

Analysis of enterprise greenwashing behavior based on internal control perspective

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Keywords: Internal Control, Greenwashing Behavior, North China Pharmaceutical Company Ltd.

Abstract: With the development of economy, the problem of environmental pollution has become a hot topic, some enterprises choose to take green bleaching behavior for short-term interests, which has a negative impact on the construction of ecological civilization in our country. This paper analyzes the greenwashing behavior of enterprises from the perspective of internal control, and puts forward management methods to promote enterprises to take the road of sustainable development.

1. Introduction

Due to the increasingly fierce market competition, some enterprises in order to save the cost of environmental protection and avoid the punishment of environmental protection departments, began to take green bleaching behavior. When companies disclose environmental information, they tend to report good news rather than bad news, and it is difficult for ordinary consumers to judge whether enterprises are in harmony with knowledge and practice, which promotes the wind of "greenwashing" of enterprises. Li Qiang and Song Jiawei (2022)^[1] believe that the performance expectation gap will induce the "greenwashing" behavior of enterprises, and Noreen (2000)^[2] finds that internal control has extensive benefits. Based on the perspective of internal control and case study, this paper tries to analyze and put forward countermeasures of greenwashing behavior.

2. The rise and main manifestation of greenwashing behavior

"Greenwash" first appeared in 1986, indicating false environmental protection by self-whitewashing. Greenwash can not only reduce enterprise costs, but also avoid supervision or establish a good image (Huang Rongbing, Zhao Qian, 2018)^[3]. In 2009, the "Southern Weekly" for the first time translated "Greenwash" as "green bleaching" into China, enterprises compete to use green advertising, environmental protection statements and other publicity means to promote green goods to consumers. However, many enterprises' green advertisements and environmental protection statements are deceptive, misleading consumers in form or content, constituting the so-called greenwashing behavior. It is particularly important to scientifically identify various forms of greenwashing and their potential impacts (Li Dayuan et al., 2015)^[4].

3. Analysis of the relationship between five elements of internal control and greenwashing behavior

From the perspective of internal control, the greenwashing behavior of enterprises is caused by the imperfect and uncoordinated core elements of control environment, risk assessment, control activities, information and communication, and supervision.

3.1. Control the influence of environment on greenwashing behavior

The main influencing factor of internal control environment is people, and employees are the main body of enterprise business activities. A good control environment can effectively reduce the probability of employees' greenwashing. The internationalization of senior management team can

inhibit the "greenwashing" of enterprises (Li Qiang, Jiang Tao, 2023)^[5]. Therefore, measures for internal environmental control include establishing a sound management system, creating corporate culture and strengthening staff value training, strengthening staff professional skills training.

3.2. Impact of risk assessment in the governance of greenwashing behavior

Risk assessment predicts the probability of loss caused by uncertain factors to enterprises, and greenwashing behavior can reduce financing costs (Su Dongwei, Liu Ziming, 2023)^[6]. When the expected benefits of greenwashing are greater than the benefits of green innovation, enterprises are more inclined to implement greenwashing (Sun Voluntarism et al., 2023)^[7]. At present, most enterprises mainly conduct risk assessment on financial aspects, ignoring the risk assessment on environmental pollution. The higher the degree of greenwashing, the higher the probability of being punished for violations (Huang Rongbing, 2020)^[8].

3.3. Influence of control activities on greenwashing behavior

The decision and execution of control activities are mainly based on the results of risk assessment, and the execution efficiency of control activities plays a crucial role in the efficient operation of enterprises. When the management makes the right decision, the negligence of control activities is very likely to lead to the occurrence of greenwashing behavior, and the environmental pollution caused unintentionally should be held responsible for its consequences. Speeding up the effective implementation of the activity control system can restrain the greenwashing behavior to a large extent.

3.4. Influence of information exchange and transmission in the governance of greenwashing behavior

The exchange and transmission of information first requires to ensure the exchange of information within the enterprise, and the delay and uncertainty of information are easy to cause decision-making errors, resulting in the occurrence of greenwashing behavior. Enterprises are more inclined to convey their advantages to the outside world (Huang Rongbing, Chu Fang, 2021)^[9], exchange information between enterprises and the public, increase their own goodwill, and resist greenwashing behavior. The level of information exchange and transmission determines the efficiency of the implementation of internal control, and can also prevent the occurrence of greenwashing behavior to a certain extent.

