



**UNIVERSITY  
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# **Avoiding Greenwashing in the Construction Industry**

From the perspective of Finnish MNCs

International Business

Bachelor's thesis

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The rapidly increasing climate change has led to consumers choosing more sustainable options and governments adding more pressure on companies to be more responsible. The increasing demand has led companies to develop their business strategies in green marketing, to gain a more positive image and, thus, a competitive advantage. Greenwashing activities can have negative impacts and damage the entire brand image. It can lead to weaker brand attitudes, increase serious profit losses, reduced investment, and lead to brand avoidance. Greenwashing can increase consumer scepticism, and in the construction industry, where the ESG challenges are high, greenwashing not only damages MNCs' reputations but also undermines genuine efforts toward sustainable development.

Finland has a pioneering role in sustainable development and stricter regulations, which is why this thesis concentrates on the Finnish MNCs. This thesis study how Finnish MNCs in the construction sector can avoid greenwashing. First, by defining what greenwashing is and what the consequences are. Then by examining the key sustainability issues in the construction industry, subsequently, how Finnish MNCs in the construction industry can manage responsibility and accountability.

By conducting a literature review, this thesis identifies three key methods to reduce the risk of greenwashing. The three key methods for reducing the risks of greenwashing and promoting sustainable development include third-party verifications and certifications that increase the company's credibility. Secondly, enhancing transparency in corporate responsibility activities. Lastly engaging stakeholders in the sustainability dialogue, which enhances the brand's reputation. Through these methods, companies can reduce the risk of greenwashing and create a more sustainable business.

**Key words:** Greenwashing, Sustainability, Corporate Social Responsibility, Construction industry

Kandidutkielma

**Oppiaine:** Kansainvälinen liiketoiminta

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Nopeasti kiihtyvä ilmastonmuutos on saanut kuluttajat valitsemaan vastuullisempia vaihtoehtoja, sekä valtiota vaatimaan yrityksiltä enemmän raportointia vastuullisuudestaan. Tämän myötä yritykset ovat alkaneet kehittämään liiketoimintastrategioitaan enemmän vastuulliseksi ja saavuttamaan myönteisemmän yrityskuvan ja mahdollisesti tällä tavoin kilpailuetua. Kuitenkin osalla yrityksillä tämä on johtanut ilmiöön nimeltä viherpesu, jolla voi olla negatiivisia vaikutuksia koko yrityskuvaan, aiheuttaa liiketoiminnallisia tappiota, vähentää sijoittajien investointeja ja jopa johtaa koko yrityksen välttämiseen. Viherpesu voi lisätä kuluttajien skeptisyyttä, sekä rakennusteollisuudessa, jossa vastuullisuuteen liittyvät aiheet ovat haastavia, viherpesu ei ainoastaan vahingoita monikansallisten yritysten mainetta, vaan myös heikentää aitoja pyrkimyksiä kohti kestävästä kehityksestä.

Suomella on edelläkävijän rooli kestävässä kehityksessä ja useita maita tiukempi sääntely, jonka vuoksi tämä kandidutkielma keskittyy suomalaisiin monikansallisiin yrityksiin. Kandidutkielmassa selvitetään, miten suomalaiset rakennusalan monikansalliset yritykset voivat välttää viherpesua. Alussa määritellään, mitä viherpesu on, sekä sen seuraukset. Tämän jälkeen tarkastellaan rakennusalan keskeisiä kestävyyskysymyksiä ja myöhemmin, miten suomalaiset rakennusalan monikansalliset yritykset voisivat olla vastuullisempia, sekä miten vastuullisuudesta tulisi viestiä.

Kirjallisuuskatsauksen avulla kandidutkielma tunnistaa kolme keskeistä tapaa vähentää viherpesua. Nämä kolme tapaa ovat; kolmannen osapuolen suorittamat tarkistukset tai sertifiointit; läpinäkyvyyden lisääminen yrityksen toiminnassa; ja sidosryhmien sitouttaminen kestävästä kehityksestä vuoropuheluun. Näillä menetelmillä yritykset voivat vähentää viherpesun riskiä ja luoda vastuullisempaa liiketoimintaa.

**Avainsanat:** Viherpesu, Vastuullisuus, Yritysvastuu, Rakennusala

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# 1 Introduction

## 1.1 Background

Around 37 percent of the world's energy and process-related CO<sub>2</sub> emissions are caused by the construction industry. This includes 27 percent of the global building sector. The estimated 10 percent is from producing construction materials such as glass, concrete, bricks, steel, and aluminium. To achieve the Paris Agreement by 2050, the CO<sub>2</sub> emissions of the construction industry should decrease by more than 98 percent from the 2020 level. (United Nations Environment Programme. 2022, 26.)

The rapidly increasing climate change has led to public opinion and awareness of the issue, as well as consumers choosing more sustainable options (Machura-Urbaniak et al. 2024, 1; Block et al. 2024, 29). There is growing pressure for businesses and governments to take serious actions to mitigate the worsening conditions of our climate condition (Machura-Urbaniak et al. 2024, 1). Due to this demand, corporate social responsibility (CSR) has been rising in the construction sector (Xia and al. 2018, 341). CSR refers to the incorporation of an organization's social, environmental, ethical, and philanthropic responsibility into its business practices in collaboration with relevant stakeholders (Herzig and Kühn, 2017, 187). Additionally, the increasing demand has motivated companies to develop their business practices in green marketing, to gain a more positive image and, thus, a competitive advantage (Zhang et al, 2018, 740).

The challenge business leaders face is to figure out new ways of arranging operations to be more sustainable as well as staying profitable and ensuring the competitive advantage (Elkington, 1994, 99). For some companies, this has led to a phenomenon called greenwashing (Netto et al. 2020, 2). As can be noted in the next chapter, greenwashing can be defined in several ways. In general, greenwashing can be defined as retaining disclosure of negative facts related to CSR and disclose positive information about businesses sustainable practices. (Netto et al. 2020, 6.)

