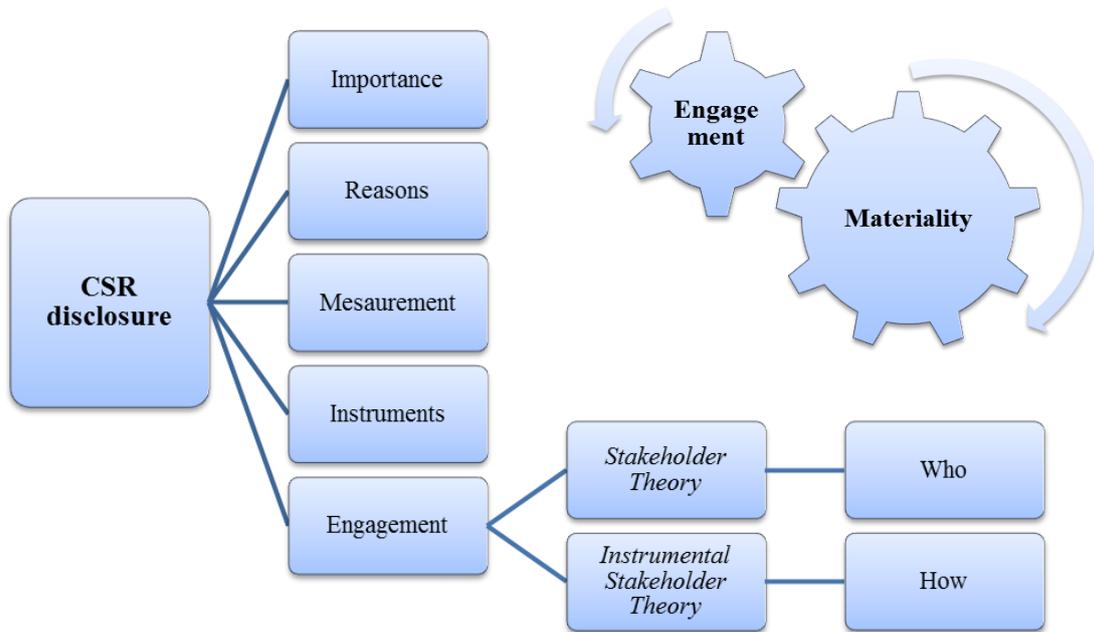
3.2.4. Theoretical pillars

The *Stakeholder Theory* and the *Instrumental Stakeholder Theory* guide our research (Donaldson & Preston, 1995; Freeman, 1999). Freeman's Stakeholder Theory (Freeman, 1984) has been extremely important for the development of Social and Ethical Accounting, Auditing and Reporting (SEEAR) studies and for triple bottom-line accounting. In the recent development of accountability and reporting processes, we have seen not only a transition from financial to non-financial reporting but also a changeover

from a mono-stakeholder (shareholders) to a multi-stakeholder model of strategic management (of which reporting is an essential part) (Freeman *et al.*, 2010). Very important international standards and guidelines (e.g., AA1000, GRI Standards, IR Framework) have led this change towards an efficient non-financial disclosure and stress the importance of a full consideration and real engagement of stakeholders (Boesso *et al.*, 2015; Boesso & Kumar, 2016; Mitchell *et al.*, 2011; Thijssens *et al.*, 2015). Jones (1995) has tried to enhance and enrich Freeman's Stakeholder Theory by offering an *Instrumental Stakeholder Theory* "built on an integration of the stakeholder concept, economic concepts (agency theory, transaction cost economics, and team production theory), insights from behavioural science, and ethics. It focuses on the contracts (relationships) between the firm and its stakeholders and posits that trusting and cooperative relationships help solve problems related to opportunism. Because the costs of opportunism and of preventing or reducing opportunism are significant, firms that contract on the basis of trust and cooperation will have a competitive advantage over those that do not use such criteria" (Jones, 1995, p. 432). Relying on Jones's theory, which is focused on the contract/relationship between the company and the stakeholder groups, we would like to develop and investigate the relationship of cooperation and trust between these two main actors and the possible advantages for both of them. Moreover, we wish to explore the direct and indirect effects of this relationship on companies' disclosure, in particular on the underlying materiality process.

In this respect, we consider the stakeholder engagement process and the effects that it could have on the application of the materiality principle, on the process of materiality analysis and on the planning of non-financial reports (Figure 3.1).

Figure 3.1. *Theoretical framework model*



3.3. Empirical research: hypothesis, sample, model and results

Starting from the premises just illustrated, and in particular from the two fields of study mentioned above (determinants of materiality and process of materiality analysis connected to the expectations of stakeholders), this paper aims to extend the current knowledge on the materiality theme linking these two important research topics. In this sense, we would like to fill the gap regarding the possible key effects that the stakeholder engagement process could have on the application of the materiality principle in the preparation of a CSR report. The need to meet as much as possible the expectations and needs of all stakeholders has been widely studied and investigated; but the process of engagement of these stakeholders has not been thoroughly analysed as a possible essential and decisive aspect in affecting decisions about the materiality processes and the consequences of this principle on the report itself. The Stakeholder Theory guides us in considering all the possible and different actors with which the company must deal in relating to CSR issues. The Instrumental Stakeholder Theory guides us in our discussion of the relationship between the company and its stakeholders and, in particular, with regard to how the company and its stakeholders may relate to favourable results for both

of them.

We study the situation of Italian companies. Italy is an interesting case study because of the high number of companies that have voluntarily published a social and environmental report in the last few years (Balluchi & Furlotti, 2013). It is also interesting to consider Italian companies because in Italy, from the 2017 financial year onwards, Legislative Decree No 254/2016 requires “public interest entities” to integrate statutory financial statements with a disclosure of environmental, social and governance strategies. CSRD is thus moving from a voluntary to a legislative perspective.

Until the 2016 financial year, medium and large firms in Italy could opt to disclose CSR at their own discretion in stand-alone reports. Beginning in 2017, all large public-interest companies have been required to publish a non-financial statement (NFS) describing policies, risks and results related to corporate social responsibility and sustainability. The Decree represents an important innovation in the communication of information related to CSR that affects companies of a significant size and is an important and encouraging sign pointing to the promotion of sustainability disclosure.

Companies must report information about social and environmental strategies, about employees and human rights and about anti-corruption strategies. They must draw up their report on the basis of recognized national or international reporting standards and guidelines.

With regard to communication, the Decree establishes that the declaration of a non-financial nature may be communicated in three different ways: it may be an integral part of the directors’ report, it may constitute a separate report, or it may be an integral part of the annual report. In all cases, the company must choose what information to provide in the document regarding the issues indicated in the Decree.

The principle of materiality and the involvement of stakeholders to understand what material information is to be reported are thus even more relevant, as they contribute to the correct preparation of documents required by law. Furthermore, it is interesting to examine whether the different reports are characterized by a different level of application of the principle of materiality.

Methodology

Aims. Focusing on Italian “public interest entities” that have drawn up a non-financial report (sustainability report, integrated report or non-financial statement ex Decree No 254/2016) for the 2017 financial year, the specific aim of this paper is to analyse the level of the application of *materiality* (as a core principle in the accountability process). In particular, we aim to analyse:

- the level of application of the materiality principle (companies that recall the principle in the document) and the spread of the materiality matrix;
- the application level of the principle, as measured through an ordinal categorical variable;
- the possible relationship between the application of the materiality principle and the engagement of stakeholders, with a preliminary focus on various industries characterized by different types of stakeholders and on the application of GRI and/or IIRC guidelines.

Hypotheses. The research hypotheses to be verified by empirical analysis of the collected data are as follows.

Hypothesis 1 - Industry

There is a relationship between industry and the materiality principle’s level of application.

A research path has investigated the relationship between voluntary disclosure and industry (Fasan & Mio, 2017): these studies have highlighted how public opinion pressure, industry regulation and stakeholder opinion influence how companies disclose their performance (Brammer & Pavelin, 2006). Other studies have analysed the relationship between voluntary disclosure and being part of an environmentally sensitive industry (Hassan & Ibrahim, 2012; Patten, 2002) and have confirmed industry as a key determinant of non-financial disclosure. In line with the abovementioned studies, our research intends to further develop the results already mentioned emerging from the literature, specifically investigating the relationship between the industry and the level of application of the principle of materiality. In fact, belonging to a sector, in addition to influencing the choice to make a CSR disclosure, can influence the choice of the material

issues that must be described in greater detail in the report.

Hypothesis 2 - Application level of GRI standards or IIRC guidelines

There is a relationship between the level of application of GRI/IIRC guidelines and the materiality principle's level of application.

Although the GRI guidelines and the IIRC framework define well-structured and detailed guidelines regarding the construction of a social-environmental report, the issues to be considered, the elements and KPIs necessary for proper disclosure, the stakeholder involvement and the correct and broad application of the principle of materiality, their real impact remains unclear. Some studies have discussed the role and effects of the application of the GRI Standards guiding principles without reaching any agreed-upon conclusions (Brammer & Pavelin, 2008; Fernandez-Feijoo *et al.*, 2014; Michelon *et al.*, 2015; Moratis & Brandt, 2017). Given the importance of these guidelines and the lack of clarity achieved by previous studies on the real impact they have on the quality of disclosure and on the effective application of several key reporting principles, we intend to more thoroughly investigate this issue. We expect the level of application of GRI Standards and IIRC guidelines to have a significant and positive relationship with the level of application of the materiality principle, due to the importance they give to the application of the principle and to the practices of good voluntary reporting.

Hypothesis 3 - Stakeholder engagement

There is a relationship between the spread of stakeholder engagement in the materiality analysis process and the materiality principle's level of application.

Many studies have highlighted the significant importance of involving all stakeholders in the production of a voluntary report and in underlying processes (Font *et al.*, 2016; Freeman, 1984; Harrison & Wicks, 2013; Pfitzer *et al.*, 2013; Wood, 1991). Calabrese *et al.* (2016) point out that a major problem of CSR reporting is the deficiency of completeness in covering all aspects that are material for the stakeholder (see also de Villiers & van Staden, 2010; O'Dwyer *et al.*, 2005). Companies are required to recognize a clear set of stakeholder expectations (Unerman & Bennett, 2004). Stakeholders Theory (Freeman, 1984) and Instrumental Stakeholder Theory (Jones, 1995) clarify the crucial role of all the stakeholders for a company's success and of a good relationship between the company and the stakeholder groups. In light of the relevance of the stakeholders'

engagement for good CSR disclosure, as evidenced in the literature, we expect that a wide and as direct as possible involvement of different categories of stakeholder can have a significant relationship in achieving good levels of non-financial information quality and thus in high levels of materiality application.

Sample and method. The sample under analysis is composed of Italian “public interest entities” that have published a non-financial report for the 2017 financial year (official list of 31 August 2018 and updated on 31 December 2018 available on CONSOB – National Commission for Companies and Stock Exchanges website). The sample does not include companies belonging to the banking, finance and insurance sectors; this is because of the different characteristics of their equity and because these entities are not comparable with firms of other industries (La Porta *et al.*, 2002). Our first sample was composed of 210 companies and after the exclusion of companies belonging to the banking, finance and insurance industries, which included 160 companies. Subsequently, 4 companies were excluded because their non-financial statements were not available online or recoverable, and 4 other companies because it was not possible to find some data necessary for the analysis. Overall, the empirical analysis has been carried out on a sample of 152 valid observations. As highlighted above, it is interesting to consider Italian companies because in Italy, from the 2017 financial year onwards, Legislative Decree No 254/2016 requires “public interest entities” to integrate statutory financial statements with a disclosure of environmental, social and governance strategies. CSRD is thus moving from a voluntary to a legislative perspective. The principle of materiality, the involvement of stakeholders, and the application of GRI/IIRC guidelines are even more relevant to understanding what material information must be reported and to contributing to the correct preparation of documents required by law. All reports have been subjected to a manual content analysis to detect all the necessary elements for the analysis and to construct the variables of the statistical model. The content analysis method is often considered within CSR research as a quantitative technique to collect data from textual materials (Abbott & Monsen, 1979; Guthrie *et al.*, 20014; Guthrie & Abeysekera, 2006). Content analysis is a method of codifying written text into various groups or categories based on selected criteria (Krippendorff, 1980; Unerman, 2000). The analysis was carried out individually by the three authors and cross-checked at the end.

Variables

Dependent variable (Fasan & Mio, 2017):

- Materiality Relevance (MatRelevance)

This variable measures the level of application of the materiality principle and thus the degree of breadth and depth of implementation of the materiality analysis process. It aims to capture numerically through a hierarchical scale from 1 to 6 how much the principle of materiality has been considered and applied by the company. To do this, the company's reports were read, in particular the methodological note, the section on materiality analysis and the relative matrix. In these documents, companies specify how far they have gone in the application of this principle and what types of processes they have implemented to ensure its correct application. By reading the paragraph on the matrix (if present) and in particular on the topics that have been found to be relevant, it is possible to understand how much these have been examined in depth in the reporting process and how much the company has concentrated on the same topics in order to provide complete, relevant and exhaustive information.

The six evaluations for this variable are:

- 1) no reference to materiality;
- 2) the report only states that materiality was a principle followed for the production of the report;
- 3) the report includes a brief discussion of what is considered to be material;
- 4) beyond the discussion of what is material, the report communicates the material issues emerging from the analysis;
- 5) the description of the process and its results are described in a higher degree of detail;
- 6) the report devotes significant attention to the materiality issue.

The classification was performed by the authors individually and manually for each examined report to achieve a more objective result and to reduce possible errors. According to the content analysis methodology, the ordered categorical variable is the result of the transformation of qualitative data to quantitative analysable data (Berelson, 1952). In this sense, we follow a widely used methodology in the field of research on disclosure quality and, in general, on voluntary disclosure (Wiseman, 1982; Guthrie *et al.*, 2004; Cormier & Magnan, 2003; Al-Tuwaijri *et al.*, 2004; Aerts & Cormier, 2009).

Independent variables:

- Industry

Classification of companies in one of the 10 industrial divisions of the US Standard Industrial Classification (SIC). There are seven USSIC industrial divisions belonging to the companies analysed: C) Construction; D) Manufacturing; E) Transportation, Communications, Electric, Gas, And Sanitary Services; F) Wholesale trade; G) Retail trade; H) Real Estate and Holding; I) Services. The industries in which companies operate have been obtained from AIDA Bureau van Dijk database.

→ Environmentally sensitive industries (ESI)

Membership to one of the seven ESI. Cho & Patten (2007) identify as ESI the following industries (based on the first two numbers of the US SIC classification): 10 (mining), 13 (oil exploration), 26 (paper), 28 (chemical and allied products) 29 (petroleum refining), 33 (metals), 49 (utilities). This is a dichotomous variable: “0” for no membership to one of ESI and “1” for the membership to one of ESI.

- IIRC directives and Integrated Report (IIRC)

This is an ordered categorical variable that classifies the level of application of the IIRC reporting principles and the publication of an integrated report (within the International IR Framework) in four categories: 1) absence of any references to the integrated report and the IIRC; 2) a stated goal of shortly producing a first integrated report and/or partial application of the principles of the International IR Framework; 3) presence of an “integrated report” but coexisting with a traditional non-financial report (sustainability, social, environmental); 4) presence of an integrated report in accordance with the IIRC principles. The data on the level of application of the principle has been collected analysing single reports, in particular the paragraph on the Methodology at the beginning or at the bottom of the report.

- GRI guidelines (GRIlevel)

This is an ordered categorical variable that classifies the level of application of the GRI reporting principles (version 3 and 4) in three categories: 1) absence of application level declaration or application level C in version 3; 2) application level B in version 3 and “accordance-core” in version 4; 3) application level A in version 3 and “comprehensive” in version 4. The data on the level of application of the principle has been collected

analysing single reports, in particular the paragraph on the Methodology at the beginning or at the bottom of the report.

- *Stakeholder engagement (StakeEngage)*

Stakeholder engagement level in the materiality analysis process measured through the extent and the type of events or engagement actions analysed through careful reading of the reports, especially sections on the process of materiality analysis and the relationship with the stakeholders. This is an ordered categorical variable that classifies stakeholder engagement in the materiality analysis process in three categories:

- 1) a statement of no involvement or lack of statements about it;
- 2) indirect and / or partial engagement of reference stakeholders through remote activities such as surveys, questionnaires, interviews and individual talk, analysis of generic information gathered by external companies, analysis of complaints / suggestions, analysis of the press review;
- 3) direct and/or wide involvement of stakeholders through direct and participative activities such as focus groups, dedicated events, meetings and workshops.

