ARE CORPORATE SPIN-OFFS GREEN WASHING IN DISGUISE?

Abstract

Green washing has become the trend in today's corporate culture and is here to stay. The term 'Greenwash' a portmanteau word of 'green' and 'whitewash' was used to indicate, the exaggeration of green attributes in any product. Green washing occurs when corporates introduce front groups into the market, to appear environmentally more accountable than they actually are. Front groups are institutions that appear to be independent but are secretly funded and run by another entity or institution. Corporate starburst or spinoff occurs when a corporate entity, decides to establish one of its industrial units, branches, sectors or subsidiaries into a separate entity that can act independently. Spinoffs happen based on the decision of the management of the enterprise. There are no ownership spin offs and Partial ownership spin offs prevalent in most organisations. Spinoffs are usually regarded as profitable; yet, investors need to analyse the motive behind the spinoff before investing in spinoff companies.

Keywords: Green washing, corporate spinoff, Environment, Front groups, Sustainability.

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Green washing is providing misleading information on the product exaggerating the environmental attributes of the product. It is usually done with the help of stickers, labels, slogans and visual graphics claiming to conserve the environment (Chen and Chang, 2012)[1]. Important information is either omitted or concealed in the product packaging and trivial aspects are highlighted in order to market the product as natural and environmentally safe. Over the years one can witness the increase in public awareness on the need for green products, the shared responsibility to conserve the earth's resources and safeguard its sustainable attributes. No consensus has been arrived at, on what exactly, is a green product or service, yet, based on varied definitions of green marketing, a product's attributes are considered to be green when: 1) It is energy optimising, 2) It keeps resources like water sustainable, 3) Cuts down on hazardous emissions, 4) Environmentally sound and offers value, 5) Durable and recyclable 6) Locally obtained, 7) Biodegradable and certified as environment friendly.

I. EVOLUTION OF GREEN WASHING

'The well-known green washing campaign in history, the "People Do" campaign launched by Chevron in 1985 portrayed that its employees were striving to protect wildlife. On the other hand, most of the promoted programs were mandatory as per law and less expensive in comparison to the costs of popularising the campaign. Followed by the Chevron campaign, the term 'green wash' was coined by Jay Westerveld an environmentalist of American origin, coined the term 'green washing' after he discovered that, though an island resort led a campaign to save the environment by reusing towels, it was purely to draw away the attention of the people from its efforts to penetrate into coral reef habitats that were fragile in nature. Though the world was made to believe that the main motive of the campaign was to conserve the environment, the core business of the resort was aiming at destroying the environment. 58% of ads related to the environment contained at least one deceiving claim (Journal of Public Policy and Marketing, 1991). In 1998, the Federal Trade Commission (FTC) issued green guides, defining the terms to be employed while marketing environment conserving products and services. Being both end users and employees we do not wish to be deceived, neither do we wish to be guilty of deceiving others. Green washing is not a new concept anymore, users are well aware of the fact that green washing has become inevitable in the corporate world. Users have become more and more sceptical about truly eco-friendly products also with the rising confusion on what actually is a green product.

II. FORMS OF GREEN WASHING

Rebranding is one of the common forms of green washing. Using green labels to help users identify an item as green is a recurring tactic employed by companies using green washing strategies to promote products. For example, Coca- Cola used the term Coca- Cola Life still containing more than 6% sugar in the drink, which is ridiculously irrelevant to the term 'life', used on the label. Front groups are widely funded by powerful corporations and lobbyists to pretend to represent farmers and other users. For example, an entity set up a beauty group as front organisation. These groups influence and put pressure on beauticians to buy their products. The people who interacted in the beauty group did not realise they were trying to buy the cosmetic products of a company through the beauty group. These groups in turn provide benefits to a third party, which may be an industrial unit, company or political party. Spinoffs are more prevalent in public companies when compared to that of private companies. A well - planned announcement of spinoff will create value for both the parent company and the spin off unit. The timing, organisation and announcement of spinoffs can be challenging.