This thesis will study what are the consequences of preserving disclosure of negative facts about CSR, for Multinational corporations (MNCs) in the construction industry, as well as discuss what are the elements that are considered greenwashing. This thesis will focus on Finnish MNCs in the construction industry. MNCs operate, and generate revenue in at least two countries (Gratton, 2024). This often refers to differing regulations and more complex supply chains (Truant et al. 2024, 11; Smith et al. 2024, 8). Compared to the countries that Finnish MNCs operate in, Finland

has a pioneering role in sustainable development and stricter regulatory and ethical standards, which makes it a good perspective for this thesis topic (Block et al. 2024, 18).

The thesis complements the existing literature by offering a new perspective to Finnish MNCs in the construction industry that operate in a unique operating environment that combines strict EU and national regulations with international market pressures. The Finnish perspective may limit the applicability of the results to other countries or industries. As well as a more in-depth analysis on the implementation of stakeholder perspectives. Also, while different regulations are central to the study, their long-term practical impact on business operations has not yet been widely studied, which may limit the timeliness of the analysis.

## 1.2 Aim of the thesis

The aim of the thesis is to study how Finnish MNCs in the construction industry can create a genuine sustainable strategy and avoid greenwashing. Sometimes the definition of greenwashing includes only the environmental issues, and social issues are discussed under the term bluewashing, but then again other scholars consider both issues under greenwashing. (Netto et al. 2020, 10). This thesis will consider all sustainable issues under the term greenwashing. The main research question is: **How can Finnish MNCs in the construction industry avoid greenwashing?**

To answer the main research question, this thesis will discuss these sub-questions:

- What are the consequences and forms of greenwashing?
- How can Finnish MNCs in the construction industry manage responsibility and accountability?

To analyse the questions, a literature review has been carried out, which looks for definitions of the phenomenon and related concepts, as its characteristics and typologies.

## 2 Greenwashing as a theoretical and practical phenomenon

### 2.1 What is greenwashing

Greenwashing is becoming more common, as evidenced by the European Commission's finding that 42% of green claims made online across different industries were potentially misleading (European Commission 2021). Greenwashing can be defined in various ways. One definition is that it is disinformation spread by a business to create an environmentally friendly public image (MOT). Environmentalist Jay Westervelt coined the term greenwashing in 1986. He used this term to recognise businesses, for example hotels, which asked their guests to reuse towels, claiming they were environmentally friendly, but lacked environmental objectives, and the actions were more driven by cost-saving practices. (Wolniak et al. 2015, 2.) From there on, the term has been used in different contexts. Nowadays it can be defined in many ways, from products with environmental claims to corporate-level sustainable development actions and impacts. In this bachelor's thesis, definitions of greenwashing have been collected from various sources to get the correct understanding of the term. Different definitions of greenwashing are compiled in Table 1.

Table 1 Different definitions of greenwashing

Author(s)	Definition
The European Parliament (2024)	An act of giving wrong impressions of the sustainable impact of a service or product that can mislead stakeholders.
Wu et al. (2020, 3095)	Refers to firms' that focus on salient aspects of CSR and negligence of the observable aspects.
Delmas et al (2011, 65.)	As the intersection of two companies' behaviour: weak sustainable actions and positive communication about it.
Baum (2021, 424)	An act to spread disinformation to stakeholders of the business' sustainable actions.
Walker et al. (2011, 231)	Difference between the businesses symbolic and essential CSR activities.
Lyon et al. (2011, 9)	Communication that misleads stakeholders of the sustainable acts by disclosing negative communication and spreading positive marketing about a companies, services, or products.
Machura-Urbaniak et al. (2024, 1)	Misleading claims of businesses' sustainable acts or environmental benefits of their products or services

Although there are differences in the definition of the term greenwashing among different authors, similarities can be observed. It is all about the companies' actions to retain disclosure of negative facts related to corporate social responsibility and disclose positive information about its sustainable practices. These double-folded behaviours can be called as selective disclosure in other words

greenwashing. (Netto et al. 2020, 6.) Due to the possibility of greenwashing, stakeholders may have difficulties identifying true green claims, which has increased trust problems among different stakeholders. Green scepticism has been growing and it also influences true green actions. (Chen et al. 2014, 2423.) There are several reasons for greenwashing, and it can be created intentionally or unintentionally, for example, due to insufficient information or lack of communication. (Delmas et al. 2018, 152–153).

## **2.2 Different forms of greenwashing**

According to Delmas et al. (2011) theory, greenwashing can be classified into two different acts of misleading which are firm-level greenwashing or then product and service-level greenwashing (Delmas et al. 2011, 66). Firm-level greenwashing can be described for example, as a situation where a company markets its environmental actions for clients while same time lobbying against new sustainable regulations (Delmas et al. 2011, 66; Contreras-Pacheco et al. 2017, 527).

Contreras-Pacheco et al. (2017) defines firm-level greenwashing also as vague reporting, meaning that the company takes advantage on CSRs one-way communication to mispresent truth and increase company's positive image, as well as promoting sustainability actions or commitments that are already required (Contreras-Pacheco et al. 2017, 527). These kinds of claims are not only misleading but also unverified. (Machura-Urbaniak et al. 2024, 2).

Figure 1 illustrates the theory, by Delmas et al. (2011, 67). In this theory, companies are divided into four different categories based on their sustainable actions. First, there are the “green” companies that are genuinely sustainable. Then there are “brown” companies that have poor sustainable actions. Brown companies are either silent about their actions or then mislead stakeholders with positive communication and poor actions which is known as greenwashing. The “green” companies that communicate about their sustainable actions are known as “Vocal green companies” and the opposite firms that are classified as green companies, but do not report their actions are “Silent green companies.” (Delmas et al. 2011, 67-68.)

There are two ways a company can be guilty of greenwashing. Either a “Vocal green firm” changes its sustainable actions to a negative direction, which shifts it to the greenwashing category. Or then a “silent brown firm” begins to communicate its sustainable performance, which shifts it to the greenwashing category. (Delmas et al. 2011, 68.)