Control variables

In addition to the two traditional and essential control variables of income (measured by ROA) and company size (measured by Total Assets), and to be sure to capture and isolate the main aspects that could affect the materiality level of application (i.e. the materiality analysis), we have selected and inserted the following four aspects in the creation process of non-financial reports (to deepen the control variables used in CSR studies see Cahan *et al.*, 2015 & 2016 and Martínez-Ferrero & García-Sánchez, 2017):

- *Past experience in voluntary disclosure (Experience)*

It is a dichotomous variable: “0” for the absence of any previous experience in non-financial reporting and “1” for the presence of a previous experience in publishing any CSR report. Data has been collected from the introduction of the reports and / or through the report archives of the companies’ websites.

- *Review of the report (Assurance)*

Presence of a certificate assurance process. This is a dichotomous variable: “0” for the absence of an assurance and “1” for the presence of assurance by a certified entity that

has issued a compliant certificate. Data was obtained from the analysis of the individual reports where it is always stated whether the assurance is present or not and in which the auditors' report is attached.

- Level of indebtedness (Leverage)

The level of firm leverage represents the debt (or non-compliance risk) measured as the ratio of total debt to total asset. Data have been obtained from AIDA Bureau van Dijk database.

- Visibility (FTSE_MIB)

It is a dichotomous variable: “1” if firm is in the FTSE MIB index at August 2018, and “0” otherwise. The presence in FTSE MIB index is used as a visibility indicator because it is the most significant stock index of the Italian Stock Exchange. It is the basket that contains the shares of the 40 Italian companies, even if they have their registered office abroad, listed on the MTA with the highest capitalization, free float and liquidity. It represents approximately the 80% of the capitalisation of the Italian stock market. Data was obtained from the official monthly report of the Italian Stock Exchange.

Results

From the first part of the analysis carried out on the collected data, it was found (Table 3.1) that in 99% of the 152 total observations, the materiality principle has been applied. A graphical representation of the outcome of the materiality analysis process (materiality matrix) has been used in fewer cases, 66% of the total. In several observed cases, the report has been prepared considering the materiality and results obtained from the underlying internal process, but the whole is not graphically formalized by a suitable matrix.

Table 3.1. *Frequencies of Materiality and Materiality Matrix*

	Materiality		Materiality Matrix	
	Frequency	Percent	Frequency	Percent
No	2	1	52	34
Yes	150	99	100	66
Total	152	100	152	100

Table 3.2. *Frequencies Statistics of dependent variable*

	MatRelevance
Mean	4.204
Std.Dev.	1.274
Minimum	1.000
Maximum	6.000
N	152

The first data analysis of the dependent variable (Table 3.2) provides an indication of the average level of application of the principle of materiality according to the scale of evaluation of the dependent variable MatRelevance. On average, the companies in the sample achieved a rating of 4.2 in a range of 1 to 6, a first indication that not only is the principle almost always applied, but that it is also applied in detail and with a good deal of attention to material issues.

Table 3.3 shows the main descriptive statistics of all other variables included in the analysis.

Table 3.3. *Frequencies Statistics of other variables*

	Total Assets	ROA	Experience	Assurance	Leverage	FTSE_MIB	ESI	IIRC	GRIlevel	Stake Engage
Mean	13.395	0.019	0.441	0.980	0.520	0.132	0.138	1.066	1.658	2.204
Std.Dev.	1.876	0.081	0.498	0.139	0.229	0.339	0.346	0.410	0.565	0.740
Minimum	6.310	-0.490	0.000	0.000	0.020	0.000	0.000	1.000	0.000	1.000
Maximum	18.140	0.230	1.000	1.000	1.360	1.000	1.000	4.000	3.000	3.000
N	152	152	152	152	152	152	152	152	152	152

According to the correlation matrix (Table 3.4), we underline the positive (and significant at the 1% level) correlation of the GRIlevel variable and StakeEngage variable with the dependent variable.

Table 3.4. Nonparametric Correlation Matrix (Spearman's rho)

	Mat Relevance	Total Assets	ROA	Experience	Assurance	Leverage	FTSE_ MIB	ESI	IIRC	GRlevel	Stake Engage
MatRelevance	1										
TotalAssets	0.052	1									
ROA	-0.011	-0.136	1								
Experience	0.090	0.388***	-0.099	1							
Assurance	0.023	0.007	-0.039	-0.065	1						
Leverage	-0.008	0.003	-0.005	0.029	-0.126	1					
FTSE_MIB	0.102	0.485***	0.015	0.282***	0.055	-0.018	1				
ESI	-0.079	0.150*	0.129	0.182**	-0.217***	0.223***	0.013	1			
IIRC	0.104	0.251***	-0.077	0.185**	0.023	-0.030	0.422***	0.055	1		
GRlevel	0.344***	0.218***	-0.097	0.224***	0.211***	-0.046	0.186**	0.011	0.213***	1	
StakeEngage	0.270***	0.152*	0.031	-0.042	0.089	-0.022	0.094	-0.059	0.123	0.397***	1

* p<0.10; ** p<0.05; *** p<0.01

To test the first hypothesis of this study, we have performed an analysis of the differences between the mean values of the dependent variable in the seven industries and the averages in the rest of the sample. These differences have been subjected to a t-test (Table 3.5) where the null hypothesis is that the mean values of the dependent variable in the seven industries are equal to the averages of the same values in the rest of the sample.

Table 3.5. *Two-group mean-comparison test: Materiality in different industries*

Industry	MatRelevance			
	Industry mean	Rest of sample mean	Difference	T-test
C) Construction	4.500	4.187	0.312	-0.675
D) Manufacturing	4.130	4.245	-0.115	0.533
E) Transportation, Communications, Electric, Gas, And Sanitary Services	4.500	4.141	0.378	-1.362
F) Wholesale Trade	4.250	4.201	0.049	-0.105
G) Retail Trade	4.286	4.200	0.086	-0.173
H) Real Estate and Holding	4.273	4.185	0.088	-0.350
I) Services	3.647	4.274	-0.627	1.931**

* p<0.10; ** p<0.05; *** p<0.01

We learn from the analysis that companies in the Services industry (I) disclose non-financial reports with a lower level of materiality: they have obtained a MaterialityRelevance rating close to 3.6, as opposed to the rest of the industries, which exceed a score of 4. The difference is significant at the 5% level.

This first partial result is in line with the previous literature on the differences in distinct industries (e.g., see Brammer & Pavelin, 2006).

Proceeding with the verification of all the research hypotheses, we have built a statistical model that includes all independent and control variables. The complete model is the following:

$$\text{MaterialityRelevance} = \alpha + \beta_1 \text{TotalAssets} + \beta_2 \text{ROA} + \beta_3 \text{Experience} + \beta_4 \text{Assurance} + \beta_5 \text{Leverage} + \beta_6 \text{FTSE_MIB} + \beta_7 \text{ESI} + \beta_8 \text{IIRC} + \beta_9 \text{GRIlevel} + \beta_{10} \text{StakeEngage} + \varepsilon$$

Table 3.6. Ordinary Least Squares (OLS) Regression

MatRelevance (OLS)			
TotalAssets	-0.106 (0.068)	IIRC	0.057 (0.268)
ROA	1.147 (1.400)	GRIlevel	0.649*** (0.210)
Experience	0.187 (0.221)	StakeEngage	0.283** (0.147)
Assurance	-0.448 (0.744)	Intercept	4.257 (1.310)
Leverage	-0.149 (0.481)	Observation	152
FTSE_MIB	0.141 (0.369)	F	2.41***
ESI	-0.816** (0.374)	R2	0.22

* p<0.10; ** p<0.05; *** p<0.01

Table 3.6 shows the results of the regression analysis that has been performed to determine the possible relationship between the independent variables and the dependent variable. The OLS regression is significant at the 1% level and has a R-squared of 0.22. There is a significant and negative relationship (at the 5% level) with the ESI independent variable: this result further confirms Hypothesis 1, according to which Industry has a strong relationship with voluntary disclosure and the materiality principle's level of application. There is also a significant and positive relationship (at the 1% level) with the GRIlevel independent variable: this result is a partial confirmation of Hypothesis 2, according to which the level of application of GRI guidelines has a relationship with the materiality principle's level of application. Lastly, the Stakeholder Engagement variable has a significant and positive relationship (at the 5% level): this result confirms Hypothesis 3, in which stakeholder engagement plays an important role in defining and increasing the materiality level.

We have checked all the necessary assumptions and the possible obstacles to correctly run an OLS regression: linear relationship, normality, auto-correlation, multicollinearity, homoscedasticity. We have also treated all scale values with a logarithmic transformation to reach a normal distribution of values.

Discussion

The results of the analyses confirm, first how industry plays a key role in decisions

regarding the quantity and quality of non-financial disclosure of a company. According to previous studies on the subject (Cooke, 1992; Hassan & Ibrahim, 2012; Patten, 2002), industry significantly influences the board of the company on decisions about the type of disclosure to be published and about the application (or non-application) of the materiality principle (but also about its level of application and thoroughness). Direct and indirect external pressures, social-environmental impact of the core business, stakeholder expectations, and the behaviour of competing companies play a crucial role in management choices regarding voluntary disclosure and its underlining process. More specifically, the analysis has shown that in the case of Italian companies that publish sustainability and produce non-financial reports compliant with the new Legislative Decree No 254/2016, the membership in a specific industry influences strategic choices regarding non-financial disclosure, even in the presence of binding national legislation. This result is new and interesting: despite the presence of a law in this regard, companies belonging to different industries have different behaviours in their reporting processes, and this should be taken into account by the legislator, who should act accordingly to fill some possible gaps and encourage virtuous behaviour. Specifically, in the *Services* industry the results of the empirical analysis have suggested that companies in this industry tend to apply less thoroughly the principle of materiality and the underlying process in their non-financial reports. The less direct and impactful connection of this industry with social and environmental issues, and therefore the consequent lower pressure and demand from civil society and stakeholders, could be the cause of this aspect. Companies in this industry seem to feel a lesser need to investigate and understand what are the issues of greatest interest to the different categories of stakeholders and to thoroughly examine them and provide information about them in the non-financial document they will publish. The ESI variable analysis has underlined this key role of industry, but the type of relationship (negative) with the materiality principle level of application contrasts with previous studies on ESI and voluntary disclosures: Hassan & Ibrahim (2012) and Patten (2002), for example, have found a significant and positive relationship between belonging to one of these industries and the tendency to voluntary disclosure. We have found that ESI companies tend to apply the principle of materiality less thoroughly. This contrast may be due to the presence in our sample of only 21 companies belonging to any of the seven ESI, or to previous studies not having focused

on materiality. However, one plausible explanation for this phenomenon is that companies belonging to these ESI are very familiar with the highly problematic issues about which civil society and all stakeholders press to obtain information and details. Companies that, for example, belong to the world of energy production/dealing are constantly under pressure from governments, activists, associations and customers for a greater commitment to environmental protection and for a greater transparency on the real impact of the activities carried out and the processes put in place to improve themselves. This could mean that these companies do not feel the need to involve all categories of stakeholders to understand the main issues, as they are already well aware of and prepared on the relevant issues.

Regarding our second research hypothesis, the results of the statistical analysis show that the level of application and implementation of the GRI guidelines has a significant and positive relationship with the level of application of the materiality principle. Previous studies on the topic have deepened the role and effects of the application of the GRI Standards guiding principles without reaching any agreed-upon conclusions. This work clearly confirms how the GRI guidelines can have a considerable and positive impact on processes related to the preparation and production of a social and environmental report. The Global Reporting Initiative in its Standards favours and guides the increased application of the principle of materiality and a broad process of stakeholder participation in this process. It is interesting to see that even in the case of Italian companies recently required to produce a report containing non-financial information, the GRI guidelines still play a key role in determining particular strategic choices and processes related to reporting. A high level of implementation of these international guidelines enables companies to develop a wider and higher quality of materiality analysis process. It is important to note that the application of GRI standards is not enough to achieve a good quality reporting and materiality process but that it accounts for the depth and level of detail at which these guidelines are applied.

As confirmation of the third research hypothesis, the results of our empirical analysis have found that *stakeholder engagement* level is strongly related, in a positive relationship, to the level of implementation of the materiality principle. This result also highlights and confirms, even from a quantitative point of view, an important aspect and adds significantly to the literature about voluntary disclosure and materiality principle.

Implementing a solid and extensive stakeholder engagement process is a necessary condition, but not a sufficient condition, to reaching a significant degree of application of the principle of materiality. This strong relationship is not obvious: many companies have active materiality analysis processes without planning any type of stakeholder engagement, although most of them report in their voluntary disclosure documents that they have considered the needs and issues deemed important by reference stakeholders (often through interaction with companies specialized in public opinion analysis or analysing a press review or simply obtaining the management's opinion on it). The results of the analysis show that the more a company commits itself to actively, directly and as widely as possible involving various stakeholders, the more the company will be able to implement a process of quality materiality analysis and thus produce a useful report that meets the needs of the different categories of stakeholders. Actively and diffusely involving stakeholders before and during materiality analysis allows the company to produce a report that addresses issues considered relevant by most stakeholders and that succeeds in filling (or at least reducing) the information gap that often exists between the company and those interested in the company itself. A strong push towards this process of engagement comes and can be achieved even further by the standard setter of non-financial reports (primarily IIRC and GRI). The new IIRC directives and the GRI Sustainability Reporting Standards (2016) place greater emphasis on stakeholder engagement and its underlying process. On the other hand, an increasingly widespread and broad stakeholder engagement by the companies may influence and push, over time, the same standard setter to further implement this important aspect in reporting principles. In light of the theoretical pillars taken as a reference for this research, it is important and significant that both the hypothesis concerning the industry and the application of the GRI principles are confirmed. These are two factors linked to the concept of stakeholder engagement: they are, from a certain point of view, a possible precondition or, in any case, a disturbing or facilitating element. The process of stakeholder engagement, its importance and the decisions taken by companies in this regard are probably influenced and linked by the industry sector in which they operate and by whether or not they follow the Global Reporting Initiative guidelines. The fact that these two factors are significantly related to the level of application of the materiality principle is a prelude to and is consistent with, the conclusions regarding stakeholder involvement in relation to the

materiality principle.

3.4. Conclusions

The paper is focused on the application of the materiality principle in the compulsory disclosure of Italian listed companies for the 2017 financial year (see Legislative Decree No 254/2016). Following an analysis of the spread of the application of the principle and its materiality matrix, the study has continued to statistically test the existence of a relationship between the application level of the principle, the membership to a specific industry, the application level of GRI/IIRC guidelines and directives, and the process of *stakeholder engagement*, controlling for some variables that could have an impact on the dependent variable.

The quantitative analysis has shown that stakeholder engagement (and the indirect related variables of industry membership and GRI application level) plays a fundamental role in the report production process, particularly in the materiality analysis itself.

By combining the *Stakeholder Theory* and *Instrumental Stakeholder Theory* and by examining the latest international studies on these issues, this study confirms industry as an important aspect and adds the application level of Global Reporting Initiative Standards as a decisive aspect. These first results then lead to a consideration of the stakeholder engagement process as essential in relation to the quality of the materiality analysis process. This research has highlighted that without a large and mostly direct stakeholder engagement, companies are not able, in most cases, to reach high levels of implementation of the materiality principle; therefore, these companies cannot enjoy proper and well-targeted communication. Without the widest possible stakeholder engagement, a company is unable to implement a process that takes into account all aspects relevant for the stakeholders themselves and therefore cannot speak with them in a mutually satisfactory manner. Moreover, this process is preceded in the perspective of materiality analysis (and therefore facilitated or in any case significantly influenced) by belonging to a specific industry and by the application of GRI principles.