Spinoffs are a form of divestiture. The spinoff entity's shares are allotted to the existing shareholders, as per their holdings in the parent company (on pro-rata basis). The spun off company is listed separately under the stock exchange for trading purposes. When food conglomerates are looked into, one can find varied industrial units like cereals, dairy, beverages, packed ramen and health mix, which fall under the umbrella of 'food' but there is a good chance that a few sectors/units outperform others and would function better as independent entities. This is the reason that spinoffs were brought up by corporates. It also enables the parent company to operate with an increased emphasis on core activities, whereas the spinoff company has its own management and specialisation in distinct areas.

1. Common Spinoffs:

S. No.	Parent Company	➡ Spun off into ➡	Subsidiary
1	Hewlett-Packard Co.	➡ 1999 ➡	Agilent technologies Inc.
2	Expedia	➡ 2011 ➡	Trip Advisor
3	Kraft Foods Inc.	➡ 2012 ➡	Kraft Foods Group Inc.
4	Hewlett-Packard Co.	➡ 11/2/2015 ➡	Enterprise Unit (HPE)
5	eBay	➡ 20/7/2015 ➡	PayPal
6	Fiat (FCAU)	➡ 1/4/2016 ➡	Ferrari 90% stake (RACE)
	YUM Brands (YUM)	➡ 31/10/2016 ➡	Yum China (YUMC)
7	Honeywell (HON)	➡ 10/1/2018 ➡	Garrett Technologies (GTX)
8	Dell (DELL)	➡ 11/1/2021 ➡	Spinoff Stake in VMWare
9	IBM	➡ 11/4/2021 ➡	Kyndryl (KD) managed infrastructure services
10	GlaxoSmithKline (GSK)	➡ 7/1/2022 ➡	Partial spinoff Haleon consumer health unit (HLN)
11	Kellogg (K)	➡ 10/2/2023 ➡	WK Kellogg North American cereal unit and plant based food unit
12	General Electric (GE)	➡ 1/3/2023 ➡	GE Healthcare (GEHC)
13	Norvatis (NVS)	➡ 10/4/2023 ➡	Sandoz Generics unit

*Source: thezenofinvesting.com/spinoffs

Spinoffs are carried out with varied motives by an organisation based on the decisions of the management to segment the existing business. There is value and income generated as a result of spinoff that is why they are regarded to be profitable, to both the parent organisation and the subsidiary. For example Kellogg identified good growth in its plant based cereal sector when compared to its sugary cereals. Though a diversified business enterprise implies diversified risk, a fast growing sector under the same conglomerate need not be held back as a result of a few slow paced performing units. This is a good reason for any existing firm to spinoff. A split off on the other hand is the opposite of spinoff. A split off is looked upon as a 'stick or split' option for the stakeholders, they have to decide which of the company's shares they want. Corporate spinoffs are quite common in the current business arena; everyday organisations make choices that fit their organisation culture and profit motives. It is an undeniable fact that business enterprises find spinoffs beneficial as they are known to create value and offer abnormal returns. A spin-off improves the number of securities traded in the stock

market; the pricing system will acquire a significant level of transparency render more valuable information about the market conditions. As a result, the information asymmetry between the management of the organisation and investors who are uninformed of the spinoff decreases. An informative pricing system enhances the standard of decisions made on investments by stakeholders. This in turn, will create value to both the parent entity and the subsidiary once the spin-off takes place (Habib, Johnsen and Naik, 1997)[2]. Spinoffs aid in mitigating opposing synergies and bring forth pure potential and value by divesting the assets and business lines that are irrelevant to the core business of the company. A spinoff enables the company to divest and narrow down its portfolio thereby creating value for the business and it enhances the enterprise's performance holistically. There is also a possibility of reduction in information asymmetries with the help of spinoff companies (Bergh et al., 2008)[3].

Since 1980s, spin-offs have been a key line of inquiry in corporate finance. A spin-off is the ideal way to transfer control of a few units to acquiring companies as bidders are at times only interested in a part of the company and do not have to take over the entire organisation. Bidders can directly negotiate with the shareholders of the spun-off company instead the parent company's management.

