

Legitimacy Theory Shaping Corporate ESG Practices and the Challenges Posed by Greenwashing

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Resumo

The increasing relevance of Environmental, Social, and Governance (ESG) practices in the corporate world is undeniable. As businesses face growing pressure to align with societal values and environmental responsibilities, the role of legitimacy theory becomes increasingly significant. Legitimacy theory posits that organisations must align their operations with the values and expectations of society to maintain legitimacy and long-term success. However, the rise of greenwashing - where companies falsely present themselves as environmentally responsible - challenges the authenticity of corporate ESG efforts. This essay addresses the research problem by examining how legitimacy theory influences the adoption of ESG practices while exploring the complexities and risks associated with greenwashing. The primary objective of this research is to investigate how legitimacy theory shapes the adoption of ESG practices by corporations, particularly in the context of maintaining societal acceptance and corporate reputation. The research also seeks to address the problem of greenwashing, where companies exploit ESG narratives for superficial gains rather than genuine environmental improvements. The study aims to understand the mechanisms through which corporations balance ESG adoption with the risks of greenwashing, exploring how regulatory frameworks and transparency can mitigate these challenges. The context of this study is situated within the broader discourse on corporate social responsibility and the increasing demand for businesses to demonstrate accountability in environmental and social governance. As societal awareness of environmental issues intensifies, firms are compelled to adopt ESG strategies as part of their broader corporate governance initiatives. However, while some firms genuinely integrate ESG into their core operations, others resort to greenwashing - projecting a false image of sustainability to align with public expectations. This deceptive practice undermines the integrity of ESG initiatives and raises questions about the effectiveness of legitimacy theory in ensuring authentic corporate behaviour. The context is further complicated by varying regulatory environments across industries and regions. In some markets, stringent regulations encourage transparent ESG disclosures, whereas in others, the absence of robust frameworks facilitates greenwashing. The rise of digital transformation also plays a crucial role, as technological advancements offer new ways to monitor and assess corporate ESG performance. The conceptual foundation of this essay is legitimacy theory, which serves as a critical framework for understanding corporate behaviour in relation to societal norms. Legitimacy theory suggests that firms must not only comply with legal standards but also with broader societal expectations to be perceived as legitimate. This perception is important for firms to maintain trust with stakeholders, including investors, customers, and regulatory bodies. In the context of ESG, legitimacy theory posits that companies adopt these practices to signal their alignment with societal values on environmental responsibility, diversity, and corporate governance. Therefore, firms seek to enhance their reputation and secure a 'social license to operate.' However, the rise of greenwashing complicates this relationship, as firms may leverage ESG narratives to gain legitimacy without making

substantive improvements in their environmental or social practices. The essay explores how legitimacy theory can both promote genuine ESG efforts and, paradoxically, enable deceptive practices like greenwashing. This essay is a theoretical analysis, relying on secondary research and conceptual frameworks to explore the relationship between legitimacy theory, ESG adoption, and greenwashing. The methodological approach involves a review of existing literature on legitimacy theory, ESG practices, and greenwashing, drawing insights from key theoretical models and case studies in corporate governance. The essay does not involve empirical research but instead synthesizes theoretical arguments to provide a comprehensive understanding of the issues at hand. Adopting a theoretical essay approach, the study builds on established academic discussions, providing a critical evaluation of how legitimacy theory operates in contemporary corporate environments. This method allows for a deep exploration of the relationship between corporate legitimacy, ESG performance, market value and the challenges of greenwashing. The analysis exposes that legitimacy theory plays a central role in driving corporate ESG adoption, as firms seek to align with societal expectations and maintain reputational capital. Companies that effectively disclose ESG information can enhance their legitimacy and secure stakeholder trust, which is necessary for long-term market value. However, the analysis also highlights the risks posed by greenwashing, where firms misrepresent their environmental efforts to appear more responsible than they are. Theoretical discussions in the essay suggest that greenwashing not only undermines corporate reputation but also erodes stakeholder trust in ESG initiatives more broadly. When stakeholders, including investors and consumers, perceive that firms are engaging in greenwashing, it can lead to decreased brand credibility and lower investment intentions. The essay identifies transparency and regulatory oversight as key mechanisms to counteract greenwashing. Firms that engage in transparent ESG reporting, supported by third-party verification, are better positioned to maintain legitimacy and avoid the pitfalls of superficial ESG efforts. Digital transformation also emerges as a factor in mitigating greenwashing. Advanced technologies enable more accurate tracking of corporate ESG performance, making it harder for firms to falsify their sustainability credentials. The essay makes contributions to the literature on corporate governance and ESG practices. Firstly, it provides a nuanced understanding of how legitimacy theory drives ESG adoption, offering insights into the motivations behind corporate sustainability efforts. Secondly, it sheds light on the challenges of greenwashing, explaining how firms may exploit ESG narratives for short-term gains without making substantive improvements. Thirdly, the essay highlights the role of transparency, regulatory frameworks, and digital transformation in promoting genuine ESG practices and mitigating the risks of greenwashing. The contribution to the knowledge on corporate ESG practices and legitimacy theory in shaping corporate behaviour. Through addressing the challenges posed by greenwashing, the essay offers practical insights into how businesses can improve their ESG strategies and avoid the reputational risks associated with deceptive practices. Furthermore, the essay underscores the importance of regulatory oversight and digital transformation in fostering transparency and accountability in corporate governance. This essay provides a comprehensive theoretical exploration of the relationship between legitimacy theory, ESG adoption, and greenwashing, offering contributions to the field of corporate governance and sustainability. Future research could build on these findings by exploring empirical case studies and examining the effectiveness of regulatory frameworks in different industry contexts.

Palavras Chave

Legitimacy theory, ESG Performance, Greenwashing

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