This research also has a direct and immediate utility for international bodies defining standards and guidelines on non-financial reports by making high levels of stakeholder engagement one of their principal goals and for companies that choose to produce

voluntary reports. A further important motivation stemming from these findings is found for stakeholder groups who are struggling to be heard and who are involved in the decision-making and information processes of companies to which they are linked. Their request is well founded and should be taken seriously by the management; without their real engagement, a fundamental element in the processes of transparency and disclosure is missing. This research work is also useful and interesting for practitioners involved in non-financial reporting processes, in collaboration with international and national standard setters, in strategic and operational business planning regarding materiality analysis and processes related to stakeholder involvement at multiple levels. In general, the novelty of this academic research, useful for practitioners but not limited to them, is that it provides a clear and exhaustive picture of the very sparsely investigated relationship between stakeholder engagement and the levels of application of materiality that can be obtained with clear and tangible practical consequences on social and environmental reports. The above-mentioned and discussed results help us understand the practical and tangible consequences of the different levels of stakeholder involvement (also taking into account the indirectly related industry aspects in terms of membership and the adoption of GRI principles) on the non-financial reporting process, via the important and impactful materiality assessment process.

As we close our paper, we must focus on some of the limitations of our research:

- 1) This paper analyses companies in only one country (Italy); the results may therefore reflect the characteristics of the country, and the influence directly and indirectly exerted by the legislation and customs of resident companies. However, it is important to point out that most of the companies in the sample, even if based in Italy, have a broad international breath, operating in different countries around the world and with affiliates in many countries. Even though their headquarters is in Italy, pressures by different stakeholder groups and public opinion in different countries could partially resolve the single-country issue.
- 2) This paper analyses only one year (2017); however, although this year is a significant year, as it was the first year in which the new national legislation on non-financial reporting was enforced.

We believe that future studies will confirm the results of our study, in *primis* by

broadening the analysed countries and in *secundis* by expanding the analysed time period. We emphasize the importance of new research focusing on the internal dynamics of the implementation of materiality analysis, on the underlying processes, and in particular on the effects of stakeholder engagement on these companies' processes. Research on how to define a stakeholder engagement process capable of achieving the results detailed herein would be particularly useful and interesting, as would a study on how this could be implemented within companies' dynamics.

3.5. References

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4. PAPER 3

CSR and Greenwashing: A Matter of Perception in the Search of Legitimacy

Federica Balluchi¹, Arianna Lazzini², Riccardo Torelli¹

¹University of Parma; ²University of Modena and Reggio Emilia

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Abstract

In recent decades, corporate communication has undergone significant changes in terms of channel, content and receivers. In order to be accountable, companies are called upon to satisfy a plurality of stakeholders who are increasingly interested in non-financial information. In addition, the type and scope of information can significantly influence the competitive advantage of the company and especially its credibility and reputation. Today, companies are required to engage in corporate social responsibility (CSR) initiatives to give response to the call for action from their stakeholders and society. However, some companies engage in CSR initiatives only apparently with the aim of achieving or increasing their level of legitimacy. When companies, even though misleading communication, try to influence the perception of their stakeholders, they incur the phenomenon known in literature as "greenwashing". The aim of this work is to analyse the phenomenon of greenwashing, tracing its evolution in the extant literature. Greenwashing will then be analysed through the lens of the legitimacy theory and starting from Habermas's communication theory in order to define and broaden the relationships between the concepts of disclosure, credibility, legitimacy, perception and greenwashing.

Key Words: corporate social responsibility; disclosure; greenwashing; legitimacy theory; Habermas's communication theory; communication credibility; perception.

4.1.Introduction

Corporate Social Responsibility (CSR) implies a willingness to respond to requests and expectations of various stakeholders, who have different nature and characteristics (Freeman, 1984; Donaldson & Preston, 1995; Mitchell et al., 1997; Garriga & Melé, 2004; Werther & Chandler, 2006). Bowen (1953) can be considered the first to have attempted to theorize the relationship between business and society (Carroll, 1998; Wartick & Cochran, 1985), but is in the 1960s that interest in CSR began to emerge when the idea became widespread that, although business is fundamentally an economic institution, firms exert significant influence in society (Roberts, 1992). In the 21st century, the number of studies on CSR has increased significantly (Lyon & Montgomery, 2015; Wagner et al., 2009). Some studies (e.g., Aguinis & Glavas, 2012; Carroll & Shabana, 2010) analyse CSR literature in general and others focus on CSR theories (e.g., Lee, 2008; Frynas & Yamahaki, 2016). In this perspective, very interesting is the contribution of Garriga & Melé (2004) that tries to classify the main CSR theories and related approaches. In particular, authors identify four groups of theories (Garriga & Melé, 2004: 52-53):

- *instrumental theories*: because firm is an instrument for wealth creation, any supposed social activity is accepted if, and only if, it is consistent with wealth creation;
- *political theories*: company accepts social duties and rights or participate in certain social cooperation because of its responsibility in the 'political arena' associated with its social power specifically in its relationship with society;
- *integrative theories*: firms need to integrate social demands because they depend on society for its existence, continuity and growth;
- *ethical theories*: the relationship between company and society implies ethical values; in this sense, firms ought to accept social responsibilities as an ethical obligation.

In this final perspective, CSR needs to be considered by firms in their strategy and can thus be a real source of social progress. Firms as social actors play a primary role in ensuring that present and future generations apply resources, expertise and insights to activities that benefit society (Porter & Kramer, 2006).

Nevertheless, there has been a worrying increase in the amount of misleading information produced by companies, including information on environmental and social aspects (Lydenberg, 2002). In different quarters, particularly among social and environmental activists, concerns are being increasingly raised about corporate deception, sometimes imbedded in rhetoric (McQuarrie et al., 2003). There is increasing ~~he~~ apprehension that some companies may be creatively managing their reputations with their stakeholders (customers, financial community, regulators, society, etc.) in order to hide faults and problems, improve their reputation or appear more competitive.

In the existing literature, interest in greenwashing has increased, although there is currently no single accepted definition of the term. Different definitions and perspectives have been put forward and adopted (Seele & Gatti, 2017; Wilson et al., 2010), but in general, it is recognised as a misleading communication practice concerning environmental issues. Numerous studies focus on why and how firms engage in greenwashing (Du, 2015; Testa et al., 2018; Vries et al, 2015) and find that one of the most frequent reasons to legitimacy (Walker & Wan, 2012). Because legitimacy leads to stronger relationships, companies try to achieve or preserve it through disclosure and may thus pursue strategies to influence stakeholder perception. Numerous studies find that information about social and environmental responsibility of a company influences stakeholders (customers, employees, investors, communities, etc.), which means that legitimacy is a critical feature (Walker & Wan, 2012). The only other way to legitimisation for a firm is to use credibility (Coombs, 1992; Seele & Lock, 2015) which exists when stakeholders' expectations coincide with what companies actually do (Lock & Seele, 2016; Sethi, 1975).

The aim of this study is twofold. Firstly, it aims to review the different definitions and perspectives used in management literature to study and analyse greenwashing, Secondly, it traces the relationship between the concepts of communication, credibility, legitimacy, greenwashing and perceptions through the lens of legitimacy theory, starting from Habermas's communicative action theory (1984).

The study comprises three main sections. The first focuses on the definition of greenwashing and the different perspectives in which it is analysed in current literature. The second section describes the relationship between greenwashing and four key

variables (communication, credibility, legitimacy and perceptions). In the final section some conclusions are drawn.

4.2. Misleading corporate communication: Towards a definition of greenwashing

Corporate social responsibility represents a voluntary approach taken by an enterprise to meet stakeholder expectations taking account of their different features (Donaldson & Preston, 1995; Freeman, 1984; Mitchell et al., 1997; Werther & Chandler, 2006). Engaging in corporate social responsibility initiatives is the main corporate response by stakeholders and society in general to the call for action.

CSR initiatives are extremely varied. They can be taken at different levels of corporate organisation and strategy, and can be voluntary or in response to an obligation, short, medium or long term, and targeted at different goals (profit, environmental protection, ethical, social behaviour). Organizations engage in certain CSR initiatives (e.g. environmental) in order to attain corporate legitimacy (Walker & Wan, 2012; Seele & Gatti, 2017) but in reality the engagement may in fact be purely symbolic. Simply giving the impression of being socially responsible can be easier, cheaper, and more flexible for companies, and at least at first may bring the same benefits as true commitment (Walker & Wan, 2012). When companies act through misleading communication only at symbolic level with the aim of strategically influencing stakeholder perceptions, *greenwashing* occurs in the context of pragmatic legitimacy (Seele & Gatti, 2017).

The debate on greenwashing first appeared in the 1960s because of the growth in environmentalism. Environmentalists termed corporate greenwashing actions and strategies “eco-pornography”. The first to coin the term “greenwashing” was biologist and environmental activist Jay Westerveld, who, in 1986, interpreted an invitation about towel use in his hotel room as the hotel trying to save money rather than protecting the environment by reducing water consumption.

Academic studies on greenwashing started only in the mid-1990s, when Greer and Bruno (1996) discussed it in their book on environmental marketing (Laufer, 2003). But because of its growing importance in practice and because it raises challenging issues and research opportunities lying at the intersections of various academic disciplines, greenwashing has become an increasingly significant topic in academic literature over the last decade.

From 1995 to 2014, a total of 105 full-length peer-reviewed articles in academic journal articles focused on greenwashing from various perspectives. The number increased rapidly after 2007, particularly in 2011 (Lyon & Montgomery, 2015).

Some studies focus on the *impact on financial performance* of both substantial and symbolic actions (Du, 2015; Walker & Wan, 2012). These discuss not only greenwashing but also the consequences of true positive environmental actions and performance properly advertised and disclosed. Walker & Wan (2012) call this “green-highlighting”. These studies prove the negative effect greenwashing, when it is uncovered, on financial performance, but they do not agree on the impact of actually good environmental performance.

Other works analyse the importance of *motivation* (economic or true environmental motivation) in an investment in environmental performance (Vries et al., 2015). These authors find that there is a lower perception of greenwashing when there is economic incentive for environmental investment. Suspicion of strategic behaviours and scepticism can however mediate this relationship.

The concept of greenwashing is also studied from a *marketing* perspective:

- Nyilasy et al., (2014) focus on impacts on brand attitude and purchase intentions of green claims and true positive environmental performance;
- Guo et al., (2017) analyse the effect of decoupling ‘green promises’ from brand trust, brand legitimacy and brand loyalty;
- Wilson et al., (2010) discuss how consumer perception and attitude change towards a company, focussing on recent environmental scandals affecting active socially responsible companies.

Some researchers focus on impacts of *cultural beliefs* concerning competition and individual responsibility on corporate social actions (Roulet & Touboul, 2015). Others describe the effects of different types of corporate leadership (e.g. ethical or authoritative) and on corporate conduct and actions (Blome et al., 2017), finding that authoritative leadership is associated with a higher number of cases of greenwashing.

Two recent studies investigate the concept of greenwashing looking at the *process of accusation* after the discovery of the misleading communication (Seele & Gatti, 2017)

and the new aspect of illegal/irresponsible action in greenwashing based on a detailed case study on a high profile emissions scandal (Siano et al., 2017).

Through the lens of signaling and institutional theory, Berrone et al., (2017) analyse the *impact of environmental actions* as signals on environmental legitimacy, exploring the case of positive signals of firm's environmental stance and poor environmental performance (greenwashing). Research findings highlight the positive impact on corporate legitimacy of some types of environmental actions (e.g. patents, pay policies and trademarks) but also that pay policies and trademarks can only increase environmental legitimacy when companies have strong credibility. Berrone et al., (2017) also stress the role of environmental NGOs, which have a negative moderating effect on environmental performance impact and on corporate legitimacy.

Some studies analyse how and why *disclosure* on activities in environmental measures provided by firms can affect stakeholder perception of corporate greenwashing. In particular, Vries et al. (2015) find that people often regard company communications on environmental issues as rhetorical 'hot air' rather than truthful. They emphasize that the characteristics of communication about investments and commitments towards environmental protection and sustainability have a significant impact on perceptions of corporate greenwashing. Other studies (Forehand & Grier, 2003; Vries et al., 2015; Yoon et al., 2006) observe that people may be suspicious of the truthfulness of claims and hypothesise underhanded purposes. Furthermore, some researchers show (Cho et al., 2009; Milne & Patten, 2002) that under certain circumstances, transparent environmental disclosures have successfully offset public perception of the negative effects of liability exposures. This phenomenon frequently occurs when companies take purely symbolic actions in signalling to stakeholders their values and refer to the environment and green issues in a misleading way, choosing to engage in 'green talk' without a 'green walk' (Ramus & Montiel, 2005).

Nowadays, the level of attention towards *corporate environmental impacts* and *commitments* is very high, and environmental scandals are a topical issue (Siano et al., 2017). Many studies have focused on the effects of stakeholder discovery of greenwashing; some have highlighted the effects on financial performance (Du, 2015; Walker & Wan, 2012), while others have examined the impact on trust and loyalty (Guo

et al., 2017).

Some studies analyse the impact of *industry* on stakeholder perceptions (Cho et al., 2006 & 2009; Patten, 2002). It is found that, especially in the case of firms operating in Environmentally Sensitive Industries (ESI), it is necessary to identify ESI firms with poor environmental performance which may engage in misleading environmental communication in order to gain legitimacy, counter suspicions of negative environmental impact and improve corporate perception and trust.

Several studies analyse the relation between social accountability transparency and audit. In this perspective, some authors consider social auditing as a way to promote transparency and accountability (e.g., Zadek & Raynard, 1995; Gonella et al., 1998); furthermore, very interesting is the study of Owen et al. (2000). In particular, this article aims to identify fundamental values for conventional social audit and to analyse the developments which underpin the ‘new’ social audits (p. 82).

The literature reviews up to this point has noted the different perspectives of greenwashing studies. Further studies can be classified into two levels: firm-level and product-level.

At *firm-level* greenwashing is related to a distorted disclosure of environmental topics concerning the whole firm. At firm-level, greenwashing is a sizeable phenomenon associated with distortive and selective disclosure, whereby companies divulge good environmental strategies and actions and conceal negative ones. This is done to create a positive, but misleading, impression of the firm’s real environmental performance (Lyon & Maxwell, 2011). Nowadays, firm-level greenwashing is significant because of increasing stakeholder demand for high levels of accountability and transparency (Bromley & Powell, 2012) and because of the emergence and growing diffusion of “environmental greenwashing” frequently used by organized crime, eco-mafia and eco-criminals (Massari & Monzini, 2004; Rege & Lavorgna, 2017). At firm-level, greenwashing can be regarded as a specific strategy that companies adopt to engage in symbolic communications of environmental issues without translate them in actions (Walker & Wan, 2012). It can be associated with symbolic actions, referring to plans, or with substantive actions, referring to what a firm is currently doing. At *product-level*, greenwashing is associated with an explicit marketing strategy, in which firms publicise

elusive environmental benefits of a specific product or service to customers (Delmas & Burbano, 2011; TerraChoice, 2009).

To conclude this literature review, note that there is no single accepted definition of greenwashing. Delmas and Burbano (2011) define greenwashing as “poor environmental performance and positive communication about environmental performance”. Lyon and Montgomery (2015) in their review of the cross-disciplinary literature on greenwashing state: “the word greenwash is used to cover any communication that misleads people into adopting overly positive beliefs about an organization’s environmental performance, practices, or products”. Other researchers have focused on the concept of accusation to define greenwashing. Seele and Gatti (2017) say that: “Greenwashing is a co-creation of an external accusation toward an organization with regard to presenting a misleading green message”. Walker and Wan (2012) focus on the difference between symbolic and substantive actions, and define greenwashing as “a strategy that companies adopt to engage in symbolic communications of environmental issues without substantially addressing them in actions”. Many other definitions have recently been put forward by NGOs (e.g. Greenpeace) and main-stream media. In particular, TerraChoice Group Inc. (2009) define greenwashing as “the act of misleading consumers regarding the environmental practices of a company (firm-level greenwashing) or the environmental benefits of a product or service (product-level greenwashing)”. This definition covers only one category of stakeholders (consumers) interested in greenwashing and only two levels of greenwashing (firm and product levels).

In conclusion, note that because the concept is wide, complex and interdisciplinary a clear definition of the concept greenwashing would probably be of limited usefulness.

4.3. The search for legitimacy: The role of greenwashing, credibility and perception

Greenwashing is rooted in the firms’ need for legitimation, in the essential perception that the actions of a firm are desirable, proper or appropriate within a socially constructed system of norms, values and beliefs (Suchman, 1995). According to past studies (Dowling & Pfeffer, 1975; Lindblom, 1994) firms seeking to gain or maintain legitimacy have a greater incentive to use communication strategies to potentially influence stakeholders’ perception. Studies like Alniacik et al. (2011) find that positive and negative information

on corporate social and environmental responsibility influences purchase, employment, and investment intentions of various stakeholders. Consequently, legitimacy becomes a critical feature for companies because it can lead to stronger trade relationships, better job applicants, greater access to resources and financial performance improvement (Aldrich & Fiol, 1994; Babiak & Trendafilova, 2011; DiMaggio & Powell, 1983; Deephouse, 1999; Oliver, 1991; Walker & Wan, 2012).