		CSR actions	
		Negative	Positive
Communication about CSR actions	Positive communication	Greenwashing firms	Vocal Green firms
	No communication	Silent Brown firms	Silent Green firms

Figure 1 Greenwashing classifications adapted from Delmas et al. (2011, 67)

Kangun et al. (1991) believes that greenwashing can be classified into three categories; first, those who use false claims; second those who omit essential facts that can help evaluate the validity of a claim; third, those that use vague or ambiguous terms that can be summarised either as dishonesty, dishonest about neglect, or dishonesty about ambiguously (Kangun et al. 1991, 51; Parguel et al. 2015, 108). Theory developed by Carlsson et al. (1993,30), which includes two typologies of green claims; first one categorizes environmental claims into different claims; second one categorizes misleading or deceptive environmental claims. (Tateishi, et al. 2017, 372.) The first typology that is demonstrated in Figure 2 categorizes environmental claims into different claims that have five different categories; First, product orientation, which claims the sustainable products; Second, process orientation which claims the process is sustainable; Third, image orientation claims that focuses on strengthening an companies environmentally friendly image; Fourth, an ecological statistic that contains an independent announcement that is seemingly truthful in nature about the companies environment in general or its state and; Fifth a mixture that claims to have two or more of the above categories. (Carlsson et al. 1993, 31; Tateishi, et al. 2017, 372.)

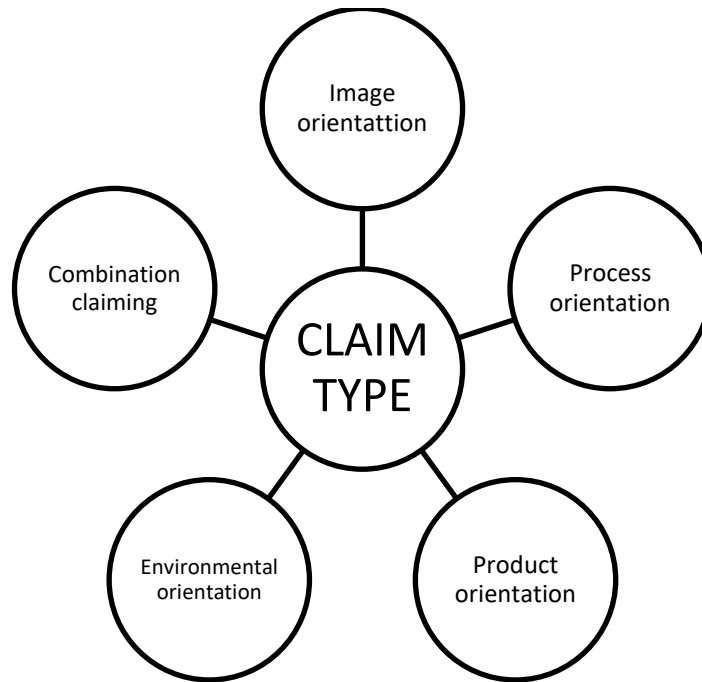


Figure 2 Different claim types (Carlsson et al. 1993, 31)

The second typology which categorizes the misleading or deceptive environmental claims are presented in Figure 3. They are also divided into five categories: First, vague or unclear claims that are difficult to determine. They are either too ambiguous, vague or broad; Second, omission claims that lack the facts needed to assess their validity; Third claims that are false or outright lies and are inaccurate or pretentious; Fourth a combination of requirements containing two or more of the classifications above; Fifth, claims that are acceptable because they do not contain misleading features. (Carlsson et al. 1993, 31; Tateishi, et al. 2017, 372.)

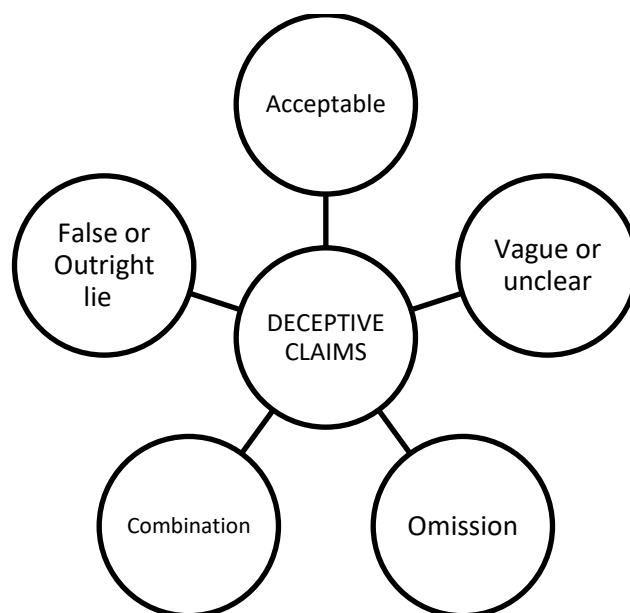


Figure 3 Claim deceptiveness (Carlsson et al. 1993, 31)

In summary based on Delmas et al. (2011) theory there are two ways a business can be guilty of greenwashing. Either a sustainable business changes its actions in a negative way. Or then a business that is not considered sustainable begins to communicate about its sustainable performance. (Delmas et al. 2011, 68.) There are various forms of greenwashing, they can be either false claims or misleading (Kangun et al. 1991, 51; Parguel et al. 2015, 108). Claims may concern the product, process, company image, ecological or sustainable statistics (Carlsson et al. 1993, 31; Tateishi, et al. 2017, 372). In the next chapter we will discuss the consequences of this kind of behaviour.

### **2.3 Consequences of greenwashing**

Organizations that proactively communicate about their sustainable actions seem to create a more positive reputation than companies that stay silent or completely ignore environmental concerns (De Jong et al. 2018, 99). But on the other hand, studies show that exposed greenwashing activities can have negative spillover effects on consumers. As well as perceptions of the brand, leading to weaker brand attitudes, brand love and loyalty, and negative brand reviews. (De Jong et al. 2018, 83; Hameed et al. 2021, 13114; Nyilasy et al. 2014, 694.) One example is the famous Volkswagen's emission scandal that led to serious profit losses, reduced investment, and damaged the whole brand image (Forbes, 2015). Different studies have recognized several negative associations, such as greenwashing increases consumer scepticism (Aji et al. 2015; 462-463; Chen et al. 2014, 2423), damages product perception, reduces purchase intentions (Braga et al. 2019, 227), and decreases satisfaction (Martínez et al. 2020, 3).

