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The Costs of the Green Transition for SMEs: An Empirical Law & Economics Analysis of Greenwashing and Sustainability Certifications in Piedmont

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Introduction. The European Union has recently intensified its regulatory efforts to combat misleading environmental communication and strengthen consumers' role in the green transition. Directive (EU) 2024/825, to be transposed by Member States by 27 March 2026, explicitly prohibits greenwashing by classifying it as an unfair commercial practice. Among other things, the Directive bans generic and unverifiable environmental claims, such as “eco-friendly” or “green”, and the use of sustainability labels not based on a certification scheme or established by public authorities. The legislative goal is to ensure that companies rely on clear, measurable, and independently verified criteria when communicating environmental performance, thus enabling consumers to make informed and reliable choices.

While this framework applies across the European Union, its implications are particularly critical for small and medium-sized enterprises (SMEs). SMEs are the backbone of the European economy, yet they often face structural and organisational limitations, including scarce financial resources and limited access to specialised expertise. In this context, the regulatory tightening of environmental claims creates a compliance challenge that is both economic and organisational. Failure to comply exposes firms not only to administrative sanctions and legal actions but also to reputational damage and competitive disadvantages. At the same time, investments in compliance and certification may impose disproportionate costs on smaller firms relative to their size and turnover.

This paper presents the results of an ongoing research project, *Un sostegno per le piccole e medie imprese davanti alle trappole del greenwashing* (Supporting Small and Medium-Sized Enterprises Facing the Pitfalls of Greenwashing)¹, which investigates the challenges SMEs in the Piedmont region of Italy face in implementing the requirements of the new Directive. The project has a dual objective. First, to provide an empirical assessment of the barriers that SMEs encounter when adopting sustainable communication practices. Second, to develop practical tools and operational guidelines to facilitate

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compliance, thus reducing the risk of sanctions and enabling SMEs to compete in increasingly sustainability-oriented markets.

Methodology. The study combines legal analysis with empirical research. On the legal side, we reviewed Italian case law on greenwashing by systematically examining decisions of the Italian Competition Authority (AGCM) and the Advertising Standards Authority (IAP). This analysis allowed us to identify the most frequent patterns of misleading environmental communication. On the empirical side, we utilised the AIDA (Analisi informatizzata delle aziende italiane) database to map SMEs operating in the Piedmont region, selecting firms based on size and capital thresholds (number of employees and turnover). By cross-referencing the production sectors most active in the region with those most frequently targeted in greenwashing cases, we identified the agri-food and textile sectors as priorities for our investigation.

Findings from case law. Our review reveals recurring errors by companies, including: (i) the use of absolute and unverifiable claims; (ii) vagueness and excessive generality; (iii) presentation of partial benefits as total; (iv) attribution of technical features not corresponding to reality; (v) ambiguity between emission reduction and compensation; and (vi) lack of scientific evidence. While some of these practices reflect deliberate opportunism, many result from limited internal capacities and insufficient knowledge of applicable standards. This duality underscores the importance of distinguishing between intentional misconduct and structural weaknesses that inadvertently lead to non-compliance.

Practical Implications. From a law-and-economics perspective, greenwashing generates negative externalities, undermining consumer trust and imposing reputational harm on compliant firms. Stronger regulation aims to internalise these externalities by increasing the costs of opportunistic behaviour. However, SMEs face high compliance costs relative to larger firms, including expenses for third-party certification and the need to acquire or outsource legal and environmental expertise. Certification schemes, while crucial for credibility, often involve substantial costs that weigh heavily on SMEs with limited turnover. Thus, the regulatory burden may risk reinforcing competitive asymmetries between large corporations and smaller businesses, potentially leading to market concentration.

Organisational challenges. In addition to direct costs, SMEs often lack adequately trained staff to handle regulatory compliance. The absence of internal expertise heightens the risk of unintentional misstatements and reduces the firms' ability to effectively communicate sustainability efforts. These organisational weaknesses highlight the need for external support structures, such as sector-specific guidelines, training, and advisory services tailored to SMEs' capacities.

Operational guidelines. To address these challenges, our research has been developing a set of practical tools for SMEs. These guidelines aim to translate the complex legal provisions of Directive (EU) 2024/825 into actionable steps for businesses, particularly in the agri-food and textile sectors. They are designed as user-friendly instruments to help firms verify the accuracy of their claims, choose credible labels, and avoid high-risk formulations. In doing so, the guidelines

seek not only to reduce legal risks but also to strengthen consumer confidence and enhance SMEs' competitive positioning in sustainable markets.

Theoretical Implications. The study contributes to the relevant literature in three respects. First, it provides an empirical account of how regulatory burdens interact with firm size and structure, showing that greenwashing is often rooted as much in organisational deficits as in opportunism. Second, it assesses the cost-benefit dynamics of certification schemes, highlighting both their disciplining effect and their potential exclusionary impact on SMEs. Third, it develops operational proposals that balance regulatory objectives with economic feasibility, promoting compliance without undermining the competitiveness of smaller firms.

Conclusion. The costs of the green transition are unevenly distributed across firms. While Directive (EU) 2024/825 represents a significant step toward transparency and consumer protection, its implementation risks widening the gap between large corporations and SMEs unless supportive measures are developed. By combining case law analysis, empirical data, and practical tools, our research project seeks to offer both an analytical framework and concrete solutions. Ultimately, supporting SMEs in the green transition is not only a matter of legal compliance but also an economic necessity to ensure the success of sustainability policies without marginalising the very firms that constitute the backbone of the European economy.