2. Upcoming Spinoffs:

S. No.	Parent Company	Year	Spinoffs
1	Aramark	30/9/2023	Vestis Uniform services business
2	Danaher (DHR)	30/9/2023	Veralto Environmental and applied solutions unit
3	3M (MMM)	2023	Partial spinoff of healthcare unit
4	Citrus Pharmaceuticals(CTXR)	2023	Oncology unit
5	Vista Outdoor (VSTO)	2023	Outdoor products business
6	Total Energies (TTE)	2023	Canadian oil sands unit
7	General Electric (GE)	2024	GE Aerospace and GE Vernova power businesses
8	Worthington Industries	2024	Steel processing unit
9	TC Energy (TRP)	2024	Liquid pipelines business
10	Jacobs Solutions (J)	2024	Critical mission solutions business

*Source: thezenofinvesting.com/spinoffs

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Industrial units should be integrated if the expense of transacting within the organisation is lower than that of using an external market. The benefits include: vertical integration; economies of scale; information sharing; financial synergies and tax benefits (Coase, 1937)[4]. If one entity can use another entity's operating loss, capital loss, tax credits and carry-forwards better than another entity to offset its profits that are taxable, the present value of these profits is improved by merging the two entities. If the expenses involved in the integration of such firms are more than the profits derived then large firms must divest their units. Spin-offs can improve the focus of the parent company on its core activities. Divesting assets unrelated to the core business of the company improves stakeholder's value (Comment and Jarrell, 1995)[5].

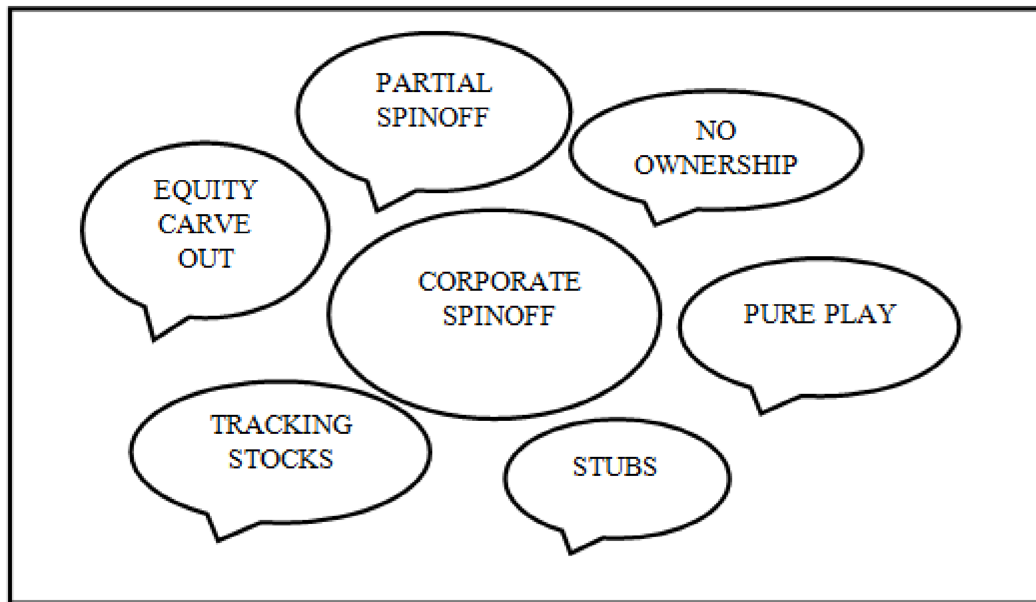

Figure 1: Forms of Corporate Spinoff for Green Washing

Based on previous studies it is identified that stock returns up to three years after the spin-off occurs denotes positive abnormal returns for both the spun-off entities and the parent entity. Both the parent and subsidiary become "pure plays" in the market, making it cost effective for bidders to claim the desired part of the original institution (Cusatis, Miles and Woolridge 1993)[6]. In spin-offs no cash changes hands whereas in these restructurings cash is involved. The major alternatives for spin-offs are equity carve-outs and sell-offs or asset sales. In these restructurings, (part of) the subsidiary is sold to interested parties, so cash changes hands; an asset sale is the sale of a subsidiary. This type of restructuring is good if the parent company has good cash-inflow and is not concerned about competitors benefiting by taking over the subsidiary. An equity carve-out is the Initial Public Offering (IPO) of a subsidiary. Like spin-offs, the subsidiary's stock is traded separately from the stock of the parent company once the equity carve-out is over. It is a means for the parent company to raise funds using the subsidiary. The Initial Public Offering (IPO) of the subsidiary is a good way to raise capital for the organisation. The supervision expenses are high when the production environment of the companies is very noisy. After spin-off the new company is allowed to implement its own corporate culture (Demsetz and Lehn, 1985)[7].