Rashman et al. (2015) have found that scepticism towards organizations' CSR increases if consumers perceive claims as egoistical or if motives are clearly stakeholder-induced. Value-based attributes, however, reduce scepticism, and this is because consumers value organizations that bring benefits to society, not just profit to shareholders. (Rahman et al. 2015, 1059.) Thus, it can be assumed that misleading information at the corporation's responsible level resists these effects and undermines consumers' perception of the brand. In addition to the loss of trust in the brand (Akturan, 2018, 813), greenwashing damages the overall brand value of consumers and can thus even lead to brand avoidance. (Xiao et al. 2022, 12.)

### **3 Sustainability in the construction industry**

#### **3.1 Responsibility in the construction industry**

As stated earlier the construction industry has a large impact on environmental challenges. Due to this, it is often considered irresponsible (Zhang, et al. 2019, 564). The sustainability concerns in the construction industry have grown worldwide in recent years, the industry has faced several problems from an administrative, strategic, and operational perspective (Lima et al. 2020, 2).

This chapter will discuss the different ESG challenges in the construction industry, and the second subsection will focus on accountability. ESG refers to how organizations and investors integrate the development of environmental (E), social (S), and governance (G) challenges, into their business strategies (Lima et al. 2020, 10; Gillan et al. 2021,2). Corporate responsibility usually refers to the environment and social responsibility of organizations. And compared to ESG, the difference concerning these two terms is that ESG contains governance clearly and CSR involves governance issues indirectly because they relate to environmental and social aspects. Therefore, ESG has a broader terminology compared to CSR. (Gillan et al. 2021, 2.) This chapter discusses the problems of the construction industry from an ESG perspective. Also, because the ESG goals are centred on the United Nations 17 Sustainable Development Goals (SDGs) which should be considered if a company aims to develop corporate responsibility (Saario 2020, 160).

##### **3.1.1 Environmental responsibility in the construction industry**

The construction industry accounts for about 37% of the world's CO<sub>2</sub> emissions related to energy and process (United Nations Environment Programme. 2022, 26; Norouz et al. 2021, 1). To achieve the Paris Agreement by 2050, the CO<sub>2</sub>-emissions of the construction industry should decrease by more than 98 percent from the 2020 level (United Nations Environment Programme. 2022, 26). To decrease carbon dioxide (CO<sub>2</sub>) emissions, it is important that the selected materials are more sustainable. The right materials are important for nature, but also for the quality and lastingness of the building, which is again a criterion for green building. When choosing the materials, several aspects should be considered, for example harmful impacts, energy footprint, recycling, and quality. (Lima et al. 2020, 9.)

Furthermore, it is important to consider the energy consumption of each stage of a building's life cycle, and thus the CO<sub>2</sub> consumed, to comprehend the importance of materials at each stage. CO<sub>2</sub> is generated at all stages, from the manufacturing, transport, and construction phases to the utilization

of the construction, to the maintenance stage after the building is completed and demolished. Most CO<sub>2</sub> emissions are caused after the building phase when the building is maintained. Due to warming and ventilation systems, the building's operating stage is the longest during its whole life cycle. (Lima et al. 2020, 9; Kubba, 2012, 1.)

Additionally, the construction industry accounts for a third of all waste generated in the EU (Norouz et al. 2021, 1) and globally 25 percent of the produced waste (Benachio et al. 2020, 1). Most of this waste ends up in landfills, causing serious environmental problems (Norouz et al. 2021, 1). In summary, building green means that the use of precious resources including energy, water, materials, and land is more efficient. (Kubba, 2012, 22).

### 3.1.2 Social responsibility in the construction industry

The social sustainability of the construction industry can be described in various ways. One way to define social sustainability is as cooperation between a business and different stakeholders such as employees, communities, and customers (Valdes-Vasquez et al. 2013, 80; Fatourehchi et al. 2020, 4). Social sustainability is about empathizing with the needs of the surrounding communities, and stakeholders' safety, health, and education (Valdes-Vasquez et al. 2013, 80). As well as inclusion, social participation, accessibility, identity, physical sustainability, satisfaction, cultural values, and cultural heritage, privacy, etc. (Fatourehchi et al. 2020, 3).

Social sustainability in the construction sector at its best should serve people at all levels. It should offer access to services, such as shops, transportation, healthcare, and opportunities. As well as affordable living and the opportunity to build communities and feel of safe around the neighbourhood (Bramley et al. 2009, 2126; Dave 2011, 191; Weingaertner et al 2014, 125; Fatourehchi et al. 2020, 5). Social sustainability contains equal economic, political, and social rights and opportunities, as well as social infrastructure such as community centres, parks, or other spaces for people to meet, engage, and build relationships (Cuthill 2010, 363; Dempsey 2011, 291; Weingaertner et al. 2014, 125).

However often developed and developing countries, face different social sustainability issues. The developing countries social sustainability challenges may be unquestionable things in developed countries. For example, the access to reasonable homes, as well as affordable prices, basic infrastructure, and home sizes. (Dave 2011, 190.) But also, it can also be about organizational level issues such as child labour, working conditions, equality, safety etc. (Jiang et al. 2016, 855).

Many of the authors highlighted safety as an important criterion for social sustainability. It includes access point security, surveillance methods, and natural access control devices that can provide safety to citizens, as well as architectural elements, such as, exit routes, for example fire and electrical installations, and indoor environmental quality. (Fatourehchi et al. 2020, 5, 9.) Social sustainability is also about designing places that are suitable for different kind of people, for example, people with physical disabilities or the elderly (Valdes-Vasquez et al. 2013, 81), as well as the quality of the spaces (Gilchrist et al. 2005, 9).

Although the authors presented different social sustainability challenges in the construction industry, they all highlighted the importance of community participation, which emphasizes public opinion in government and private decisions, and that the business considers the various stakeholders affected by the process. Safety and security are also empathized throughout the process, as well as understanding the people's needs for spaces and areas that they live in. (Valdes-Vasquez et al. 2013, 81.) In summary, social sustainability includes many different elements and the purpose of this thesis is not to cover all of them, but to give an idea of how of a big challenge it is. Figure 4 demonstrates the different type of concerns of social sustainability in the construction industry, which is based on the literature by Valdes-Vasquez et al. 2013, 80-81; Gilchrist et al. 2005, 9; Fatourehchi et al. 2020, 3-5, 9; Jiang et al. 2016, 855; Dave 2011, 190; Cuthill 2010, 363; Dempsey 2011, 291; Weingaertner et al. 2014, 125; Bramley et al. 2009, 2126; Dave 2011, 191). As can be noticed in Figure 4 social sustainability in the construction industry is much more than just the organizational level social challenges.

