GREENWASHING ALLEGATIONS AND CORPORATE PERCEPTIONS

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Greenwashing allegations can have serious consequences for how organizations are perceived and how stakeholders respond. But how much does it matter what is alleged, who makes the allegation and how the organization responds? Drawing on two experiments, this article explores how different types of greenwashing allegations, their sources, and crisis responses shape corporate perceptions and investment decisions. The findings highlight important differences between protecting corporate image and influencing investment behavior.

WHEN SUSTAINABILITY CLAIMS BACKFIRE

Environmental, social, and governance (ESG) issues have become increasingly important for financial institutions seeking to demonstrate their commitment to sustainability and responsible business practices. As stakeholders increasingly rely on ESG information when evaluating organizations, sustainability claims can influence both corporate image and investment decisions. However, the growing importance of ESG communication has also heightened concerns about greenwashing, referring to situations in which companies exhibit poor environmental performance while simultaneously communicating a positive image of their environmental performance (Delmas & Burbano, 2011). Greenwashing allegations can therefore create significant risks, particularly when sustainability claims are perceived as deceptive or dishonest.

The impact of greenwashing allegations may depend on both the nature of the greenwashing allegation and its source. Fraud allegations can be particularly damaging because they suggest deliberate misconduct rather than ambiguous or unintentional communication (Kurpierz & Smith, 2020). Similarly, whistleblowers may be perceived as credible sources due to their insider knowledge and access

to organizational information (Cinceoglu & Strauß, 2024). Understanding how stakeholders respond to different allegation types and sources is therefore crucial for financial institutions facing ESG-related crises, as these perceptions may influence both corporate image and investment behavior.

Once allegations emerge, organizations must also decide how to communicate with stakeholders. Crisis communication strategies can shape perceptions of corporate responsibility, credibility, and image. Proactive responses that acknowledge concerns, provide information, and express sympathy may help protect corporate image. However, it remains unclear whether effective crisis communication can also mitigate negative effects on investment behavior.

Against this background, findings from two experiments shed light on how greenwashing allegations and crisis responses influence corporate image and investment behavior.

WHAT HAPPENS WHEN GREENWASHING ALLEGATIONS GO PUBLIC?

Not all allegations carry the same weight

The research for the experiments draws on signaling theory and crisis communication theory to examine how stakeholders interpret greenwashing allegations and corporate responses. Signaling theory is particularly relevant to ESG communication because stakeholders often have limited access to information about a company's actual sustainability practices. Organizations therefore use ESG signals such as reports, certifications, labels, and sustainability campaigns as signals of their environmental and social performance (Spence, 1973; Healy & Palepu, 2001). However, when both genuinely sustainable and deceptive organizations use similar signals, stakeholders may struggle to distinguish credible sustainability commitments from greenwashing.

Greenwashing can take different forms. The study distinguishes between "cheap talk" and "fraudulent greenwashing." Cheap talk involves vague, exaggerated, or insufficiently substantiated sustainability claims that may create a misleading impression without necessarily constituting deliberate deception. Fraudulent greenwashing, by contrast, involves intentional misrepresentation or concealment designed to mislead stakeholders. The distinction is important because allegations of deliberate fraud may provide a stronger signal of corporate misconduct (Kurpierz & Smith, 2020; Lyon & Maxwell, 2011). At the same time, the source of a greenwashing allegation may also influence stakeholder reactions. In the underlying study, allegations made by external watchdogs were compared with those made by internal whistleblowers. Whistleblowers can be particularly influential because they may possess first-hand knowledge of internal organizational practices and documents. Consequently, their allegations may be perceived as more credible and informative than claims made by external watchdogs (see Cinceoglu & Strauß, 2024).

THE TWO THEORIES BEHIND THE RESEARCH

Signaling theory: Organizations use observable signals to communicate qualities that stakeholders cannot directly observe. In ESG communication, reports, certifications, labels, and campaigns can signal a company's commitment to sustainability. Credible signals help reduce information asymmetry and allow stakeholders to make more informed decisions. But when deceptive firms use the same signals, stakeholders may struggle to distinguish genuine sustainability efforts from greenwashing.

Crisis communication theory: Crisis communication shapes how stakeholders interpret a crisis, how much responsibility they assign to an organization, and how they respond to it. Situational Crisis Communication Theory suggests that the response should match the level of perceived responsibility. The greater the responsibility, the more accommodative the response should be, such as acknowledging the problem, apologizing, or taking corrective action. The goal is to reduce uncertainty and help restore trust and legitimacy.

The source matters as much as the allegation

In a first experiment, participants were presented with scenarios involving a fictional asset manager and its ESG investment fund. The scenarios differed in whether the allegation involved cheap talk or fraud and whether it came from an external watchdog or an internal whistleblower. A control group was also included.