Recent studies (Cho et al., 2009; Forehand & Grier, 2003; Milne & Patten, 2002; Patten & Crampton, 2003; Vries et.al., 2015; Yoon et al., 2006) analyse the importance of affecting stakeholder perception of corporate communication, social and environmental responsibility and corporate greenwashing.

These studies reflect greater attention to CSR and CSR disclosure by academics and corporate management, and CSR reports are acknowledged to be the most effective CSR communication tool (Hooghiemstra, 2000) but perception of credibility remains a poorly understood issue. This section proposes a basic theoretical model of the relationships between the concepts of corporate communication, credibility, legitimacy, perception and greenwashing.

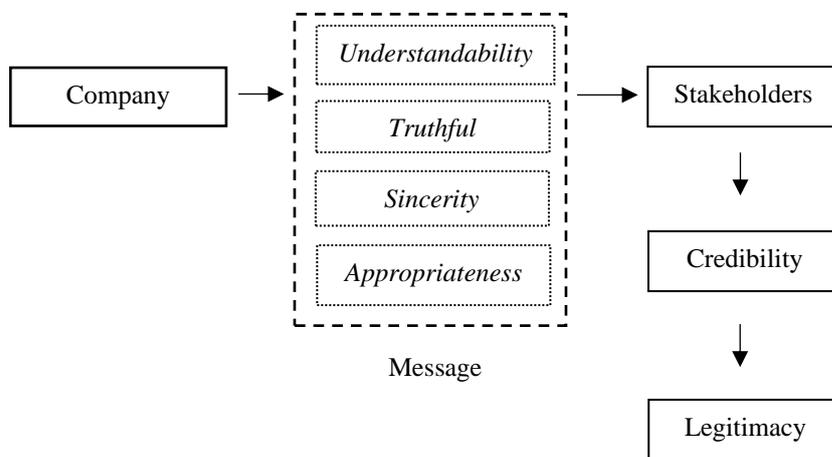
To obtain legitimacy, corporate communication and disclosure requires a sufficient level of credibility (Coombs, 1992; Seele & Lock, 2015). There is frequently a credibility perception gap (Dando & Swift, 2003): a discrepancy between what stakeholders expect and what companies do, or rather what they perceive companies do (Sethi, 1975). Credibility has a key role as a basis of trust and in particular of legitimacy (Coombs, 1992). The same item of CSR communication can be considered believable at first sight in the eyes of the company and its managers, but at the same time can be perceived as not credible (Lock & Seele, 2016; Seele, 2016), a sort of fashionable distraction, or an attempt at greenwashing by a stakeholder.

Habermas's communicative action theory (1984) is very useful in analysing corporate communication. Habermas considers social action based on two main components: strategic action and communicative action. Strategic action is regarded as an action oriented to success achieved influencing the actions of other rational actors, and communicative action is oriented toward reaching mutual understanding. Through communicative action, the actors cooperate to define the context of their interaction with

the aim of pursuing their own objectives. Habermas (1984) argues that communication is a process based on a set of norms, or validity claims, accepted by all communicators in order to develop and maintain a correct and ideal communication process and to construct a common understanding. The main norms in a communication process are:

- *Understandability*: ensures that the statement is clearly understandable by the actors;
- *Truthful*: The communicator provides a true and correct message. S/He does not deliberately give misleading information;
- *Sincere expression*: The communicator is truthful and believable. This norm is connected to the subjective beliefs underlying the statements;
- *Appropriateness* (social order): Communication is related to the social order of which each actor is part. The actor takes a position with respect to the normative or legitimate social order.

Figure 4.1. *From communication to legitimacy: a virtuous process*



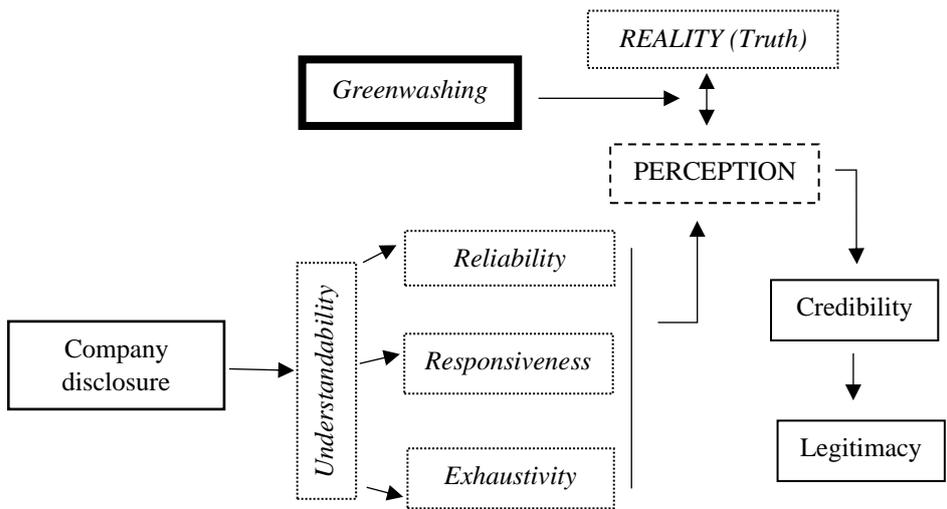
Source: Our elaboration

A critical role in corporate communications is played by stakeholder perception. (For details see Wagner et al., 2009; Lock & Seele, 2017). If it is true that in order to obtain legitimacy a communication must have credibility (Lock & Seele, 2017; Seele & Lock, 2015; Lock & Seele, 2016), built on the presence of all four of Habermas’s principles, it is equally important to fully evaluate and consider the role of perception (in this stakeholder context) as moderator or amplifier both in achieving credibility and in obtaining legitimacy. The concept of credibility can be considered a multidimensional perception construct (Jackob, 2008). Likewise, the concept of legitimacy can be

considered to be based on, or to be, a perception construct. Actually, legitimacy of an organisation is considered as its perceived conformity with norms, traditions and social rules (Suchman, 1995).

If we include in the model the concept of greenwashing, as misleading environmental communication based on either negative or partially positive environmental performance, (Walker & Wan, 2012; Delmas & Burbano, 2011; Lyon & Montgomery, 2015), the role of stakeholder perception in the transition from communication to legitimacy become decisive. Starting from Habermas’s communication theory, we assume that greenwashing is the result of a strategic action which through the communication process aims to give stakeholders a misleading perception of environmental corporate performance in order to obtain legitimacy. Legitimacy is achieved if stakeholders perceive that the message communicated by the company is credible. Greenwashing is thus generated when there is a gap between the reality and the perception induced in the stakeholder by corporate disclosure, in other words when the norms of truthful and sincerity are violated so that the message communicated expressly contains misleading elements.

Figure 4.2. *The role of perception*



Source: Our elaboration

Figure 4.2 shows the main relationships between the concepts of communication,

credibility, legitimacy, greenwashing and perception, and certain key aspects are highlighted. In a corporate disclosure, the first validity claim proposed by Habermas (1984), understandability, can be considered a precondition (Zinkin, 1998), a necessary condition for the proper functioning of communication between sender and receiver, in this case company and stakeholders. Without understandability there is no basis for communication (Lock & Seele, 2016). In order for company disclosure to satisfy Habermas's conditions of appropriateness and sincerity, it needs to be reliable, responsive and exhaustive. The concept of truth, on the other hand, is very difficult to measure and is present only in real life, in other words it is what stakeholders use to evaluate the corporate communication received.

Misleading communication, such as greenwashing, can be an attempt by the sender to bypass the respect for the conditions set out by Habermas for correct communication that leads to credibility (Connelly et al., 2011; Berrone et al., 2017). Through the phenomenon of greenwashing, the company tries to communicate something that does not actually exist, or exists in part, or that exists but not as it is communicated (Walker & Wan, 2012; Ramus & Montiel, 2005). The communication is therefore artificial, not sincere, not true and not appropriate, but in some cases, it can still be considered as credible.

The concept of perception comes into play at different times in the act of communication. In the transition from Habermas' validity claims to the concept of credible communication, the perception by the receiver (stakeholder) plays a key role (Cho et al., 2009; Vries et al., 2015; Wilson et al., 2010). Apart from the objective truth of what the communication deals with, the other two validity claims are subject to a subjective judgement i.e. the perception of the individual receiver (Suchman, 1995; Seele & Gatti, 2017). The same communication can be taken as appropriate and sincere by one receiver and not credible by another.

As Jakob (2008) pointed out, credibility is the outcome of a subjective evaluation process carried out by the receiver on the message and, above all, on its content, so that the result of this process can differ each time. Even if a company tries to go beyond the steps of a correct communicative process (Habermas, 1984) and uses greenwashing (e.g. Berrone et al., 2017), the message still has to be perceived by the receiver who receives the message and evaluates its credibility (Lock & Seele, 2017). Here, moreover, the risk

for the company of gaining negative evaluation by stakeholders on the communication is likely to be greater because in not meeting the four validity claims, it is based not on facts and appropriateness, but on artefact, fashion, and impression management (Mahoney et al., 2013; Neu et al., 1998; Seele & Gatti, 2017). Whether it is sincere and credible communication or deceptive communication that has obtained credibility from the receiver, perception still has a role in the transition from credibility to legitimacy (Jakob, 2008). This is not immediately obvious. The transition cannot be attributed only to the presence/absence of the perception of credibility, but needs to be considered from the point of view of perception. This is particularly true given that stakeholders often consider CSR communication not credible but only a strategic tool from the start (Elving, 2013; Illia et al. 2013; Milne & Gray, 2013). A communication evaluated as credible, whether it is objectively credible or not, passes through further consideration, evaluation and discernment by the receiver in obtaining legitimacy. Here once again perception has an important role. Even the concept of legitimacy should not be considered as objective and certain concept, but as a construct of perception (Suchman, 1995). The issue of communication credibility is accentuated by the fact that stakeholders often see a lack of credibility in CSR communication (Coombs & Holladay, 2013) and by general cynicism toward CSR communication (Illia et al., 2013).

When situations occur in which corporate communication is not credible (credibility gap) or, although considered credible, fails to reach the concept of legitimacy (legitimacy gap), there is often inconsistency between what the company says and what the company does, or seems to do (Basu & Palazzo, 2008). It is thus important to assess the role played by perception among stakeholders. In these cases, the role of the moderator/amplifier of perception is crucial. The case of greenwashing is very interesting and complex because, in the case of misleading communication, the sender will base the entire communication on the exploitation of perception (Seele & Gatti, 2017; Suchman, 1995) in his/her role as an amplifier of credibility. If this role of perception does not work as expected, the construct of communication fails, because the four validity claims are lacking as supporting pillars (Habermas, 1984; Lock & Seele, 2017). Through misleading stakeholders, a company tries to meet the stakeholder requirement for the legitimacy of the firm in society, but not responding truthfully or completely (Claasen & Roloff, 2012). Neither will it succeed in filling the credibility gap which is only deepened by CSR

communication and by corporate hypocrisy (Dando & Swift, 2003; Wagner et al., 2009). CSR perception has an important role in affecting trust, reputation, firm image, propensity of consumers/investors and financial performance (Luo & Bhattacharya, 2006). Vague or empty communications, in other words, communication without real performance, generate stakeholder perception of corporate hypocrisy (Wagner et al., 2009). Greenwashing is a perfect example of this process. CSR communications and then CSR perception are affected negatively by inconsistency. Perception of corporate hypocrisy, i.e. the difference between a statement and the real action, appears to be stronger when companies focus first on the statement by publishing it and only later the real action. This *proactive CSR strategy* (Wagner et al., 2009) is more damaging than reactive CSR strategy where actions are made before statements appear. Greenwashing could be considered as an extreme case of corporate hypocrisy because misleading here is crucial (see Seele & Gatti, 2017 and Delmas & Burbano, 2011). In the intention of disseminating positive CSR communication, a company attempting greenwashing focuses exclusively (or almost exclusively) on issuing its statement, and on perception, of course, and not (or not exclusively) on performance (Delmas & Burbano, 2011; Lyon & Montgomery, 2015). This is the problem of “talking the talk without walking the walk” (Ramus & Montiel, 2005).

4.4. Conclusions

After having analysed and classified different definitions of greenwashing in extant literature, this study has focused on the relationships between greenwashing and legitimacy. In literature, it is commonly recognized that credibility (Dando & Swift, 2003) has become a critical feature for companies to gain trust and legitimacy. Nowadays, because of the increasing expectations of stakeholders, there is a high risk that corporate communication will be considered unreliable, creating a real gap in trust and legitimacy. Starting from these assumptions and based on previous research (Habermas 1984; Lock & Seele, 2017; Patten & Crampton, 2003; Cho et al., 2009; Vries et al., 2015) this work has analysed role of information disclosure in gaining legitimation and improving stakeholder perceptions.

Misleading communications - greenwashing - can be used by companies to meet

stakeholder expectations by avoiding the correct rules of communication, with the aim of communicating something that is not really true or only partially true (Walker & Wan, 2012; Ramus & Montiel, 2005). Stakeholder perception plays a decisive role in the process because the same message can be considered appropriate and sincere by one receiver, but not credible by another. Because credibility derives from a subjective evaluation process (Jackob, 2008) companies using greenwashing risk negative evaluation by stakeholders and losing their legitimacy. This kind of risk is particularly real because stakeholders often consider CSR communication a strategic tool which is not in itself wholly credible. When there is a credibility gap between companies and stakeholders, there is a problem of inconsistency and perception comes to play a crucial role. If perception does not work as expected, the whole construct of communication fails. Adopting greenwashing practices, companies aim to disseminate positive CSR communication “talking the talk without walking the walk” (Ramus & Montiel, 2005).

A critical role in the communication process is played by the perception of credibility generated by stakeholders. The perception of credibility seems to be affected by four fundamental conditions: comprehensibility, reliability, responsiveness and exhaustiveness. Although it is complex to identify possible solutions to problems of misleading communication, which are often rooted in the culture of corporate management, we can consider a first attempt to limit these practices the adoption of an in-depth process of external verification of data and information reported by companies (Owen et al., 2000).

The main limitation of this study is the lack of practical application and empirical verification of the theoretical concepts developed and proposed. Moreover, the work does not explore possible solutions or methods to limit situations of misleading communication.

Future empirical research will be useful to develop methods of measuring stakeholder perception of disclosure and its credibility. It would also be interesting to investigate the level of credibility of corporate environmental disclosure in different contexts and industries.

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5. PAPER 4

Greenwashing and Environmental Communication: Effects on Stakeholders' Perceptions

Riccardo Torelli¹, Federica Balluchi¹, Arianna Lazzini²

¹University of Parma; ²University of Modena and Reggio Emilia

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Abstract

Since the first Earth Day in the 1970s, corporate environmental performance has increased dramatically, and cases of greenwashing have increased sharply. The term greenwash refers to a variety of different misleading communications that aim to form overly positive beliefs among stakeholders about a company's environmental practices. The growing number of corporate social responsibility (CSR) claims, whether founded or not, creates difficulties for stakeholders in distinguishing between truly positive business performance and companies that only appear to embrace a model of sustainable development. In this context, through the lens of legitimacy and signalling theory, we intend to understand and assess the different influences that various types of misleading communications about environmental issues have on stakeholders' perceptions of corporate environmental responsibility and greenwashing. Stakeholder responses to an environmental scandal will also be assessed. The hypotheses tested through a four-for-two design experiment reveal that different levels of greenwashing have a significantly different influence on stakeholders' perceptions of corporate environmental responsibility and stakeholders' reactions to environmental scandals.

Key Words: greenwashing; environmental communication; signalling theory; legitimacy theory; experiment; corporate social responsibility.

5.1. Introduction

Since the mid-1960s, with the affirmation of the environmental movement, the phenomenon of misleading environmental communication has begun to be identified both at the level of actions and business strategies. This phenomenon was initially defined as “eco-pornography” in 1972 by former advertising executive Jerry Mander. The term greenwashing was first coined in 1986 by biologist and environmental activist Jay Westerveld (Pearson, 2010), but it is from the seminal work of Greer and Bruno (1996) that the number of studies on greenwashing has grown significantly (Laufer, 2003), with a substantial leap in 2011 (Lyon and Montgomery, 2015). In the last decade, greenwashing has become an increasingly significant topic in the academic literature because of its growing operational importance and because it raises challenging issues

and multidisciplinary research opportunities (Lyon and Montgomery, 2015).