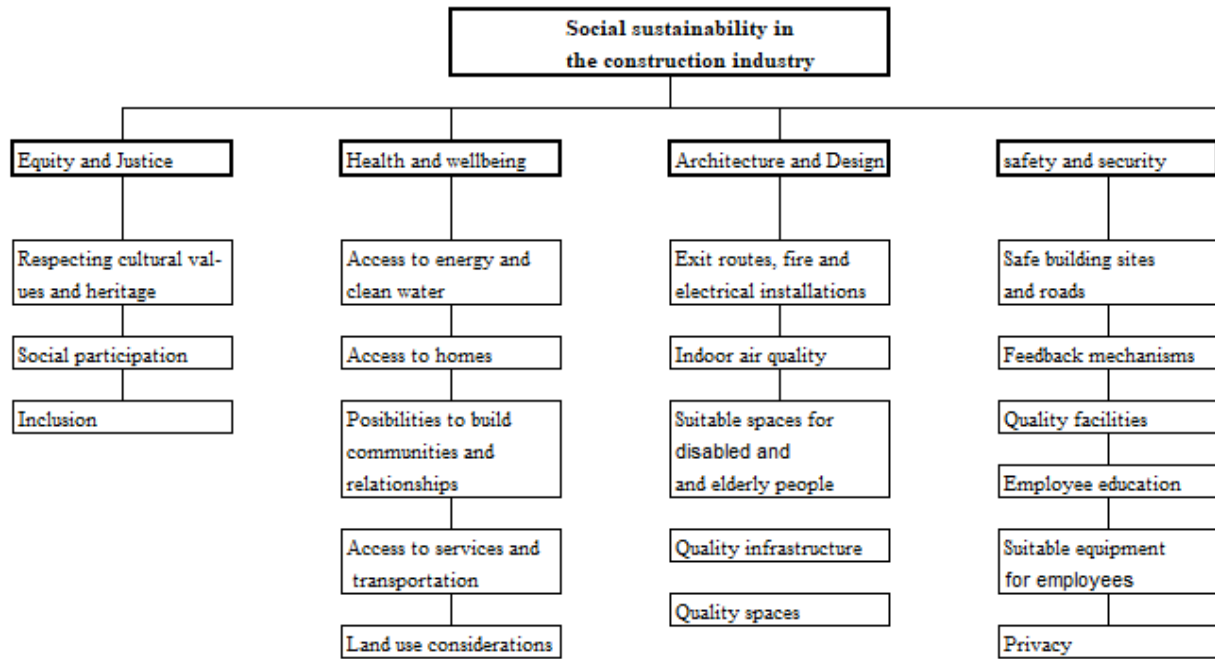


Figure 4 Elements of social sustainability

### 3.1.3 Governance responsibility in the construction industry

Governance issues include the economic responsibility of the business and the methods by which the organization is run. These issues include, for example, corruption, bribery, tax issues, and economic inequality and they have a major effect on different stakeholders. Governance responsibility has a direct impact on employees, suppliers, tax issues, and the company's accountability. The construction sector is one of the most affected sectors of corruption and bribery and the issues affect also environmental and social development globally. (Monteiro et al. 2022, 2745.) When MNCs participate in bribery and corruption, it is often through subsidiaries, and it often occurs more in developing and emerging countries (Hussain 2023, 1).

Corruption has many causes. It can be due to pressure or fear. The risk of corruption is also significant if the culture of the organization is driven more by profit than individual well-being. Traditions and cultural differences can also affect the pressures caused by corruption and bribery. Lack of competition between companies and government-related projects, excessive concentration of power over government officials. The nature of the construction industry is a flawed regulatory system and individuals' appetite for money. For all the reasons listed, the power of government representatives, the complexity of the sector's activities, and the lack of control seem to be the most important in the studies. (Monteiro et al. 2022, 2747.) To commit these unethical decisions such as

corruption and bribery is rarely a shared decision in an organization, more often it is a decision of an individual in the organization (Hussain 2023, 1-2).

In the construction industry corruption's effects can be seen as funds going to the wrong hands, which leads to unnecessary or costly projects, leaving society in debt, dangerous or low-quality infrastructure, and more unsustainable projects (Saenz et al. 2018, 259; Monteiro et al. 2022, 2745). Arewaand et al. (2015) highlight governance challenges such as misidentification, ghost workers, working hour inflation in working time calculations, fraudulent subcontracting used by unscrupulous companies, lack of transparency in offers and formation of a cartel (Arewaand et al. 2015, 63).

For businesses, corruption stops or slows down development, increases costs, and causes serious legal risk and brand damage. Corruption increases transaction costs, undermines healthy price and quality competition, damages long-term foreign and national investment, and diminishes development priorities. From an investor's point of view, corruption can damage the company's value development and cause financial, operational, and reputational risks for its investments. (Saenz et al. 2018, 259; Monteiro et al. 2022, 2745.)

Monteiro et al (2022) suggest that organizations offer plans and implementation of the project publicly through a website, so that data can be tracked, allowing the stakeholders to monitor the projects (Monteiro et al. 2022, 2747). Also, anonymous channels to report unethical activity would reduce individuals' risks and help to recognize corruption and bribery. As well as educating contractors about unethical practices and involving third parties could reduce the risk of corruption. (Brown et al. 2015, 384.) Brown et al. (2015, 385) believe that a coordinated approach is needed. They stress the importance of a robust regulatory framework written in plain language to facilitate interpretation, control, inspection, and effective enforcement, as well as sanctions, improved data analytics to identify incidents, improved physical security, independent audits as a risk of corruption, and audit processes. On top of this Brown et al. (2015) underscore the importance of developing and deploying better internal control, record management and whistle-blower processes. (Brown et al. 2015, 385.)