3.5. The influence of supervision in the management of greenwashing

The most direct measure to prevent enterprises' greenwashing behavior is to establish a supervision mechanism, and the supervision of stakeholders can restrain enterprises' greenwashing behavior (Li Qiang et al., 2023)^[10]. Enterprises' internal governance of greenwashing is more effective than external supervision (Sun Voluntary et al., 2023)^[11]. At present, the punishment for enterprises' greenwashing is too low in law, and relevant government policies can effectively curb enterprises' greenwashing (Wu Qiusheng, Ren Xiaoshu, 2023)^[12]. The inhibition effect is more significant (Huang Rongbing, Chu Fang, 2023)^[13], so a scientific and perfect supervision mechanism should be established according to the actual situation.

4. Analysis of five elements of greenwashing behavior in North China Pharmaceutical Company Ltd.

North China Pharmaceutical Company Ltd. is one of the largest pharmaceutical enterprises in China. In 2015, it was named as the first pilot unit for the construction of environmental management self-regulatory system in Hebei Province. However, North China Pharmaceutical Company Ltd. has been repeatedly punished for environmental problems. Therefore, this paper will choose the "Southern Weekly" China green bleaching list of North China Pharmaceutical Company Ltd. as the case analysis object.

4.1. Control environmental factors

The construction of the control environment mainly depends on the core members of the company. As the top leader of the company, the chairman is crucial to the stability of the company's development. As shown in Table 1, the selection of chairman of North China Pharmaceutical Company Ltd. changed frequently, especially from 2015 to 2017, three chairmen were replaced. In 2016 and 2017, North China Pharmaceutical Company Ltd. was found to have greenwashing behavior and was fined. Wang Sheping, Guo Zhouke and Yang Guozhan all broke the law and discipline. Misbehavior at the top of a company may increase the probability of greenwashing.

Table 1 Chairmanship table of North China Pharmaceutical Company Ltd. in recent years

Name	Time served as chairman
Wang Sheping	2009 - January 2015
Yang Haijing	January 2015 - October 2016
Guo Zhouke	December 2016 - February 2017
Yang Guozhan	June 2018 - October 2020
Zhang Yuxiang	August 2021 - March 2023
Xiao Mingjian	March 2023 - Present

4.2. Risk assessment elements

The financial risk of North China Pharmaceutical Company Ltd. is relatively high, and the asset-liability ratio has increased year by year from 2014 to 2021, reaching as high as 71.85% in 2021, as shown in Figure 1. The company has a large amount of debt funds, low debt repayment ability, and the risk of capital chain break. High debt ratio, in order to reduce financial pressure, reduce costs, abnormal use of pollution prevention facilities, solid waste is not disposed as required, sewage discharge exceeds the standard, and some process exhaust gas is not organized to affect the surrounding environment and other greenwashing behaviors.

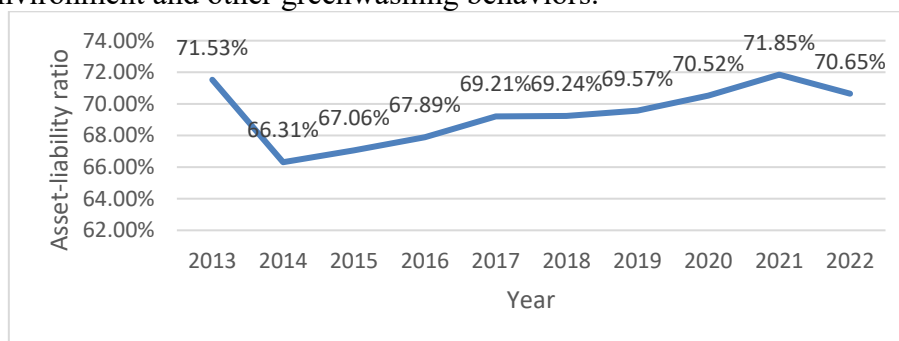


Figure 1. Line chart of asset-liability ratio of North China Pharmaceutical Company Ltd.

The risk assessment of the company is not comprehensive, and the financial risks are assessed, but the risk of punishment and economic loss caused by the greenwashing behavior is not assessed. North China Pharmaceutical Company Ltd. has been fined several times for greenwashing, as shown in Table 2.

Table 2 Statistical table of greenwashing behavior

Date	Fine amount (Ten thousand)	Incident
June 2016	Workshop 1:189 Total factory: 30	The waste discharge treatment is not standardized, the odor is serious, and the sewage discharge exceeds the standard.
May 2018	20	Improper disposal of odor and excessive discharge of wastewater.
January 2019	10	The fluoride in the sewage discharged from the main sewage outlet exceeds the standard.

(Data source: Shijiazhuang Ecological Environment Bureau)

As can be seen from Figure 2 below, from March 15, 2017, one week after Southern Weekly

exposed the greenwashing behavior of enterprises, the stock price of North China Pharmaceutical Company Ltd. generally showed a downward trend, indicating that the market efficiency of North China Pharmaceutical Company Ltd. declined after its greenwashing behavior was exposed.



