THE WALLS HAVE EARS:
THE IMPACT OF SELECTIVE DISCLOSURE ON EMPLOYEE EVALUATIONS

Firms often communicate misleading information regarding their true environmental performance – a phenomenon more commonly known as greenwashing. At the firm level, companies often engage in selective disclosure where they project "positive information about a company's environmental or social performance, without full disclosure of negative information on these dimensions, so as to create an overly positive corporate image" (Lyon & Maxwell, 2011, p.5) [1]. This kind of disclosure is often voluntary, incomplete and a self-serving public relations exercise that emphasizes on appearance rather than on change in actual firm behaviour (Kurruppu & Milne, 2010).

In the now burgeoning academic literature, the theoretical underpinning of greenwashing is commonly articulated as an act of unethical decoupling where there is glaring discrepancy between what companies communicate about their performance and actual performance in the environmental domain. Such an institutional explanation is predicated on claims of social legitimacy and a bid to maintain a false image of desirable corporate citizenship by engaging in symbolic actions in response to pressures emanating from outside firm boundaries (Bromley & Powell, 2012).

However, a firm's choice to greenwash is not without risks. Although, by selectively disclosing information regarding their true environmental performance, financially well-performing firms seek to fly under the radar of external groups demanding complete disclosures (Marquis, Toffel & Zhou, 2016; Fabrizio & Kim, 2019), the complete avoidance of backlash is not always guaranteed. The negative impact of green advertising and misleading communication on consumers, suppliers, investors and the market in general is already well-documented in literature (Du, 2014; Marquis et al., 2016; Nyilasy, Gangadharbatla & Paladino, 2014; Pizzetti, Gatti & Seele, 2019). However, this evidence remains scant as such unethical behaviours are not often discovered and publicized. Not surprisingly, even less is known about how selective disclosure may affect a firm's internal members, i.e., employees, who potentially have more information regarding firms' actions (Lyon & Montgomery, 2015). Given that employees work within firm boundaries and, therefore, are more likely to possess additional information regarding their firms' inner workings, the nature of their reactions towards their firms' unethical behaviour are likely to differ from those of external stakeholders.

Subsequently, this paper examines the following research question – under what conditions does a firm's attempt at greenwashing, in the form of selective disclosure, impact its employees' evaluations? We posit that employees are more likely to evaluate their employing firms negatively when these firms engage in selective disclosure. Given that firms devote considerable effort in creating and fostering alignment among organizational members, not

[1] The reference list is omitted in this document aiming to attend space limitations. Full reference list can be found in the manuscript file.

only with respect to general company culture but also through CSR and pro-environmental programs, it is highly likely that employees feel a greater sense of dis-identification when their employing firms engage in potentially unethical behaviours. Furthermore, misconduct of this kind leads to incongruence in values held by employees of their organizations that can translate into employees withholding support for the organization (Fehr, Fulmer & Keng-Highberger, 2019).

Furthermore, we theorize that this effect will be stronger when the firms engaging in selective disclosure receive negative media coverage drawing the attention of employees to this act of greenwashing. The agenda-setting power of media when highlighting unethical behaviour draws stakeholder attention and enables them to take appropriate action (Barnett, 2014; Carberry, Engelen & Essen, 2018; Tang & Tang, 2016). When groups external to the organization take cognizance of firms' unethical environmental actions based on increased magnitude of negative firm coverage, all employees are bound to take notice of their firm's unethical behaviour, in this case, selective disclosure, which will become salient in the presence of added attention.

To test the proposed hypotheses, we have gathered data on US companies listed on the S&P 1500 index from 2014-2018. The dependent variable in this study is an employee-level measure*, employee overall rating*, which represents employee evaluation of his/her employer on all aspects of the organization such as work/life balance, senior management, company values and culture, compensation and benefits and career opportunities, giving insight into how employees gauge their companies' various attributes. The data for this variable is obtained from the Glassdoor website which is one of the world's largest job listing and recruiting websites. The main independent variable of our study is *selective disclosure magnitude*, which represents the extent to which companies emphasize a misleading image of positive environmental performance by emphasizing positive performance on benign environmental metrics while downplaying performance information on more harmful indicators. This variable was constructed using data provided by the data analytics company Trucost and is in line with the formulation suggested by Marquis et al. (2016).

We run econometric models to test our hypotheses and find evidence for both the hypotheses presented in this paper. Although the analyses shown in this paper are very preliminary in nature, they point to important implications for the study of firm unethical behaviour and its impact on internal stakeholders.