## 3.2 Accountability in the construction industry

### 3.2.1 Corporate Social Responsibility

The Corporate Responsibility Reporting (CSR) report is usually published on the organization's website, and it can also be submitted to various stakeholders. CSR refers to integrating an organization's sustainability performance into business practices. (Herzig and Kühn, 2017, 187.) CSR has been increasing in recent years (Nguyen et al. 2024, 66) and this can also be due to the new European Union's Sustainable Development Reporting Directive (CSRD), which made corporate responsibility reporting mandatory from the beginning of 2024. The CSRD requires all large businesses and listed corporations to reveal information about the risks and opportunities posed by ESG challenges and the impact of their activities on the environment and people (European Commission 2023).

The CSR implementation (CSRI) describes an organization's ongoing commitment to sustainability by taking care of various stakeholders, such as the local community, employees, and business partners, and by minimizing environmental impacts. The core idea of CSR is that organizations see themselves as part of a larger social system and not just as a company that makes a profit. (Nguyen et al. 2024, 66-67; Jensen 2001, 8-9.) CSRI can potentially bring several benefits to an organization's activities in the construction industry (Zhang et al. 2019, 565).

De Jong, et al. (2020) underscores that studies show that CSR initiatives by companies can have a positive impact on a business's reputation, purchase intentions, and consumer loyalty (De Jong, et al. 2020, 1; Du et al. 2010, 11). Also highlighting the importance of strong CSR as a buffer in times of crisis (Choi et al. 2013, 230). Although the potential benefits of CSRI are widely recognized, the utilization of CSRI is quite limited in the building sector (Zhang et al. 2019, 576). There are numerous reasons, such as lack of CSR support and knowledge, lack of assessment of the advances and clarity of stakeholder power and role, as well as disagreements among stakeholders. The main barriers to the adoption of measurement frameworks, tools and CSR are processes for assessing CSR. (Ayokunle et al. 2020, 92; Zhang et al. 2019, 576.)

Also, adapting to a more responsible business model and responding to challenges may require significant investments, at financial, personnel, and organizational level. As a result, not all companies may be able to adapt to new, more responsible practices on a quick basis. Instead, companies can focus on specific CSR topics that match their own priorities and capabilities, but they should stay transparent about their actions. (Nguyen et al. 2024, 1.)

### 3.2.2 Standards and regulations

EU Taxonomy for sustainable activities is mandatory and it is the first comprehensive science-based classification approach constructed to support to recognise whether an economic action is sustainable (Schütze et al. 2021, 128-129). The six defined objectives for EU taxonomy are (1) climate change mitigation; (2) climate change adaptation; (3) the sustainable use of water marine resources; (4) the transition towards a circular economy; (5) pollution prevention and control; and (6) the protection biodiversity and ecosystems. According to the criteria's set out in the EU taxonomy an economic activity is considered green if its sustainable and contributes at least one of these environmental objectives while doing no harm to any of the other defined objectives. (European Union, 2024.) It aims to prevent greenwashing and for instance make taxonomy obligatory for large companies in the EU. This should facilitate investment in low-carbon technologies and promote the EU's transition towards climate neutrality by 2050. (Schütze et al. 2021, 128-129.)

There are compulsory standards in Finland, EU and globally. The purpose of International Accountability Standards (IAS) is to support and help corporate accountability and provide MNCs with ways to systematically assess and measure their social and environmental aspects as well as communicate about their performance. These standards are formed to help companies to adapt to the shared rules and know what they can and cannot do. (Gilbert et al. 2011, 23.) There are different standards, for different use; Principle-based standards set broadly defined guidelines to guide the behaviour of firms in relation to social and environmental issues. These standards provide general values and guidelines that companies can use in their CSR activities. (Gilbert et al. 2011, 23).

Certification standards focus on verifying compliance, and they are implemented through certification procedures by third parties. Companies that pass the audit receive the certification mark, which help stakeholders to trust that the sustainable claim is genuine. (Gilbert et al. 2011, 27.) Reporting standards provide indicators and guidelines that enable organizations to regulate non-financial reporting practices and inform their CSR impacts to other stakeholders. However, these reports are rarely verified by third parties. (Rasche 2010, 504; Gilbert et al. 2011, 28.) Process standards provide guidance on how to manage processes to be more sustainable (Gilbert et al. 2011, 29; Leipziger 2010, 41). They provide process standards and offer methods for organizations to improve their CSR (Gilbert et al. 2011, 29).

Table 2 demonstrates a few of the various standard types that are commonly used in Finnish construction industry. The concept of this figure is to demonstrate the difference between these different standard types as well as demonstrate regulations used in Finland.

Table 2 Different standard types

Standard type	Standard	Definition
Principle-based Standard	UN Global Compact	Guidelines for MNCs. Addressed by governments to MNCs, and they are recommendations that guide MNCs on how to manage responsible business (OECD 2023).
Certification standards	CE marking	CE marking is mandatory for different construction products, ensuring they meet the health, safety, and environmental protection standards (European Commission 2024).
Certification standards	LEED	LEED is the most used global green building valuation system in more than 165 countries and 92,000 projects. It can be used for all types of buildings and focuses especially on the quality and comfort of the buildings. The focus is especially on their healthiness for people and the environment. The goal of LEED is to build buildings that save energy, water, materials and reduce the amount of waste, as well as lower maintenance costs. In the classification, the buildings are rated in four different categories: Certified, Silver, Gold and Platinum. The advantage is especially the system's common set of criteria and international comparability. (USGBC 2024, Lima et al. 2020, 10; Kubba 2012, 493.)
Certification standards	BREEAM	BREEAM is a certification for sustainable building. It is one of the most used systems in Europe and it takes in consideration all the ESG challenges. BREEAM has five categories: management, resources and energy, land use and ecology, transport and movement and innovations. These are scored and based on that, a certificate can be issued with the grades passed, Pass, Good, Very Good, Excellent and Outstanding. (BREEAM 2024; Lima et al. 2020, 10; Kubba 2012, 78.)
Certification standards	RTS Environmental Classification	The RTS-Environmental classification has been developed especially for Finland and it considers Finland's weather conditions, legislation and different real estate. It is suitable for new construction and renovation projects. It also takes international requirements into account. (Rakennustietosäätiö 2024.)
Reporting standards	GRI	GRI is currently the global standard for reporting ESG challenges. It helps companies to report on their impacts and activities for different stakeholders. The GRI framework is applied in around 74% of standalone CSR reports. (GRI 2022; Gilbert et al. 2011, 28.)
Process Standards	RT Cards	The RT card contains key instructions for the construction industry, the laws and regulations governing the industry, general quality and technical requirements and product information. The information content is intended especially for construction. (Rakennustieto, 2024.)