Figure 2 K chart of North China Pharmaceutical Company Ltd. stock price

4.3. Control activity elements

The pharmaceutical industry will inevitably have a large number of pollutants in the production process, so pharmaceutical companies should strictly control the implementation of each step of the production process. The lack of strict control activities is easy to lead to frequent greenwashing events. In recent years, North China Pharmaceutical Company Ltd. has repeatedly occurred greenwashing behaviors, as shown in Table 2, which mainly include pollution prevention facilities, non-disposal of solid waste as required, excessive discharge of sewage, and unorganized discharge of some process exhaust affecting the surrounding environment.

4.4. Elements of information exchange and transmission

There are defects in information transmission and communication of North China Pharmaceutical Company Ltd., resulting in inconsistent information disclosure, and the total amount of interest-bearing liabilities in 2020 exceeds the expected amount by 890 million yuan. It can be seen that there are important defects in the internal information exchange and transmission of North China Pharmaceutical Company Ltd.. If the relevant information about greenwashing behavior is not transmitted and communicated in a timely manner, the relevant person in charge cannot optimize and rectify the problem. At the same time, the untimely transmission of financial information is likely to lead the decision maker to make greenwashing for the sake of the company's interests, reduce costs, hide their environmental pollution behavior, and make greenwashing behavior.

4.5. Elements of Supervision

In June 2023, North China Pharmaceutical Company Ltd. was fined 500,000 yuan for information disclosure violations, and then-chairman Yang Guozhan, Vice chairman Liu Wenfu was then-general manager Zhou Xiaobing, and then-secretary of the company's board of directors Chang Zhishan. Many persons in charge of North China Pharmaceutical Company Ltd. failed to fulfill their responsibility of supervision, did not give feedback on the relevant situation, and the inaction of management gave the implementors of green bleaching behavior opportunities.

5. Governance of greenwashing behavior based on five elements of internal control

5.1. Optimizing the control environment

Optimizing the control environment requires strengthening staff training, establishing correct values. Excellent management staff should be fully aware that greenwashing behavior seriously hinders the future development of enterprises and damages people's health. Excellent grass-roots staff need to master business skills and strictly implement procedures in the operation process of disposing of waste pollutants, which inhibits the occurrence of greenwashing behavior.

5.2. Improve the risk assessment mechanism

The emergence of greenwashing behavior is often caused by decision makers ignoring the risk assessment brought by environmental pollution to enterprises, and it is necessary to introduce sustainable development indicators. The greenwashing behavior of North China Pharmaceutical Company Ltd. was exposed, mainly because the risk assessment system has not been perfected. A perfect risk assessment mechanism can predict the greater losses caused by greenwashing behavior to the company and avoid the possibility of management taking greenwashing behavior for financial profit.

5.3. Enhance the effectiveness of control activities

When enterprises conduct waste pollutant treatment activities, they need to strictly control the efficiency of treatment activities, prevent the discharge of substandard pollutants due to operational errors, and avoid greenwashing behavior from the root. North China Pharmaceutical Company Ltd. needs to strictly implement the treatment process of waste water, waste gas and other pollutants, and discharge the pollution sources into the environment after meeting the national limits on the concentration or total amount of pollutants.

5.4. Improving information communication

A high level of information communication can ensure the effectiveness of information and effectively avoid the production of wrong decisions. Within the enterprise, North China Pharmaceutical Company Ltd. should achieve vertical communication and horizontal communication at the same time, to ensure that the communication between the superior, the same level and the lower level is barrier-free, so that the management can timely understand the information related to the enterprise, so as to make the right decision, weaken the internal motivation of the implementation of green washing behavior of the enterprise, and get the effective implementation of the lower level.

5.5. Improve the supervision system

Supervision depends not only on internal employees, but also on the public and the government. Enterprise employees have the responsibility to supervise whether managers' decisions are correct and whether other colleagues' business operations are standardized, and to supervise each other to avoid the occurrence of enterprise greenwashing behavior. Once the public finds that enterprises have illegal discharge of sewage, abnormal air and other greenwashing behaviors, they need to give feedback to relevant departments in a timely manner. The government has improved existing laws and regulations, increased punishment, and reduced the emission of pollutants at the source.

6. Conclusion

It is the responsibility of every citizen to maintain ecological balance, sustainable social development and environmental protection. Enterprises should also shoulder their own social responsibilities, improve the level of the five elements of internal control, and resist greenwashing behavior, which is not only conducive to social people, but also conducive to increasing the goodwill of enterprises and enhancing the market competitiveness of enterprises.

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