Despite growing interest from academics and professionals, there is no generally accepted definition of greenwashing in the current literature. Due to its interdisciplinary nature, different definitions and perspectives have been adopted by scholars in the analysis of greenwashing practices (Guo et al., 2014; Nyilasy et al., 2014; Roulet and Touboul, 2015; Seele and Gatti, 2017; Wilson et al., 2010). In describing greenwashing, several scholars base themselves on the definition of the Oxford English Dictionary, others adopt the TerraChoice perspective, and others elaborate their own definition (Delmas and Burbano, 2011; Lyon and Montgomery, 2015; Walker and Wan, 2012). While the Oxford Dictionary defines greenwashing as “disinformation disseminated by an organisation so as to present an environmentally responsible public image”, TerraChoice (2009) considers greenwashing “the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service”. Interesting perspectives are offered by Delmas and Burbano (2011), which considers greenwashing a “poor environmental performance and positive communication about environmental performance”, and Lyon and Montgomery (2015), which finds that “the word greenwash is used to cover any communication that misleads people into adopting overly positive beliefs about an organization’s environmental performance, practices, or products”.

In recognising greenwashing as a misleading communication practice concerning environmental issues, many studies have tried to understand why and how firms engage in greenwashing (Du, 2015; Chen and Chang, 2013; Laufer, 2003; Testa et al., 2018a; Vries et al., 2015). According to Walker and Wan, there are two main motives for firms to engage in greenwashing: to obtain legitimacy (Cormier and Magnan, 2015) according to institutional (Oliver, 1991) and legitimacy theory (Suchman, 1995) and to communicate the firms’ values with regard to green issues through a signal to stakeholders by engaging in symbolic actions or “green talk” (Connelly et al., 2011) according to signalling theory.

Although there is today a great deal of academic interest in greenwashing, the extant literature highlights the need for further research pointed to fulfilling some conceptual and empirical gaps (Lyon and Montgomery, 2015) and to studying the impacts and consequences both for stakeholders and firms’ reputations of a corporate crisis due to a

greenwashing scandal (Siano et al., 2017). Lyon and Montgomery (2015) highlight the need for further research aimed at a broader inquiry of the taxonomy of the greenwashing phenomenon. The authors suggest paying attention to the role of visual imagery and rhetorical language in shaping green communication and messaging. An interesting issue concerning greenwashing, although it is little considered in the extant literature, is whether and how it can affect the actions and reactions of stakeholders and consequently corporate reputation.

Our investigation, blending elements of legitimacy and signalling theory (Campbell, 2003), aims to flesh out a broader taxonomy of greenwashing related to distinct levels and typologies of communication. We aim to analyse, for different levels of communication, the influences on stakeholder perception of corporate environmental responsibility and corporate greenwashing by measuring stakeholder reactions to environmental scandals. In our study, we adopt a four-by-two between-subjects design experiment, manipulating different levels of greenwashing and industry type (Cho et al., 2009).

The paper is organised into four main sections. The first section presents the theoretical background and the hypotheses. The second describes the research methods in terms of the participants, variables and experimental task. The third section presents and discusses the results, and the final section presents some conclusions.

5.2. Background and hypotheses

Previous studies have examined greenwashing at two main levels: at the company level and at the product level. At the corporate level, greenwashing is associated with a distorted dissemination of environmental issues that affect the entire company. At the product level, greenwashing is associated with an explicit strategy through which companies advertise, in an untruthful and distorted way, the environmental characteristics of a specific product or service (Delmas and Burbano, 2011; TerraChoice, 2009). If analysed at the company level, greenwashing is associated with distorted and/or selective disclosures in which companies disclose only good environmental strategies and actions, concealing negative ones. With this attitude, companies seek to generate a positive but totally misleading impression of the company's environmental performance (Lyon and

Maxwell, 2011). Today, greenwashing at the company level is particularly significant both for the growing demand from stakeholders for high levels of responsibility and transparency (Bromley and Powell, 2012; Tang and Demeritt, 2018) and for the growing spread of real environmental crimes related to the so-called eco-mafia or eco-criminality (Massari and Monzini, 2004; Rege and Lavorgna, 2017). In recent decades, due to the growing sensitivity of stakeholders to environmental issues, it seems that greenwashing has become a widespread attitude among companies to try to outdo their competitors (Parguel et al., 2011). Today, as a result, there is a growing scepticism on the part of stakeholders towards companies that communicate their environmental strategies (Prothero, et al., 1997) and performances (Chen and Chang, 2013). Scepticism regarding communications on environmental issues has been studied mainly among young people (Aji and Sutikno, 2015), who are found to be particularly sensitive, especially in relation to the type and style of communication received (Musgrove, et al., 2018). Other studies (Besel, et al., 2017; Leung and Chan, 2006) have confirmed that young people, in particular university students, are very aware, informed and receptive to issues related to the environment and environmental communication, for example on climate change and ethical aspects. At the company level, greenwashing is a specific strategy that companies adopt to engage in symbolic communication about environmental issues without addressing them substantially in actions (Walker and Wan, 2012; Wong et al., 2014). While symbolic actions are associated with a company's future plans, substantive actions refer to what a company is currently doing. Greenwashing has its internal roots in the need to legitimise the company and lies in the essential perception that a company's actions are desirable, correct or appropriate within a socially constructed system of norms, values and beliefs (Suchman, 1995). According to previous studies (Dowling and Pfeffer, 1975; Lindblom, 1994), firms seeking to gain or maintain legitimacy have a greater incentive to use communication strategies to potentially influence stakeholders' perceptions. According to Alniacik et al. (2011), positive and negative information on corporate social and environmental responsibility influences the purchase, employment, and investment intentions of various stakeholders. Consequently, legitimacy became a critical feature for companies because it can lead to stronger trade relationships, better job applicants, greater access to resources and financial performance improvement (Aldrich and Fiol, 1994; Babiak and Trendafilova, 2011; DiMaggio and Powell, 1983;

Deephouse, 1999; Oliver, 1991; Prakash, 2002; Walker and Wan, 2012).

In recent studies (Cho et al., 2009; Vries et al., 2015; Yoon et al., 2006), the importance of the antecedents of greenwashing has been analysed, focusing on how and why information provided by firms about the reasons for their activities in environmental measures can affect stakeholders' perceptions of corporate greenwashing. Vries et al. (2015) find that stakeholders often regard company communications about environmental issues as more rhetorical than real. People may be suspicious of the truthfulness of companies' environmental claims and may speculate about the subtle purposes (Forehand and Grier, 2003; Vries et al., 2015; Yoon et al., 2006). These findings highlight the need for companies to be cautious in disclosing their environmental strategies and activities. Corporate environmental initiatives are certainly appreciated by stakeholders, although they can be highly self-defeating if they should arouse suspicions of corporate greenwashing. Furthermore, it has been shown that, under certain circumstances, positive environmental disclosures have successfully offset the negative effects of liability exposures in people's minds (Cho et al., 2009; Milne and Patten, 2002). This phenomenon frequently occurs when companies engage in purely symbolic actions to signal to stakeholders their values and refer to the environment and green issues in a misleading way, choosing to engage in 'green talk' without a 'green walk' (Brunton et al., 2017; Ramus and Montiel, 2005). Such firms take advantage of the natural information asymmetry between the signaller and the receiver. Signalling theory is useful in analysing how parties that have access to different information interpret signals (Connelly et al., 2011) and to study the distortive effect of greenwashing (Seele and Gatti, 2017).

Starting from the assumption that the intention of companies is to create effective and efficient signals for the different targets of reference, we argue that different types of communication (for example, different strategies behind the labels, sustainability reports, institutional communications and strategic behaviours) resulting from different approaches and strategic decisions produce different levels of greenwashing.

Each kind of greenwashing, which is intended as an intentionally misleading environmental communication, produces different reactions and responses from stakeholders (Collison et al., 2003). Some approaches can receive non-significant responses, but others can lead to reputation problems, scandals, protests, boycotts etc.

Previous literature (see the top of the paragraph) about misleading environmental communication and greenwashing has studied the phenomenon and informed us about findings that take into consideration only two areas of greenwashing (the corporate level and product level). Through the careful study of the literature on the issue, and by taking into consideration the reading keys that legitimacy theory and signalling theory give us, we aim to introduce two new misleading environmental communication levels to try to better classify the types of communications related to greenwashing. We suggest that there could be four main levels of greenwashing, which are characterised by specific goals and communication procedures: the *corporate* level, *strategic* level, *dark* level and *product* level.

Corporate-level greenwashing concerns misleading environmental communication about data and aspects related to the actual firm's image and reputation. This level embodies a static dimension (i.e., the company name and logo, vision, standard adherence, and corporate certification).

Strategic level greenwashing concerns a misleading environmental communication concerning aspects related to the future firm's strategies (i.e., strategic public communication, corporate medium-long-term goals, strategic plan for improvement or implementation of technology/processes, report communication, and targeted extraordinary operations).

Dark level greenwashing concerns a misleading environmental communication finalised to hidden illegal activities (i.e., money laundering, criminal and/or mafia collusion, corruption, and investments with hidden aims).

Product level greenwashing concerns a misleading environmental communication concerning some specific features of a product or a family of products (i.e., label, targeted advertising, packaging, and product certifications).

The four levels of greenwashing are strictly connected to each other by a set of business processes and in the real context in which companies operate and stakeholders receive their communications, but we are interested in and have focused on the final step of the environmental communication process when the corporate signal arrives at the stakeholders with precise and distinct characteristics. Based on this set of distinctive signal characteristics, we have distinguished the four greenwashing levels explained

above.

To establish whether the levels exist in the real world and in the everyday experience of stakeholders and whether there are significant differences among them, we test the different influences of these distinct levels on stakeholder perceptions of corporate environmental responsibility and corporate greenwashing and measure different stakeholder reactions to an environmental scandal at each level. We want to understand if the experiment will show significant differences in the perceptions and reactions of stakeholders depending on the level of greenwashing to which the participants will be assigned: the presence of significant differences would give us a first but valid element confirming the proposed existence of the distinct levels of communication.

According to the theoretical framework, we have developed four hypotheses to be tested.

H1 - A misleading communication belonging to different levels of greenwashing will have a significantly different influence on stakeholder perceptions of corporate environmental responsibility.

Previous research highlights the role of disclosure content (Patten and Crampton, 2003) and the presentation of that content (Cho et al., 2009) in gaining legitimation and improving stakeholder perceptions of a company's social and environmental responsibility. Belonging to a typology of greenwashing and having certain communicational characteristics is closely related to disclosure content and presentation. We expect that the four main levels of greenwashing will have different influences on the perceptions of environmental responsibility.

H2 - A misleading communication belonging to different levels of greenwashing will have a significantly different influence on stakeholder perceptions of corporate greenwashing.

The characteristics of communication about investments and commitments towards environmental protection and environmental sustainability have an important and significant influence on the perceptions of corporate greenwashing (Vries et al., 2015). The motives behind investments and commitments, as well as the type of activity and corporate core business, are closely related to the perceptions of greenwashing (Vries et al., 2015). Further, belonging to different levels of greenwashing may have an influence on it.

H3 - A misleading communication belonging to different levels of greenwashing will have

a significantly different influence on stakeholder reactions to an environmental scandal.

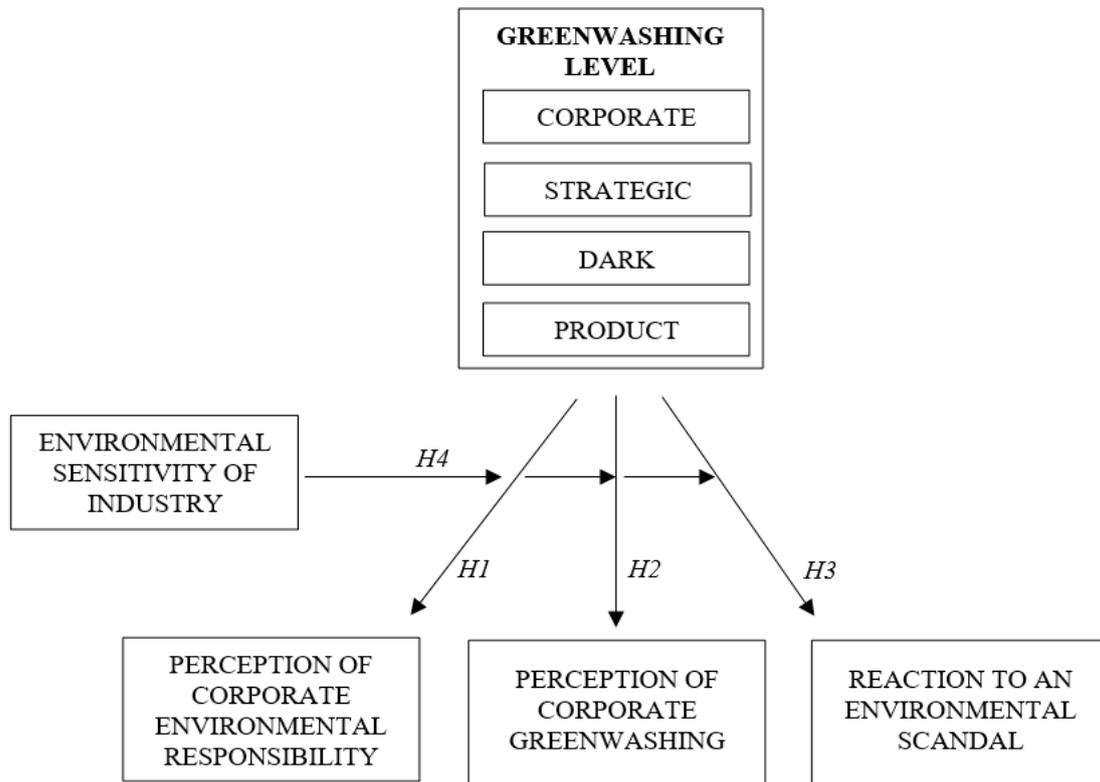
Currently, the level of attention towards corporate environmental impacts and commitments is very high, and environmental scandals are a topical issue (Siano et al., 2017). Many studies have focused on the effects of stakeholder discovery of greenwashing; some have highlighted the effects on financial performance (Du, 2015; Testa et al., 2018b; Walker and Wan, 2012), while others have examined the impact on trust (Dekhili and Achabou, 2013; Perrini et al., 2010) and loyalty (Guo et al., 2017). We expect that the type of communication and the level of greenwashing will significantly affect stakeholder reactions to an environmental scandal relating to a greenwashing discovery.

H4 - The environmental sensitivity of the industry will amplify the influence of different levels of greenwashing.

It is widely known that the industry is an extremely important aspect in investigating non-financial disclosures, precise environmental disclosures and corporate and social responsibility (CSR) practices. Especially in the case of firms operating in environmentally sensitive industries (ESIs), it is necessary to identify the influence of the industry on stakeholder perceptions (Cho et al., 2006; Patten, 2002). ESI firms with poor environmental performance may engage in misleading environmental communication to gain legitimacy, counter suspicions of negative environmental influence and improve corporate perception and trust (Cho et al., 2009). In this research, we hypothesise that belonging to an ESI may widen the influence of each level of greenwashing on stakeholder perceptions of CSR and greenwashing, amplifying reactions to an environmental scandal.

The four hypotheses and the relationship among the constructs are summarised and shown below (Figure 5.1).

Figure 5.1. *Experimental model*



5.3. Methodology

To verify the different types of misleading communications, the influence on stakeholders, the reactions of stakeholders and the resulting effects on corporate legitimacy and reputation, we conducted an experiment using a four-by-two between-subjects design. To reach our aim, we have developed an experiment based on fictitious companies with defined characteristics. We have also developed a series of situations, giving the participants all the background information and details necessary to understand and judge the different types of misleading communications.

This section details the participants, the experimental task, the experimental procedures, and the operationalisation of the variables.