### 3.3 Sustainable supply chain

In construction projects, the implementation of the project requires input from multiple stakeholders in a complex supply chain, where each stage of the chain also affects the corporate responsibility (Norouz et al. 2021, 2). Supply chain has three main flows, which are demonstrated in Figure 5. In the Figure 5 the ovals represent the physical nodes of the supply chain. Red lines are product flows and blue lines demonstrate the information flows and and/ or finance between physical nodes. (Carter et al. 2015 92.)

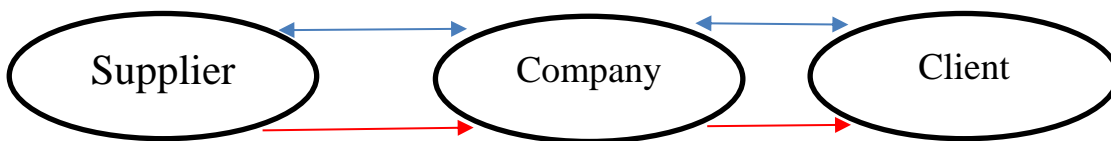


Figure 5 Supply chain, adapted from (Carter et al. 2015, 92)

Sustainable Supply Chain Management (SSCM) refers to the planned, clear integration and accomplishment of a business's ESG objectives in the systematic management of main corporate operations to improve the longstanding financial actions of an individual firm and its supply chains (Carter et al. 2008, 368). There are two common approaches for managing and engaging suppliers in sustainability, which are collaboration and then assessment and monitoring (Salmi et al. 2023, 16). The collaboration includes for example supplier training and development (Cousins et al. 2004, 560) increasing knowledge and expertise (Rao et al. 2005, 902) shared solution of sustainable development problems or shared development of innovative solutions (Grimm et al. 2014, 166). These are collaborative efforts that aim to develop sustainable development (Klassen et al. 2003, 349). Evaluation a supplier's performance, is about trusting on supplier certification to reduce the need for audits, site visits, occasional audits, recognition of contractor accomplishments, and providing feedback (Klassen et al. 2003, 349; Grimm et al. 2014, 160). As well as environmental management systems and two-way vendor assessment (Cousins et al. 2004, 560) and penalty clauses or rewards and incentives (Rao et al. 2005, 902).

## **4 Analysing how Finnish MNCs in the construction industry can avoid greenwashing**

### **4.1 Increasing third-party verifications and certifications**

As stated earlier scepticism towards organizations' CSR increases if consumers perceive claims as egoistical or if motives are clearly stakeholder-induced. However, value-based attributes reduce scepticism as consumers value organizations that contribute to society, not just profit to shareholders. (Rahman et al. 2015, 1059) By introducing third parties' verification, organizations can reduce scepticism and improve the sustainable supply chain management. As chapter three covered there are various challenges Finnish MNCs in the construction industry faces.

Chapter three highlighted how mandatory regulations, and compulsory standards provide a framework that can assist in achieving sustainable development and avoid greenwashing. The purpose is to help companies to systematically assess and measure their social and environmental aspects as well as communicate about their performance. These standards are designed to help companies adapt to the shared rules and know what they can and cannot do. (Gilbert et al. 2011, 23.)

Certification standards such as CE marking, LEED, BREEAM and RTS focus on verified compliance, and they are managed through certification procedures by third parties (Gilbert et al. 2011, 27). These third parties' verification can help to avoid scepticism among consumers and increase the genuine sustainability, as well as help to assess and monitor the complex supply chain (Salmi et al. 2023, 16). As Salma et al. (2023) stated one of the common approaches for managing and engaging suppliers in sustainability is assessment and monitoring (Salmi et al. 2023, 16).

In Finland, there is a stricter policy for standards and regulations than in many host countries (Block et al. 2024, 18). If Finnish MNCs adopt third party verifications to host countries they operate in, they can better ensure that the supply chain is sustainable and avoid greenwashing. Also, Brown et al. (2015, 384) stated that by increasing third-party verification MNCs can reduce the risk of corruption (Brown et al. 2015, 384), which is one of the main governance issue construction industry faces (Monteiro et al. 2022, 2745).

## 4.2 Adding transparency in both achievements and challenges

As Jong et al. (2018) stated organizations that proactively communicate about their sustainable actions seem to create a more positive reputation than companies that stay silent or completely ignore environmental concerns (De Jong et al. 2018, 99). As Delmas et al. (2011) theory demonstrated there is a fine line between greenwashing and staying quiet. If a Finnish MNC wants to avoid greenwashing, it is better to be transparent about the challenges, rather than just quiet and mislead stakeholders. As Delmas (2011, 67) theory demonstrated even though a company has been sustainable, a change in a supply chain without proper communication may mislead stakeholders and in other words be guilty of greenwashing. (Netto et al 2020, 10.)

Adapting to a more responsible business model and responding to challenges may require significant investments, at financial, personnel, and organizational level. As a result, not all Finnish MNCs may be able to adapt to new, more responsible practices on a quick basis. Instead, they can focus on specific CSR topics that match their own priorities and capabilities, and with time adapt to the more responsible practises, but at the same time stay transparent about their actions including the achievements and challenges the business faces. (Nguyen et al. 2024, 1.) To be more transparent organizations can offer plans and implementation of the project publicly through a website, so that data can be tracked, allowing the stakeholders to monitor the projects (Monteiro et al. 2022, 2747).

It is clear that communication about the accomplishments is straightforward. However, communication about challenges may be difficult for many companies. The Swedish MNC Skanska provides a good example of transparency in sustainable challenges a company faces. For Skanska concrete is their primary material in building, but at the same time, they recognize that concretes manufacturing leaves a huge carbon footprint. They do not disregard the challenges but face it and communicate how they are trying to find a solution to this issue, by recycled concrete and other new methods, (Skanska, 2023). Even though they do not have any answers, yet they are transparent and willing to develop.

