Do companies deliberately underreport environmental progress?

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While some companies have been criticized for overstating their environmental credentials—a practice known as greenwashing—a new University of Michigan study has found that some do just the opposite

This lesser-known phenomenon of understating environmental efforts is referred to as brownwashing.

"When we first saw the data, it took us a while to figure out a sensible explanation," said Tom Lyon, a professor at U-M's Ross School of Business and School of Natural Resources and Environment. "But we found that if you look at a company's stakeholders and its particular situation, differing stakeholder pressures drive companies to say different things."

Lyon examined U.S. energy utilities and compared their actual carbon emissions over time against the reductions reported to the U.S. Department of Energy's Voluntary Reporting of Greenhouse Gases Program.

The data revealed a striking result: While some utilities overstated their emissions reductions, many others understated them.

Power utilities in states that deregulated the industry were more likely to understate their environmental progress. That's because shareholders were watching the company more closely in the more competitive deregulated landscape. In fact, utilities with low profits were more likely

to brownwash in deregulated states, but not in regulated states where market pressures were weaker.

"There's a saying that it pays to be green, but the reality is that many green initiatives cost money, and there may be a market penalty for it," Lyon said.

By contrast, growing companies and those seeking regulatory approval for new projects were more likely to greenwash.

"What we're seeing is that companies communicate based on who's watching them most closely," Lyon said. "They haven't gotten as good as they need to be when it comes to balancing pressure from different groups."

More information: Kim, Eun-Hee and Lyon, Thomas P., "Brownwash vs. Greenwash: Exaggeration and Undue Modesty in Corporate Sustainability Disclosure" (November 1, 2014). Available at SSRN: papers.ssrn.com/sol3/papers.cf … ?abstract_id=2546497

Provided by University of Michigan

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