Participants

The participants in this research work were undergraduate university students from the same country. This group was selected for testing our hypotheses mainly on the assumption that students, as young people, are generally aware of and interested in

environmental issues, and are usually well informed, especially via the web, about recent events, scandals and official investigations (Aji and Sutikno, 2015; Besel, et al., 2017; Cho et al., 2009; Leung and Chan, 2006; McKnight et al., 2002;). Furthermore, as frequent and expert users of the web, students are particularly affected by true and false environmental communications (Nyilasy et al., 2014). The use of a sample composed of students is also in line with previous experiment-based studies in this field. In particular, Cho et al. (2009) conducted an experiment on a final sample of 102 students aiming to determine whether the medium of presentation of corporate social and environmental disclosure has an impact on user trust in such disclosure, and to examine the effect of media richness on user perception of corporate social and environmental responsibility (Cho et al., 2009). Nyilasy et al. (2014) aimed to investigate the interactive consumer effects of green advertising and corporate environmental performance on brand attitudes and purchase intention in a study of 302 participants. Vries et al. (2015) examined when and why people might respond negatively to energy companies that engage in CSR activities in the environmental domain; and conducted three experiments in which 79, 57 and 58 students took part respectively. In line with the number of students involved in these studies, and with regard to the number of students assigned to each experimental task level, our sample numbered 201 students.

None of these students had any basic or advanced knowledge (acquired during their university studies) about the CSR field of study and/or greenwashing issue. The students took part voluntarily in the experiment and received no credits, gifts or payments. The students were informed that the experiment would take approximately 15 minutes to complete, that participation was purely voluntary, and that all the information collected would be kept anonymous and the analyses would only be on an aggregate level. The request to make a good faith effort to complete the questionnaire was set as a condition for participation.

In the first phase, 54 students took part in a pilot test, and at the end, we made minor changes to the wording of some of the items of the questionnaire. In the main phase, a total of 147 participants completed the experiment, but 19 were eliminated because they failed the manipulation check. These students did not perceive the correct level of analysis of greenwashing (corporate, strategic, dark, product) or whether the classification of the industry was environmentally sensitive (ESI) or not environmentally sensitive (non-ESI).

The final sample thus consisted of 128 usable surveys.

The gender distribution of the participants was balanced. Most participants were female (53%) and 24 years old or younger (77%) (Table 5.1). The gender data was the subject of a specific statistical analysis in order to evaluate whether and to what extent gender affects the results (see Section 3 “Results and discussion”). The participants’ attitudes towards social and environmental performance were specifically evaluated in the survey using a seven-point Likert scale. The average score expressed on this statement was 4.9.

Table 5.1. *Descriptive data for the 128 participants providing usable responses*

	Sample (%)
<i>Age</i>	
24 or younger	77
25-29	14
30 or older	9
<i>Gender</i>	
Male	47
Female	53

Experimental task and procedures

The experimental task aims to evaluate reactions to specific situations and any subsequent changes in the perception of reputation and corporate legitimacy. This task has been carried out by using both visual imagery and firms’ verbal rhetoric. Previous studies (McQuarrie and Mick, 2003) suggested that visual imagery is more attention grabbing, elicits richer inferences and is more pleasurable and convincing than verbal statements. Nevertheless, little attention has been paid by scholars to the role of visual imagery and rhetoric in shaping green communications and messaging (Lyon and Montgomery, 2015). To prevent a distortion of the results due to pre-existing corporate or brand perceptions (Aggarwal, 2004; Wagner et al., 2009), we used fictitious companies but realistic

typologies of communication to test our hypotheses. To conceal the real aim of the experiment, the participants were told that the purpose of the study was an experiment about effective marketing communication strategies about social issues.

The experiment was followed by a survey consisting of 15 items; 10 of these are based on a Likert scale (1–7). In particular:

- To analyse the ‘perceptions of corporate environmental responsibility’ (Cho et al., 2009), we proposed two statements:

1) *Based on what you have seen, you perceive concrete attention and responsibility towards environmental issues by the company.*

2) *The presence of an external certification or the adherence to a recognised standard confirms or increases your trust in the company.*

- To analyse the ‘perceptions of corporate greenwashing’ (Vries et al., 2015), we proposed three statements:

3) *The company attempted to enhance its reputation by presenting itself as environmentally aware.*

4) *The company has hidden intentions and interests.*

5) *The company wants to appear more environmentally aware than it actually is.*

- To analyse the ‘reactions to an environmental scandal’, we proposed four statements:

6) *You have lost trust in the company after what you have discovered.*

7) *Even if you had more information about the company about whether you can trust it, you would not change your opinion about it.*

8) *In the future, you will not re-evaluate the company, even if there are no other scandals or disappointing discoveries.*

9) *In the future, you will avoid the company.*

The other questions concern manipulation checks and personal information (age, sex and attention to corporate social and environmental performance).

The participants were divided into eight different classes, each of which concerned a different experimental set. Each participant viewed and completed only one set. Starting

from the four different levels of greenwashing proposed in the previous section (corporate, strategic, dark, product) and the two industry typologies (ESI or non-ESI), we have identified and tested eight conditions:

1. Corporate level (ESI);
2. Corporate level (non-ESI);
3. Strategic level (ESI);
4. Strategic level (non-ESI);
5. Dark level (ESI);
6. Dark level (non-ESI);
7. Product level (ESI);
8. Product level (non-ESI).

To contemporaneously measure perceptions of corporate environmental responsibility (Variable 1) and corporate greenwashing (Variable 2), the experiment focused on the four levels of greenwashing and ESI/non-ESI companies (therefore, companies that do or do not belong to sectors with a high environmental influence, such as chemical, energy, waste and extraction).

The experiment took place in three steps. In the first step, we presented the company and its declared commitment to the environment. A PowerPoint presentation supplied visual information about the company and its commitment to the environment, and we also provided important information about the company for each experimental condition (see the Appendix for more details on the information given to the participants). Depending on the assigned level, the participants received and read information (in addition to an explanatory and meaningful image) on the company's environmental commitments, which were communicated to them using different methods, signals and procedures. For example, for the corporate level, an environmental communication was made through the company name and logo; for the strategic level, environmental objectives included in the long-term corporate strategy were used. For the dark level, corporate practices and contexts commonly recognised as connected to crime or the eco-mafia (construction, waste) were used; for the product level, we used advertising communications concerning a single product in common use.

In the first step, the specific sector in which the company operates was declared to the

participants, and background information was provided. Each group was shown an image concerning, alternatively, the company logo, a specific label, a product or advertising campaign. Key and easily recognisable sectors (e.g., food and chemicals) have been used to characterise companies belonging to ESI or non-ESI experimental sets. At the end of the first step, the participants were asked to complete the first section of the questionnaire based on the images displayed and the information given. In the next phase, the participants were made aware of serious facts that led to the involvement of the same company in a serious environmental scandal. Finally, the participants were invited to complete the second section of the questionnaire. To measure the reactions to an environmental scandal (Variable 3), for each company presented, we provided information on its involvement in a scandal (e.g., the use of environmentally toxic paints and adhesives, release of harmful fumes in the air, use of illegal landfills; use of public funds related to the environment for the purchase of weapons and drugs). The scandals presented to the participants always regarded the violation or non-respect of an environmental commitment made and declared by the company (and presented in the information read in the first step) and, in addition, a further bad environmental practice, which was not directly related to the commitments made. In the last step, the participants completed the section on the manipulation check, demographic data and information on attitudes towards CSR performance.

Similar to previous studies (Alewine, 2010; Cho et al., 2009; Falk and Heckman, 2009), we used a four-by-two between-subjects design experiment, manipulating the levels of greenwashing to understand the effects on stakeholders of the various levels of greenwashing implementation (the perception of corporate environmental responsibility and corporate greenwashing: dependent variables 1 and 2) and to analyse how the perceptions and actions of stakeholders change after a clear case of greenwashing (the reaction to an environmental scandal: dependent variable 3).

Measurement of variables

This study is based on three primary dependent variables: perceptions of corporate environmental responsibility, perceptions of corporate greenwashing and reactions to an environmental scandal. The items used to measure the variables are two items for the perceptions of corporate environmental responsibility, three items for the perceptions of

corporate greenwashing and four items for the reactions to an environmental scandal. All the items were measured on a seven-point Likert-type scale with “completely false” and “completely true” as the anchors.

The first item used to measure perception of corporate environmental responsibility is based on Cho et al. (2009). We included a second item concerning environmental certification and standards to measure a further type of communication in the perception of corporate environmental responsibility. Previous studies (Berrone et al., 2017) demonstrated a close relationship between environmental legitimacy and environmental actions, such as environmental patents, environmental pay policies and environmental trademarks.

In accordance with Vries et al. (2015), we measured the perception of corporate greenwashing using three items via a seven-point Likert-type scale. These items evaluate the perceptions of the firm’s hidden interests and its desire to appear more environmentally friendly to gain a more positive reputation and legitimacy.

To measure stakeholders' reactions to an environmental scandal, we considered four different aspects of their possible reaction to an environmental/green scandal: the loss of trust, the possibility of changing their opinion on the company scandal, the possibility of reassessing the company in the future if it proves to be behaving correctly, and, finally, the intention to boycott the company. For the variable reaction to scandals, since it has not yet been validated by the extant literature, we evaluated if the questions load properly onto this factor. The four items are shown as a valid scale with a Cronbach’s alpha of 0.7684.

Table 5.2 shows descriptive statistics for participants’ mean responses for each of the nine items. The first two items (perception of corporate environmental responsibility) differed at a statistically significant level between greenwashing level conditions ($p < 0.01$ and $p < 0.05$). A difference at a statistically significant level ($p < 0.01$) also occurs in the fifth item (perceptions of corporate greenwashing), and two of the three items of this construct have a statistically significant difference between the ESI/non-ESI conditions. All four items measuring reaction to an environmental scandal differed at a statistically significant level between greenwashing level conditions and/or ESI/non-ESI conditions. (The value of p is shown below the table).

Table 5.2. *Dependent variable scale items*

	Mean	SD	Min	Max
<i>Dependent variable 1: Perceptions of corporate environmental responsibility</i>				
Q1: I perceive a concrete attention and responsibility towards environmental issues	5.38	(1.06) ^b	1	7
Q2: Certification or adherence to a standard confirms or increases my trust	5.86	(0.99) ^a	2	7
<i>Dependent variable 2: Perceptions of corporate greenwashing</i>				
Q3: The company presents itself as environmentally aware in order to improve its reputation	6.05	(0.83)	3	7
Q4: The company has hidden intentions and interests	4.28	(1.14) ^{c,e}	1	7
Q5: The company presents itself as more environmentally aware than it actually is	4.62	(1.21) ^{a,c}	1	7
<i>Dependent variable 3: Reactions to an environmental scandal</i>				
Q6: I have lost trust in the company after the environmental scandal	6.31	(0.91) ^d	3	7
Q7: Even if I had more information, I would not change my opinion on the company	4.87	(1.56) ^{a,f}	1	7
Q8: I will no longer re-evaluate the company, even if its behaviour seems correct	4.49	(1.53) ^a	1	7
Q9: In the future, I will avoid the company	5.10	(1.31) ^{a,c}	1	7

^a: $p < 0.01$ (Significantly different between levels)

^b: $p < 0.05$ (Significantly different between levels)

^c: $p < 0.05$ (Significantly different between industries)

^d: $p < 0.1$ (Significantly different between industries)

^e: $p < 0.05$ (Significantly different between gender – female value is higher)

^f: $p < 0.01$ (Significantly different between gender – female value is higher)

5.4. Results and discussion

H1: Influence on stakeholder perceptions of corporate environmental responsibility

Table 5.3 shows descriptive statistics for the influence on stakeholder perceptions of corporate environmental responsibility for the four levels of greenwashing in the ESI and non-ESI conditions. Univariate tests show statistically significant differences ($p < 0.01$) for the corporate greenwashing level and dark greenwashing level, regardless of being ESI/non-ESI. The results show that company-level greenwashing is characterised by the highest degree of perceptions of corporate environmental responsibility, while the level of darkness demonstrates the lowest.

Table 5.3. *Descriptive statistics of 'Perception of corporate environmental responsibility' (Variable 1)*

<i>Level</i>	ESI			non-ESI			Row means (<i>level</i>)		
	<i>N</i>	Mean	SD	<i>n</i>	Mean	SD	<i>n</i>	Mean	SD
Product	20	5.40	(1.02)	20	5.60	(0.77)	40	5.50	(0.90)
Corporate	15	6.03	(0.48)	13	6.04	(0.48)	28	6.04	(0.47)***
Strategic	19	5.74	(0.82)	13	5.73	(0.53)	32	5.73	(0.71)
Dark	16	5.63	(0.69)	12	4.75	(1.36)	28	5.25	(1.10)***
Column means (<i>industry</i>)	70	5.68	(0.82)	58	5.55	(0.93)	128	5.62	(0.87)

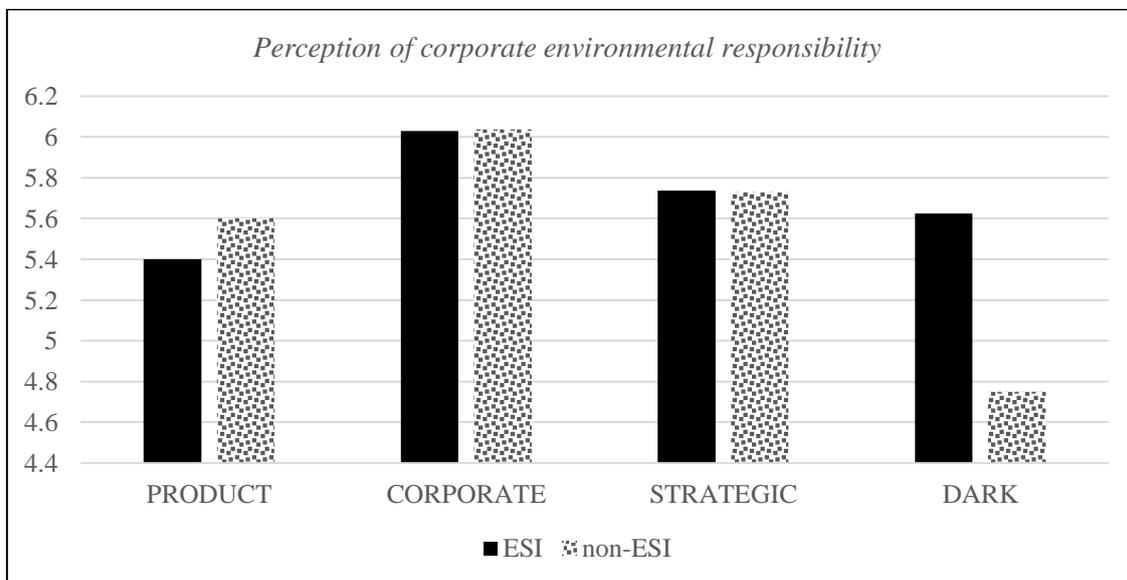
***: $p < 0.01$

The analysis of variance (ANOVA), presented in Table 5.4, indicates that the level of greenwashing related to stakeholders' perceptions of corporate environmental responsibility is again statistically significant ($p < 0.01$). The differences in perceptions of corporate environmental responsibility between the levels are depicted in Graph 5.1, which states the mean values of this variable for each experimental condition.

Table 5.4. Results of the ANOVA on 'Perceptions of corporate environmental responsibility' (Variable 2)

	Sum of squares	Mean square	F-statistic	Statistical significance
Overall model	15.32	2.19	3.28	0.0032
Industry	0.88	0.88	1.32	0.2529
Level	10.91	3.63	5.45	0.0015
Industry * Level	5.14	1.71	2.57	0.0576

Graph 5.1. Histogram of 'Perceptions of corporate environmental responsibility': mean values identified in experimental condition



Hypothesis 1 (H1) is supported. Misleading company communications have a significantly different influence on stakeholder perceptions of corporate environmental responsibility depending on which level they belong to. Corporate-type communications bring a higher level of responsibility perception and thus more easily increase legitimacy and reputation. Communications in the context of industries and activities often linked to organised crime and the mafia struggle to reach a high level of perception of corporate environmental responsibility, and this has substantial effects on corporate legitimacy and reputation. In the experiment set, the mafia and criminal activities are hidden and not

explicitly declared so that the participants do not know if the company is linked to organised crime. The signal sent out by the company acts in a different way on stakeholders depending on the level of greenwashing it belongs to. For each level, the signal has distinctive characteristics, and the analysis reveals that these are, in effect, received and considered by stakeholders.