The results demonstrated that greenwashing allegations negatively affected corporate image. Both fraud allegations and whistleblower sources independently produced more negative evaluations of the company. Participants exposed to fraud allegations evaluated the company less favorably than those exposed to cheap-talk allegations, while allegations from whistleblowers led to more negative corporate-image evaluations than those from watchdogs. Importantly, the effects on corporate image were additive rather than interactive. In other words, fraud and whistleblower allegations each contributed to damage on corporate image, but their combination did not produce an additional statistically significant interaction effect for it.

The findings were different for investment behavior. Here, the interaction between allegation type and source was significant. The combination of a fraud allegation and a whistleblower source produced the strongest negative effect on investment allocations. Participants in this condition allocated significantly less money to the investment opportunity than participants in the neutral control condition and those who received fraud allegations from a watchdog. This finding suggests that allegations may have a stronger impact on investment decisions when they originate from sources with insider knowledge.

A proactive response can protect corporate image

Based on the first experiment, the second one focused on the most detrimental scenario: fraudulent greenwashing allegations made by an internal whistleblower. It examined whether different corporate crisis-response strategies could reduce the negative consequences of these allegations. Participants were randomly assigned to one of three conditions: a proactive response, a defensive response, or no response. The proactive strategy combined information, sympathy, and apology. The defensive strategy consisted primarily of denying the allegations, while the no-response condition provided no corporate reaction. These strategies were informed by previous crisis communication research (Coombs, 2007; Luoma-aho et al., 2017).

The results showed clear differences regarding the effect on corporate image. Participants who saw the proactive response evaluated the organization most positively, followed by those who saw the defensive response. The no-response condition resulted in the least favorable corporate-image evaluations. A proactive response was significantly more effective than both a defensive response and no response, while a defensive response was also more effective than remaining silent. These findings indicate that stakeholders respond positively when organizations address serious ESG allegations through information, sympathy, and accountability. Rather than simply denying accusations, organizations can better protect their image by acknowledging concerns and communicating in a way that demonstrates responsibility.

However, the findings for investment behavior were different. Crisis-response strategy did not significantly affect immediate investment allocations. Participants exposed to proactive, defensive, and no-response conditions allocated similar amounts to the investment opportunity. Thus, although crisis communication influenced how participants perceived the organization, it did not produce a measurable short-term change in their investment behavior.

Greenwashing allegations affect image and investment differently

Taken together, the two experiments demonstrate that greenwashing allegations can affect corporate image and investment behavior outcomes in different ways. Corporate image is sensitive to both the severity of the allegation and the type of its source. Fraud allegations and whistleblower accusations both damage corporate image, while their combination is particularly consequential for investment behavior. The second experiment further shows that crisis communication can help repair corporate image after a serious greenwashing allegation. A proactive response combining information, sympathy, and apology was the most effective strategy, whereas defensive communication was less effective but still preferable to silence. At the same time, these communication strategies did not

significantly change immediate investment allocations. The findings therefore suggest that protecting corporate image and influencing investment behavior are related but distinct challenges in ESG crises.

MANAGING GREENWASHING ALLEGATIONS

The findings offer several important implications for organizations managing greenwashing allegations and ESG-related crises:

1. Companies should recognize that the source and nature of an allegation matter. Fraud allegations, particularly when raised by whistleblowers, can create substantial image- and investment-related risks. Organizations should therefore take allegations involving potential misconduct seriously and avoid dismissive or purely defensive communication strategies.
2. The findings suggest that proactive crisis communication can help protect corporate image. When confronted with serious greenwashing allegations, organizations should provide relevant information, acknowledge stakeholders' concerns, express sympathy, and accept responsibility where appropriate. Such responses can demonstrate accountability and help maintain organizational credibility. Silence or strong denial may be less effective in protecting corporate image.
3. From a strategic communication perspective, organizations should also prioritize credible and transparent ESG communication before a crisis occurs. Clear sustainability claims, accessible evidence, and consistent disclosure can reduce ambiguity and strengthen stakeholder trust. In particular, companies should establish mechanisms for addressing concerns raised by employees and other stakeholders, as whistleblower allegations can carry considerable weight.

CONCLUSION

Greenwashing allegations can put organizations under pressure on two different fronts: how stakeholders perceive them and how they respond to them financially. The findings suggest that effective crisis communication can help protect corporate image, but positive perceptions do not necessarily translate into immediate changes in investment behavior. This highlights the need for organizations to move beyond defensive reputation management toward proactive, transparent, and accountable communication in ESG-related crises. While effective crisis communication cannot eliminate all financial or corporate image-related consequences of greenwashing allegations, it can play an important role in mitigating their impact and safeguarding corporate image.

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MORE INFORMATION

A detailed discussion of the results can be found in Cinceoglu et al. (2026), as listed above.

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