## 4.3 Regularly engage stakeholders in sustainability dialogues

Engaging with stakeholders contains a lot of same elements as transparency. However, the biggest difference between these two is, that transparency comes from the company. Engaging with stakeholders in other hand is about listening to the needs of different stakeholders, such as employees, stakeholders, clients, or the local communities (Valdes-Vasquez et al. 2013, 80; Fatourehchi et al. 2020, 4).

As stated earlier there are several ESG challenges in the construction industry, some of the challenges are caused by actions of subsidiaries, suppliers and individuals (Hussain 2023, 1; Norouz et al. 2021, 2). To mitigate the risk of greenwashing, Finnish MNCs should regularly engage with stakeholders, not only rely on verifications.

Like Monteiro et al. (2022) suggest companies could provide anonymous channels to report unethical activity which could reduce individuals' risks and help to recognize corruption and bribery (Monteiro et al. 2022, 2747; Brown et al. 2015, 384). To ensure suppliers continues engagement in sustainable actions Finnish MNCs can regularly do collaborations, assessments, and monitoring (Salmi et al. 2023, 16).

Also engaging suppliers in sustainability (Salmi et al. 2023, 16), for example by supplier training and development (Cousins et al. 2004, 560) increasing knowledge and expertise (Rao et al. 2005, 902) offering shared solution of ESG challenges or shared development of new solutions (Grimm et al. 2014, 166), can all increase transparency and reduce the risk of greenwashing.

Figure 6 summarizes these three keyways Finnish MNCs in the construction industry can avoid the risk of greenwashing. Although Finnish regulations are not mandatory when MNCs operate outside Finland, by adapting these strict regulations and third-party verifications also to host countries MNCs can ensure that their actions are truly sustainable. Additionally, Finnish MNCs can reduce the risk of greenwashing by continuously listening and engaging with stakeholders and demanding transparency from partners suppliers to ensure that the claims of different suppliers are genuine and accountable. Transparency in both challenges and achievements ensure that the Finnish MNCs want to improve their sustainable performance.

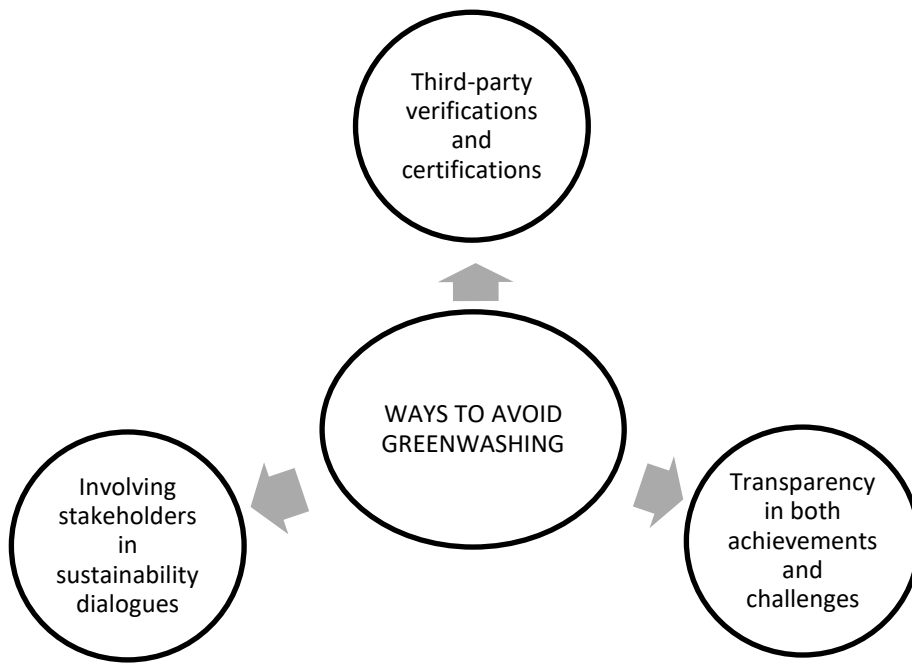


Figure 6 Ways to avoid greenwashing

6

## 5 Conclusions

The aim of this thesis is to study how Finnish MNCs in the construction industry can avoid greenwashing. In this thesis the forms and consequences of greenwashing have been identified and how Finnish MNCs in the construction industry recognize the different environmental, social and governance challenges.

Greenwashing can be defined as retaining the disclosure of negative information related to the corporation's corporate social responsibility and exposing positive information regarding its sustainable practices. These two-folded behaviours can be called selective disclosure.

Greenwashing activities can have negative spillover and have a negative effect on the whole brand image. It can lead to weaker brand attitudes, increase serious profit losses, reduced investment and lead to brand avoidance. Greenwashing can increase consumer scepticism, and in the construction industry, where the ESG challenges are high, greenwashing does not only damages MNCs' reputations but also undermines genuine efforts toward sustainable development.

To avoid greenwashing, Finnish MNCs should commit to transparency in both sustainable achievements as well as challenges. Transparency can increase the stakeholder engagement, genuine sustainable development and help to avoid greenwashing. Finnish MNCs that are committed to transparency and authenticity in their sustainability practices can build stakeholder confidence and build positive and sustainable brand reputations. This trust strengthens relationships with stakeholders who place increasing emphasis on sustainability in decision-making. In addition, by implementing truly sustainable practices, companies have the potential to shape and elevate industry standards, contributing to a more ethical and environmentally responsible construction sector. To ensure this Finnish MNCs can use third-party certifications that provide a clear benchmark and credibility that is often lacking in purely internal claims. By following these certifications, companies can adapt their practices to meet certified environmental targets. Lastly, by continuously listening and engaging with stakeholders Finnish MNCs can develop their sustainable actions and reduce the risk greenwashing.

To achieve more particular findings the future research could focus on the impact of tightening regulations on greenwashing in the construction sector and examine how changes in policy can affect corporate behaviour and transparency. In addition, the impacts of sustainability reporting from the point of view of stakeholders also need further research.

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