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A spinoff is different from a sale divestiture as it leads to the formation of an independent entity that can cause reduction in the asset base of the divested company. The shares of the divested company may be transferred to the divested company's shareholders (Hite & Owers, 1983)[9]. When the spinoff gets listed on the capital market and the shares of the divested business are distributed to the shareholders of the parent business, they have a choice to either hold a share of both companies after restructuring or sell off the shares in the divested company (Puranam & Vanneste, 2016)[9]. Spin-offs enhance the performance of the parent company's shares and offers an arena for the expansion of securities traded in the market. Stakeholders consider the decline in information asymmetry post separation from the parent company (Krishnaswami & Subramaniam, 1999)[10].

Focus increasing spin-offs exhibit abnormal returns in the long-run than non-focus-increasing spin-offs. In a study conducted on 106 spin-offs, it was identified that diversified organisations allocate funds for investment inefficiently causing spinoffs to create value by upgrading on investments effectively (Ahn, S., & Denis, D. J., 2004)[11].

Green washing includes absence of data to back claims put up by organisations. A communication strategy that is data-driven with focused marketing messages has to be framed in order to avoid confusion among green product users. There are companies trying to reach more consumers than their competitors by making more noise on trivial aspects which they highlight as green and organic. They spend more money on marketing such activities than on actually making a change in the environment. This act of organisations is termed as "green wash noise" and is widely prevalent in the competitive business world.

Regardless of what every organisation presents to the users, businesses that are unsustainable are at the risk of failure at some point of time. These businesses are open to financial risks that sustainable business models aim to mitigate. Neglecting the environmental impact caused as a result of an organisation's business operations, could lead to paying huge amounts of regulatory fines which also affects the reputation of the company's brand. In response to industry shocks and the ever evolving business environment there is downsizing of huge business concerns. Divesture mode of restructuring creates wealth for stakeholders (Mulherin & Boone, 2000)[12]. Spin-offs are considered to produce a positive impact on both the parent and the spin-off entity. The main motive of divestiture is to upgrade managerial performance and increase the economic value of the firm attaining a competitive position in the capital market. The spinoff of a unit offers both financial and strategic advantages to companies. (Chemmanur & Yan, 2004)[13].

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Seven Sins of Green washing	Hidden Trade-off	No Proof	Vagueness	Irrelevance	Lesser of two evils	Fibbing	False Labels
What is it?	Concealing environmentally hazardous factors using claims like made with recycled material	Lack of proper evidence to support claims made by the organisation	A generalised declaration of the ingredients eg: "all natural"	The product claims to be free from something that is already banned. Eg: CFC Free	Marketing of products like cigarettes, liquor which are by themselves harmful as 'green'	Outright untrue claims made to advertise a product/service	Using fake standards and certifications on product labels
Detection	Browse further on the other activities of the organisation	Check the label on the product for product description and specifications. Look for website information on Corporate Social Responsibility (CSR) policies and Third party Certification	Slogans - look for evidence in terms used "Sustainable", eco-friendly, natural, non-toxic, organic and cruelty free.	Trees, butterflies and pictures of farmers with tractors	Consider the nature of the product in itself before falling for green claims	Analyse the truth in the claims though they seem to b'e the correct words used.	Using earth colours like blue, green and brown
Real life examples	Ikea sold wood that suppliers illegally sourced from Russia.	Nestle committed to be plastic free by 2025, but in 2020, it was found to be one of the top polluters in the world.	FIFA claimed to be carbon neutral in 2022, the term 'carbon neutral' is by itself vague.	McDonald's switched from plastic straws that were recyclable to paper straws that were non-recyclable.	Trost Rollen cigarettes are hemp based.	Volkswagen had a software in diesel engines to change their performance results.	H&M uses a metric called the Higg Sustainability Profile, overstating the environmental soundness of its products.

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