H2: Influence on stakeholder perceptions of corporate greenwashing

Table 5.5 shows descriptive statistics for the second dependent variable by experimental conditions (greenwashing levels, ESI and non-ESI). The variable's mean value shows statistically significant differences ($p < 0.05$) for dark greenwashing levels regardless of whether they are ESI or non-ESI. This level is characterised by a higher perception of corporate greenwashing.

Table 5.5. *Descriptive statistics of the 'Perceptions of corporate greenwashing' variable*

<i>Level</i>	ESI			non-ESI			Row means (<i>level</i>)		
	<i>n</i>	Mean	SD	<i>n</i>	Mean	SD	<i>n</i>	Mean	SD
Product	20	5.30	(0.74)	20	4.65	(0.90)	40	4.97	(0.88)
Corporate	15	4.98	(0.75)	13	4.69	(0.63)	28	4.85	(0.70)
Strategic	19	4.96	(0.59)	13	4.77	(0.79)	32	4.88	(0.68)
Dark	16	5.25	(0.66)	12	5.25	(0.53)	28	5.25	(0.60)**
Column means (<i>industry</i>)	70	5.13	(0.69)**	58	4.81	(0.77)	128	4.98	(0.74)

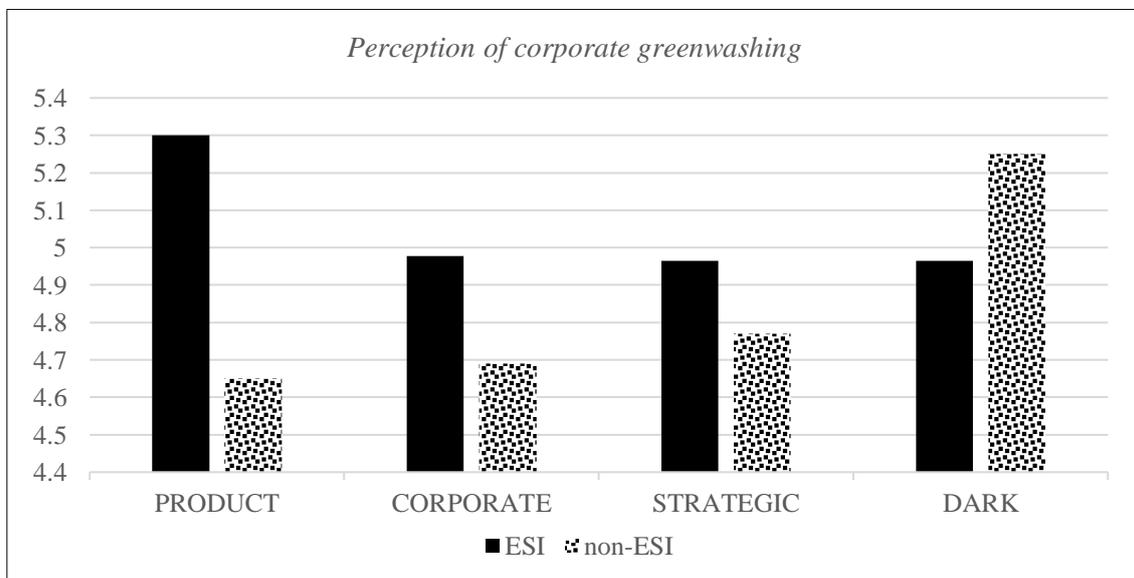
** : $p < 0.05$

The ANOVA presented in Table 5.6 shows the importance and significance of the ESI/non-ESI condition ($p < 0.05$) related to stakeholder perceptions of corporate greenwashing. The differences between the levels highlighted by the statistical analysis are clearly shown in Graph 5.2 but only for non-ESI conditions (see below for a discussion). The non-ESI mean values for product and dark levels are the anchors, with the lowest and the highest levels, respectively.

Table 5.6. Results of the ANOVA on the ‘Perceptions of corporate greenwashing’ variable

	Sum of squares	Mean square	F-statistic	Statistical significance
Overall model	7.92	1.13	2.19	0.0398
Industry	2.46	2.46	4.77	0.0309
Level	2.98	0.99	1.92	0.1299
Industry * Level	1.92	0.64	1.24	0.2995

Graph 5.2. Histogram of ‘Perceptions of corporate greenwashing’: mean values identified in experimental condition



These results support Hypothesis 2 (*H2*). Depending on the level of greenwashing, a company's misleading environmental communications have significantly different influences on stakeholders' perceptions of greenwashing. This result is particularly strong if the company operates in a context of criminal and mafia activities. Corporate- and strategic-level communications do not create a concrete perception of a misleading communication (greenwashing) in the stakeholders' minds. In line with the results for Hypothesis 1, these two levels result in an increase in reputation and trust compared to the perception of greenwashing. The perception of corporate greenwashing is higher

when the signal is sent by a company operating in an industrial context and activities usually related to organised crime and the mafia. This result can feed into the mind of the stakeholder suspicions and preconceptions about the company being assessed. In addition, in this case, the signal acts in a different way on stakeholders depending on which greenwashing level it belongs to. This result can feed suspicions and preconceptions among stakeholders about the firm they are assessing. Furthermore, the signal acts differently on stakeholders depending on which of the different levels of greenwashing is considered. This result is particularly true for the dark level.

H3: Influence on stakeholder reactions to an environmental scandal

Table 5.7 reports descriptive statistics of the third dependent variable by experimental condition (greenwashing levels, ESI or non-ESI). The analysis performed on the variable's mean values shows statistically significant differences ($p < 0.01$) for corporate greenwashing levels and dark greenwashing levels regardless of being whether the firm is in an ESI or non-ESI (similar to the first variable in Table 5.3). The corporate-level results are characterised by a lower level of stakeholders' reactions to environmental scandal, while the dark level is characterised by a higher level.

Table 5.7. Descriptive statistics of the 'Reactions to an environmental scandal' variable

<i>Level</i>	ESI			non-ESI			Row means (<i>level</i>)		
	<i>n</i>	Mean	SD	<i>n</i>	Mean	SD	<i>n</i>	Mean	SD
Product	20	5.20	(1.15)	20	5.14	(0.93)	40	5.17	(1.03)
Corporate	15	4.80	(1.09)	13	4.59	(0.77)	28	4.71	(0.95)***
Strategic	19	5.47	(0.82)	13	4.69	(1.16)	32	5.16	(1.03)
Dark	16	5.83	(0.97)	12	5.69	(0.87)	28	5.77	(0.91)***
Column means (<i>industry</i>)	70	5.33	(1.06)*	58	5.03	(1.00)	128	5.19	(1.04)

***: $p < 0.01$; *: $p < 0.1$

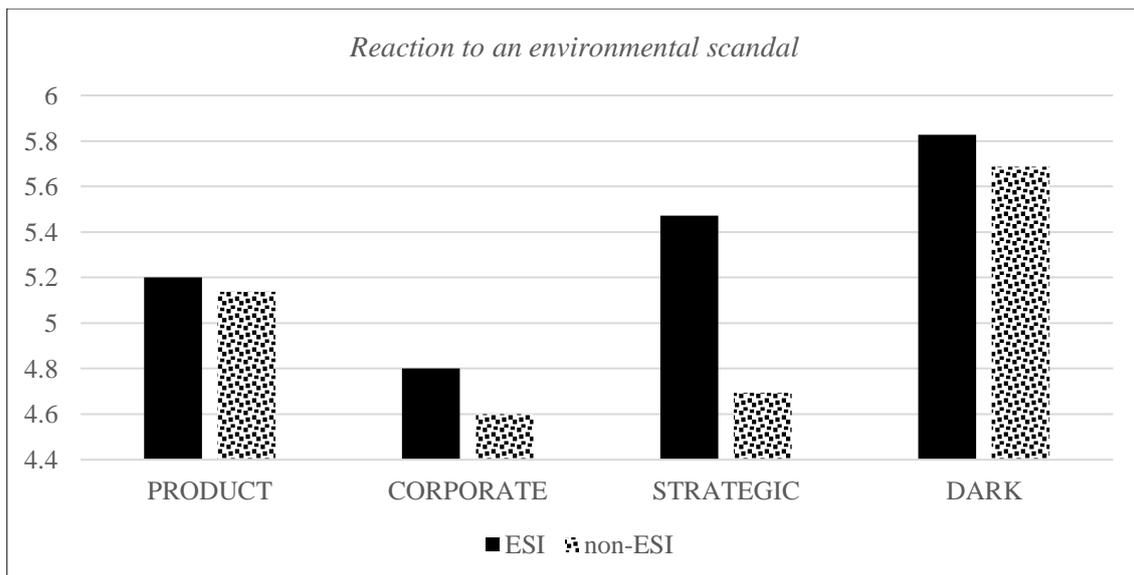
Table 5.8 presents the ANOVA in which the level of greenwashing is statistically significantly ($p < 0.01$) related to stakeholder reactions to an environmental scandal related to greenwashing. In Graph 5.3, the differences between the reactions of the different

levels are clear. The mean values for the corporate level are related to a low level of reaction to a greenwashing scandal. However, the dark level shows a very high level of stakeholder reactions.

Table 5.8. Results of the ANOVA on the ‘Reactions to an environmental scandal’ variable

	Sum of squares	Mean square	F-statistic	Statistical significance
Overall model	21.15	3.02	3.12	0.0046
Industry	2.72	2.72	2.81	0.0963
Level	15.91	5.30	5.48	0.0015
Industry * Level	2.59	0.86	0.89	0.4485

Graph 5.3. Histogram of ‘Reactions to an environmental scandal’: mean values identified in experimental condition



Hypothesis 3 (H3) is also supported. For each condition tested, the experimental set showed the participants a serious environmental scandal. The characteristics of the firm’s signals, the legitimacy obtained, and the suspicion of greenwashing all led to different intensities of stakeholder reactions. There are significantly different influences on stakeholders’ reactions to an environmental scandal involving greenwashing depending

on which level the signal belongs to. Depending on the level of reputation and legitimacy obtained with the level of misleading communication and possible suspicions of greenwashing, the corporate level is related to a low level of reaction to scandal. Signals belonging to the dark level lead to a high level of stakeholder reactions, which may be related to the severity of the consequences of the misleading communications (and the related hidden activity) as well as a moral and legal point of view. In the case of scandal, we explicated and stated the presence of the mafia and organised crime in the experiment set.

H4: Role of ESIs in amplifying influences of different levels of greenwashing

Regarding the role of the environmental sensitivity of an industry and its moderator or amplifier effect on the influences of different levels of greenwashing, Table 5.5 (Perceptions of corporate greenwashing) and Table 5.7 (Reactions to an environmental scandal) show statistically significant differences ($p < 0.05$ and $p < 0.1$) for the ESI and non-ESI conditions. The ESI experimental conditions are characterised by higher stakeholder perceptions of corporate greenwashing and reactions to an environmental scandal. Moreover, participants who evaluated the situation of an ESI company reported a stronger reaction. Regarding the ANOVA analyses, the findings highlight that the ESI condition is statistically significantly ($p < 0.05$ and $p < 0.1$) related to perceptions of corporate greenwashing (Table 5.6) and to stakeholder reactions to an environmental scandal involving greenwashing (Table 5.8). In the ANOVA findings related to perceptions of corporate environmental responsibility, there is also a statistically significant ($p < 0.1$) effect on the interaction between belonging to an ESI and greenwashing level conditions. Graph 5.3 also clearly shows the role of belonging to an ESI on the influence of different levels of misleading communication. The environmental sensitivity of the industry amplifies the influence of different greenwashing levels on stakeholder reactions to an environmental scandal, which is interesting and certainly deepens the mirror role of the ESI/non-ESI condition for product level and dark level, respectively, as shown in Graph 5.2 regarding perceptions of corporate greenwashing. The histograms show a clear and strong amplifier role of belonging to an ESI for environmental communications and signal belonging to the product area of greenwashing but also an amplifier role of belonging to a non-ESI for communications related to the dark area of greenwashing.

Our research findings indicate that stakeholders (represented by undergraduate students

in our study), when faced with environmental communications related to a single product (i.e., labels, advertising and packaging), seems to be more sensitive and receptive about which type of industry the company belongs to, especially when the company belongs to a high environmental impact industry. In contrast, when stakeholders are faced with the environmental communications of a company belonging to an industry typically related to organised crime, the moderator/amplifier role of the ESI/non-ESI condition is confused and not directly clear and determinable. This result suggests that, when stakeholders are faced with signals belonging to the "dark area of greenwashing" in an ESI condition, their attention seems to be mostly oriented on environmental aspects rather than on the criminal aspects of the communication and the company. In contrast, in the other condition (non-ESI), stakeholders' attention falls entirely on the crime aspect. Hypothesis 4 (*H4*) is significantly confirmed. When a scandal occurs and the greenwashing practice is discovered, stakeholders' reactions are stronger if the firm operates in an environmentally sensitive industry. This suggests that some categories of stakeholders may be more sensitive to environmental damage when there is greater potential danger. Public awareness and desire for environmental protection are therefore higher in ESIs.

Additional analysis on the role of gender

An additional statistical analysis was made on the role of gender and its possible influence on the results of each research hypothesis, and thus on the perceptions identified on the entire sample. In the first analysis of descriptive statistics for participants' mean responses for each of the nine items (Table 5.2), the fourth item related to the perception of corporate greenwashing ("The company has hidden intentions and interests") differed at a statistically significant level between genders ($p < 0.05$). Female participants reported higher average responses than male participants; the perception of greenwashing was higher by females. There was another statistically significant difference ($p < 0.01$) in the seventh item related to the reactions to an environmental scandal. ("Even if I had more information, I would not change my opinion on the company"). Female participants again reported higher average responses than male participants, and the perception of greenwashing was higher by females. Here too the reaction to an environmental scandal is more intense for the female component of the sample. In the specific analysis of variables in "Perceptions of corporate environmental responsibility", gender has a direct and significant influence. The statistically significant differences ($p < 0.01$) for the

corporate greenwashing level and dark greenwashing level shown by univariate tests (Table 5.3) are mainly caused by the male section of the participants, and the female component of the sample by itself shows no significant differences. On the other hand, it is the female component which determines the significance of the overall result in the perception of environmental responsibility among all four levels of greenwashing (ANOVA, Table 5.4). In the ANOVA analysis (Table 5.6), which measures, among other things, the effect that belonging to an ESI has on the “Perceptions of corporate greenwashing”, the significant result is determined by the male component of the sample, and the female component is not influenced by ESI. In the ANOVA analysis concerning the “Reactions to an environmental scandal” (Table 5.8), the significant influence of belonging to a specific level of greenwashing is caused by the female component of the sample. Here, females were found to be influenced by the level of greenwashing of the communication in their reaction to an environmental scandal.

Summarizing and concluding, there are certain areas of the analysis on which gender has a significant effect, and where male and female yield different results. However, the additional statistical analyses shows that gender does not significantly influence the overall perception of environmental responsibility and corporate greenwashing, and does not overall affect reaction to scandal. Gender is thus an important element in perceptions and reactions to environmental responsibility and corporate greenwashing and requires further research in the future. The preliminary results presented here, however, suggest that it is not decisive.

5.5. Conclusions

The purpose of this study was to examine the effects on stakeholders of the different levels of greenwashing, understanding if and how stakeholders’ perceptions and actions change after an assessed case of greenwashing.

Our research findings, based on previous studies highlighting the characteristics of communication (Vries et al., 2015) and the role of information disclosure (Patten and Crampton, 2003) and presentation (Cho et al., 2009) in gaining legitimation and improving stakeholder perceptions, indicate that different levels of greenwashing have significantly different influences on stakeholders’ perceptions of corporate environmental

responsibility and stakeholders' reactions to environmental scandals. The findings also highlight that belonging to an ESI amplifies the influence of different greenwashing levels on stakeholders' perceptions of and reactions to environmental scandals. Firms reach different goals by implementing specific communication strategies related to specific organisational and decision-making processes. Industry environmental sensitivity must be carefully considered in all communicational aspects because of its key role in amplifying the influence of greenwashing levels on stakeholders' reactions.

The results of our analysis may be useful for companies in planning and implementing communication processes to avoid suspicion and loss of legitimacy. These results may also help firms understand the consequences that symbolic communication strategies can have on stakeholders and on corporate legitimacy overall. Stakeholders may also find the results of help in understanding greenwashing and the actions and strategies it uses. NGOs will find insight for further investigations and actions and to better address their attention, resources and time. Both stakeholders and NGOs will gain a better understanding of the different types of greenwashing and be better able to take account of the main effects of environmental communications on the development of perceptions and suspicions. Finally, the study will enrich the academic study of greenwashing, misleading corporate communications and environmental responsibility, and it fills a gap in the literature about the distinction between and subdivision of greenwashing practices at different levels and relating to different effects.

Similar to all empirical studies, our investigation is subject to certain limitations.

The first limitation concerns the internal and external validity of our research design. Although the design has high internal validity, with two dependent variables being measured by previously tested confirmed items, the experimental design also includes four new items that measure reactions to an environmental scandal construct. To address the problem of external validity, we used fictitious companies but a realistic typology of communication for each greenwashing level, as well as realistic visual imagery and environmental scandals based on real world events.

The second limitation concerns the typology of the experiment participants who are exclusively undergraduate students. However, as young people, these students are aware of and interested in environmental issues and are usually well informed (especially via

the Internet) about recent events, scandals and official investigations. Additionally, being frequent users of the web, these students are particularly affected by (true or false) environmental communications.

The third limitation of this research is that it is not possible to verify the actions and behaviours of the participants after the experiment, or to assess whether it subsequently influenced their perceptions or intentions. Having the intention to do something does not automatically mean that it will be done.

It would of course be appropriate for future research to empirically validate the results obtained here, and especially to confirm the existence of the four dimensions of greenwashing theorised here.

Future research is encouraged to refine the different levels of classification of greenwashing, enriching the classifications proposed with other possible levels of misleading environmental communication. Research would also be useful to test the levels theorised in other countries, using other categories of stakeholders and a sample more varied in age and educational level. It would also be interesting to investigate the possible role of NGOs in identifying types of greenwashing and moderating or amplifying its influence on stakeholders.

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5.7. Appendices

Procedures details

A PowerPoint presentation supplied visual information about the company and its commitment to the environment, and we also provided important information about the company for each experimental condition:

- Corporate level:

(ESI)

Since the beginning of the year, the GreenTech company has used a new company logo. The home page of the company's website, in the 'About Us' section, reads, 'We are a historic company in the production of electrical power plants and are strongly predicted to have a more sustainable and environmentally friendly future. In our processes, we adopt all the necessary precautions to avoid any waste of energy and to produce the least amount of waste materials.' Over the last 5 years, the company has published a Sustainability Report in which it reports its environmental commitments and impacts. In addition, in recent years, EMAS certification on environmental performance has been obtained.

(Non-ESI)

Since the beginning of the year, the GreenTaste company has used a new company logo. The home page of the company's website, in the 'About Us' section, reads, 'We are a historic company in the production of high-quality prepacked food, strongly predicted to have a more sustainable and environmentally friendly future. In our production and processes, we adopt all the necessary precautions to avoid any food and energy waste.' Over the last 5 years, the company has published a Sustainability Report in which it reports its environmental commitments and impacts. In addition, in recent years, EMAS certification on environmental performance has been obtained.

- Strategic level:

(ESI)

The Sustainability Report of the company in the 'Strategy, Sustainability and Future' section reads, 'As a leading company in the oil extraction industry, by 2020, we want to trace a clear and concrete path towards sustainability and environmental respect. To do this, we will work to reduce our impact on the planet through the gradual introduction of technologies that reduce the risk of leaking oil into the sea, marine water filtration systems around the platforms in case of failure and CO2 emission control systems.' Over the last 5 years, the company has published a Sustainability Report in which it reports its environmental commitments and impacts. In addition, in recent years, EMAS certification on environmental performance has been obtained.

(Non-ESI)

The Sustainability Report of the company in the 'Strategy, Sustainability and Future' section reads, 'As a leading company in the beverage sector, by 2020, we want to trace a clear and concrete path towards sustainability and environmental respect. To do so, we will work to reduce our impact on the planet in the future: -20% use of water resources, +100% recyclable packaging and -50% use of chemical products in our agricultural supply chain.' Over the last 5 years, the company has published a Sustainability Report in which it reports its environmental commitments and impacts. In addition, in recent years, EMAS certification on environmental performance has been obtained.

- Dark level:

(ESI)

In the town, the public tender for the collection of waste was won by the company WasteRecycle. The official document with which the company participated in the tender states, "With 10 years of experience in waste collection and disposal, we operate in many cities across the country, working to achieve the goals set by the local tenders and to ensure citizens a city without waste. These are our primary objectives: to collect all categories of waste separately in a timely manner, to use only 100% electric vehicles and to ensure the recovery and recycling of at least 90% of the waste collected". The company's long-term "zero waste" objective has enabled it to win the city's tender. The company is also ISO 14001 certified.

(Non-ESI)

In the town, the contract for the construction of a new residential district was won by the company NewBuilding. The official document presented by the company reads, 'With 10 years of experience in the construction industry, we operate in many towns in the country. Our aim is to achieve the conditions set by the contract and to guarantee work of the highest quality. We guarantee seriousness, compliance with deadlines, use of quality and eco-compatible materials and the reclamation of the environment adjacent to the building site at the end of the works.' The company is also certificated ISO 14001.

- Product level:

(ESI)

The line of detergents for industrial use designed and marketed by the company is produced with 100% biodegradable chemical compounds. Water used in the manufacture is purified. This line of detergents obtained Ecolabel certification for its low environmental impact.

(Non-ESI)

The new line of T-shirts of the company is made from exclusively recycled materials and uses only renewable energy sources for the entire industrial process. This line obtained Oeko-Tex certification (Confidence in Textiles) for environmental eco-compatibility.

6. DISCUSSION

The themes dealt with in the four papers that give substance to this thesis orbit around the complex and broad concepts of sustainability, ethics, CSR and SER. They do so by dealing with specific closely linked themes through a logical, critical and in-depth path that is easily visible and practicable. In brief, the first paper focuses on analysis of voluntary socio-environmental information practices in the Italian context determining which are the most widely used SER tools in this country in recent years. Focusing on these types of report, the second paper explores the process of materiality analysis that has been put in place, trying to understand if and how this is related to the practices of stakeholder involvement. The primary objective of the study is to understand whether a company that listens to and directly involves its various stakeholders will be able to better complete an analysis of materiality quality and then to draw up a report really focused on issues relevant to the company itself as well as its stakeholders, thus ensuring effective communication and openness of information and enabling the company to appropriately respond to the demands and pressures of all. The third paper, from the point of view of the themes dealt with in the first work, investigates the concepts of legitimacy, perception, credibility and greenwashing, seeking to understand the effect that corporate communications (including sustainability reports) have on stakeholders and how these are influenced by the messages received. With this paper, the aim was to go beyond the concept of sustainability reporting quality and to investigate all other aspects that are involved in the process of corporate communication to the outside world. The fourth paper, based on the second paper, focuses specifically on communication and reporting practices that are deliberately artificial and misleading to influence the perceptions and decisions of stakeholders without there being uniformity between what the company communicates and what the company actually does.

Through this critical investigation, the thesis and its component papers seek to add to the extant literature on CSR and SER and to respond to calls by scholars for further research that might deepen the issues analysed above. As can be seen from the logical and conceptual path followed by the four papers, the focus has deliberately been placed on practices that support SER and practices that are decisively related to issues and concepts of lawfulness, ethics and responsibility. This approach was inspired by the many criticisms of CSR and SER, not least the fact that they tend to be associated with a lack

of positive results and effects. The social and environmental responsibility of companies and the related communication practices, as widely seen and discussed in papers 3 and 4, are not always guided by a genuine information provision objective pursuant of closing the gap that is naturally present between stakeholders and the company. Unfortunately, in many cases they hinge on influencing the thoughts and subsequent actions of the people concerned in a way which benefits the company, regardless of the empirical realities concerning that company's true non-financial performance. Such misconduct can then also lead to the distrust and criticism that in some cases is reserved for these policies of corporate responsibility. If companies approach these concepts and tools with the goal of using them to increase their wealth, improve their market position and gain competitive advantage, then we are likely to face a complete loss of meaning for CSR and SER: from sustainability and responsibility practices to misleading marketing and strategic communication practices. Various studies have explored the economic/financial impacts of CSR and SER policies, but these should only remain consequences of behaviour that is, and wants to be, ethical and responsible. The roles of these factors should not be reversed: from ethical and responsible practices and tools that can also lead to economic benefits, to the search for economic benefits through practices and tools that should be ethical and responsible. CSR practices are more than the preparation of communication concerning a company's objectives in relation to environmental and social issues; they are (or rather, should be) processes and tools aimed at creating ever greater sustainability and responsibility towards not only human but also natural stakeholders. They should be practices that involve the company, through all of its structures and work, by promoting a constant and increasing process of improvement and control/measurement of current and target performance. It should be an all-round responsibility that permeates the company and that guides it towards different, new and ethical behaviours. Only together (or after all this) should the company itself communicate to the outside world what has been implemented and what will be implemented. So only if the company talks about its own path ("walking the walk") will it give back to CSR and SER the sense and purpose they should they have and deserve, not if the company will take care of riding the talk ("talking the talk") related to social and environmental responsibility and sustainability for different purposes and with bases that are not purely ethical and moral. As can be discerned through the four papers presented here, even if a company deals seriously and

carefully with these practices, it will still have to pay heed to the perceptions of the people who will receive the company's communications in this regard and who will then draw their own conclusions based on what they have perceived from them. This is because it is difficult for an external stakeholder to verify the truthfulness of what a company has communicated, so perception and credibility play a key role in terms of SER. This is certainly not an invitation to consider more the form (how things are written, the use of images, graphics, colours, presentation formats, and so on) than the substance (what the company is doing and what it intends to do in the future) but an awareness that it is not enough to be responsible and sustainable, you must also be able to communicate this properly. This communication is rendered even more difficult by the fact that some companies put significant resources and attention not on the content but on the message with which it is conveyed, often creating misleading or deceptive communications. Hence the importance of the credibility of CSR communications, which hinges on the reliability of the data and information presented, the completeness of the same, spatial and temporal comparability, appropriateness of language and the involvement of all salient stakeholders¹⁶.

A change of perspective could be decisive both in the academic world and in the world of management and companies. Scholars, first of all, through research and in-depth analysis, can bring to light and give the right emphasis to the importance and desirability of behaviour that is effectively responsible and oriented towards meaningful sustainability, and that does not stop at words or slogans. It would be fruitful for future studies in this domain to go beyond the widely analysed economic/financial implications arising from the adoption of CSR practices and related communication, and try to understand the ways and means with which a company or organisation can at least try to reduce its environmental and social footprints on the Planet. Research on how to make their own contribution as a social body to an improvement of the situation present from all points of view of sustainability and on the practices to be adopted from the management of business processes to the change and improvement of the entire business

¹⁶ This is obviously only a partial list that notes the main factors that can directly influence the credibility of corporate communications. A relevant research project in this respect (together with Prof. F. Balluchi at the University of Parma and Prof. A. Lazzini at the University of Modena and Reggio Emilia) is currently underway, entitled "From Corporate Social Responsibility Disclosure to Corporate Legitimacy: Defining and Measuring Reporting Credibility". Preliminary results were presented at the 5th French Conference on Social and Environmental Accounting Research (Paris, June 2019).

machine could help managers (and also other scholars) to take a path of greater awareness, aimed at achieving greater well-being that does not concern only the economic subject of the company and / or shareholders but all stakeholders and more broadly the socio-economic and economic context of reference. It is often thought that companies are exclusively mechanisms for producing economic profits for only a privileged few: to move away from this simplistic and reductive scheme requires the motivation and action of management. Companies, like all other actors in our society, are called upon to respond to global issues and to make their own contribution not only to the creation of value (in the broadest sense) but also to increasing collective well-being. A well-being that, as has already been discussed in the introductory paragraphs, cannot be blind to the current conditions and to the great social and environmental problems with which we live, many of which are precisely the result of a search for well-being (for few or for many) carried out in an indiscriminate and irresponsible way.

In this thesis, through the research presented in the four papers, we wanted to build a critical path of analysis of the functioning of some practices of CSR and SER to try to understand these important processes, their effects and also the drifts that some of them may take in the name of objectives that have nothing to do with the responsibility and sustainable well-being that has just been discussed. It is important not to misunderstand the purpose of this critical analysis, we did not want to merely highlight that many of the practices already discussed extensively are actually misleading or purely strategic, but to emphasise important aspects of these business practices to allow those who want to, to ask and consider the following. As actors – in society, business and academia – are we riding the wave of CSR and the “mantra” of sustainability, talking and communicating a lot about it but then putting little in place? Or are we really on a path of responsibility in which ethics guides us in the attempt to act towards greater sustainability at all levels and especially in contexts where our daily actions have the greatest impact?

This thesis has endeavoured to highlight the decisive importance of the motivations that underlie the choices made by company management regarding practices of sustainability or responsibility, including those of communication. There can be a wide variety of such motivations, with profoundly different objectives, and it is precisely this diversity that leads to the great diversity of business practices relating to CSR and SER. These are the motivations and basic ideas that shape company strategies and lead to behaviours that can

be truly virtuous but also deviate (with respect to basic ethics and responsibility) and therefore be deviant with respect to the consequences they will have on society, institutions, stakeholders and competitors. In this sense, we have seen, particularly in Paper 3, how the concepts of perception and credibility play an important role, being constructs that are exploited and shaped, even strategically, by companies through their actions and their communications, and that contribute strongly to creating an idea and a judgment on the work of the company in the minds of stakeholders. As discussed in paragraph 1.3.3. (Ethics), the role of business ethics becomes key here in ensuring that the practices of responsibility and communication put in place are really aimed at considering and improving the social and environmental conditions affected by the business itself, directly or indirectly. However, it is important to distinguish and understand the key principles of business ethics, sustainability, CSR and SER. As we have seen throughout the work reported herein, these are distinct constructs with different meanings, but linked by important conceptual and operational relationships. The answer to the basic question that was asked from the beginning cannot be unequivocal: differences in corporate behaviour and the conceptual and practical complexities that are encountered in understanding these types of strategic behaviour do not allow an answer, but it is believed that what matters is the very fact of asking this question. A critical approach to these issues and concepts can effectively help us to understand how companies are responding to external demands and to the challenges of responsibility and sustainability, which are becoming increasingly pressing.

7. CONCLUDING REMARKS

Companies can and must play a role in meeting sustainability objectives so that meaningful and tangible changes are made in terms of reducing deleterious environmental and social impacts. The impacts, influences and outputs generated by these are manifold and of different types (both negative and positive), consequently also the possible actions of improvement and redirection of the underlying processes are numerous and of various types. It is clear from the current situation that actions which have thus far been implemented are not sufficient to create and maintain a change of course that could lead to a different conception of development and progress. While it is very likely that the actions are far outdated by the words and proclamations of the media, it is also likely that the good and concrete actions and future programmes put in place are not entirely sufficient to counteract and reverse a situation that is now in danger of becoming irreparable. Perhaps we will have to admit that we have come too late to fully understand the consequences of our actions and that it is now too late to act to reduce the negative impacts of these actions. Or perhaps these are issues that require a much broader and more co-ordinated response at all spatial scales. It is within such a framing that companies must increasingly ensure their contribution, their meaningful response to change. It should also be considered that prevailing socio-economic and cultural contexts are probably not conducive to the requisite changes: traditions, established practices, past experiences, common habits and established lifestyles do not provide an impetus to change but often put a limit or a brake on it. It can be difficult to think of wanting and being able to change business processes and architectures that for a long time have produced great profits. Added to this, the scale of the challenge facing humanity is enormous in terms of the time and resources of various kinds that are required to ameliorate social and environmental impacts. It is also difficult to abandon a logic of profit in order to undertake a path that, through a critical eye, rethinks one's actions and strategies to regain possession of ethical and moral values, which often lead towards a path of sustainability and responsibility rather than towards a rise to profit and success (even if the two paths do not necessarily have to be mutually exclusive). This thesis concludes with a simple but heartfelt invitation to regain possession of basic values, morals and ethics, as well as to understand what it really means to be sustainable and responsible; these are concepts that, if correctly grasped and adopted, can prove to be tools and allies of extreme utility, capable of

generating true value, otherwise unattainable.

“A new type of thinking is essential if mankind is to survive and move toward higher levels.”

(Albert Einstein, 1946)¹⁷

¹⁷ From "Atomic Education Urged by Einstein", New York Times (25 May 1946). Often known rephrased as: "The significant problems we face cannot be solved at the same level of thinking we were at when we created them".