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GREENWASHING

Sustainability's Formidable Foe

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Rapidly Growing Emphasis on ESG

Integrating sustainability into business strategy for meeting stakeholder expectations has become extremely important.

International organizations such as United Nations Principles of Responsible Investment (UNPRI) and Global Reporting Initiative (GRI) have proposed various improvements in ESG reporting. Recently, the US Securities and Exchange Commission (SEC) stated that corporate disclosures on Environmental, Social, and Governance issues would become a priority for them. According to the European Green Deal, all the member states would be circular economies by 2050.

Corporates are already experiencing financial consequences because they are failing to act on the reporting standards expected in sustainability. The only way companies can attract investors is through robust sustainability and ESG strategies.

Although we have several reporting frameworks such as GRI, United Nations Global Compact (UNGC), or Sustainability Accounting Standards Board (SASB), there is still room for companies to misreport data or not report it at all. Benchmarking companies could be difficult because the measurement techniques used by investors are different.

Importance of ESG to Investors

Lately, ESG investing has become quite the rage, a fact evident from an increase in the number of funds and indices that include sustainable or responsible investing and impact investing.

Witnessing the high interest, corporates globally have now improved their ESG disclosures. This has given rise to third-party ESG data and rating agencies.

That said, ESG parameters are seldom well-defined. All green investments are not exactly green. For example, one may think of natural gas as more environment-friendly than coal. However, given the process of extracting natural gas and its long-term negative effects, "Green Investment" doesn't seem so green anymore.

What is Greenwashing?

Corporate greenwashing is the practice of exaggerating or obfuscating one's green quotient.

> Earlier, research depicted the practice as a communication tactic to betray investors. However, it has since been discovered that the act is often unintentional and a product of ignorance.

Though, intentional, or otherwise, greenwashing has grave consequences.

Consequences of Greenwashing

Generally, greenwashing is the discrepancy between a company's green claims and its actual performance.

The companies that practice CSR are more attractive to certain stakeholders, making for positive consumer orientation and purchase intentions.

For existing stakeholders, the positive impact is an increase in profits. However, greenwashing would have a negative impact on the society as a whole.

For potential stakeholders seeking investments in green opportunities, the impact would be negative, since it would be difficult to distinguish between greenwashed and truly green opportunities.

Impact on Consumers:

- When exposed, a customer's brand perception could change for the worse. Consumers, persuaded by the green claims, will feel cheated and deceived.
- Consumers could become cynical and ultimately suspicious of change.
- Misled consumers could consume toxic and dangerous products, unaware of their risks.

Stakeholders' Expectations:

- Greenwashing creates an illusion of fulfilling the stakeholders' expectations.
- Stakeholders usually lack the resources to assess the sustainable claims of a company.
- Inaccurate information, typified by greenwashing, is detrimental to investment decisions.

Green Lies by Corporates:

- Corporations generally benefit from adopting greenwashing in the short run, which is easy for them given their huge marketing budgets.
- Corporations adopt greenwashing to avoid public outcry stirred by environmentalists, universal rankings, and publicly available information, which could otherwise affect perception and stock price.
- Employees could lose faith in their organizations and get nervous about being the indisposed participants.
- Corporates might lose loyal customers, which would decrease sales and income.

Mitigating Greenwashing

Greenwashing hinders innovations that might lead to sustainable development. It undermines the very legitimacy of sustainability.

We need to ensure that sustainable claims are rigorously assessed so that they really meet the international standards they claim to meet. Supply chains, manufacturing, waste disposal — every operation ought to be independently reviewed.

Corporations need to do their part by being truthful. Stakeholders need to be more active in distinguishing corporate-speak from genuine claims.

Uniform ESG Reporting and Implementation Standards:

- Companies could use a universally accepted reporting mechanism that does not leave much to ambiguity and interpretation.
- Mandatory third-party assurance could be adopted, ensuring the reliability of the data provided by firms.
- Some sort of penalization should be instituted for the organizations found to be reporting falsely.
- Organizations need to adopt a more "fact-based" reporting technique.

Intra-firm Communication:

- Decisions ought to be centralized to maximize communication value.
- Firms should share information regarding their CSR activities.
- The flexibility and speed with which firms can identify and implement changes need to be assessed.
- Standards are required for internal sharing of information and regular exchange of ideas and data on ESG performance indicators.

Exploring the Unethical Aspect:

- Corporates should provide ethical training to employees to educate them about greenwashing and ways to avoid it.
- The leadership ought to clearly communicate their aversion to greenwashing. Ethical behavior and honest communication should be promoted.
- Transparency is paramount and consumers should not be cheated or deceived at any cost.

Regulating the Rating Agencies:

- In the era of greenwashing, rating and ranking agencies could act as our guiding light.
- Such agencies could help us in reaching a stage where we don't have to verify any claims by a company. We can just look at the rank and make our decisions.
- However, the ranking procedures should comprise guaranteed authenticity and uniformity.
- There need to be regulations and supervision on the agencies so that consumers and investors can trust their verdict without second thoughts.
- It is very important for such agencies to have a good reputation to gain the investors' trust. A supervisory body overlooking all the agencies could help differentiate between a genuine agency and a devious one.

Boosting Public Knowledge:

- NGOs could collaborate with other agencies to clear the confusion of consumers and provide more accurate information.
- Policymakers could apply more rigor in understanding consumer sentiment and knowledge to form more effective policies.
- Uniform international standards could be adopted for environmental disclosure regulation.

Conclusion

Whether intentional or unintentional, greenwashing seriously undermines global efforts to drive long-term, sustainable growth. One needs to understand the multi-dimensional nature of greenwashing. An entity or organization alone cannot make a difference. What we need is a holistic approach wherein every institution plays their part. To achieve accelerated progress in the sphere of reducing greenwashing, the most important aspect would be standardization. Concerted efforts are required from each party including consumers, investors, policymakers, marketing agencies, and corporates. Consumers need to be more aware; investors need to be more vigilant, and policymakers need to be more pro-active and communicative. Most importantly, the corporates need to be more honest and forthcoming because even after the adoption of common reporting standards, the organization's intent would be of primary significance.

Of course, ensuring such vigilance and monitoring is easier said than done; given the complexity at hand, the task is Herculean. However, it is a small price to pay for a future that's green, equal, and transparent.

About the Author

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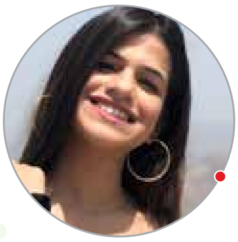
With over 12 years of experience in sustainability research, ESG and climate change management, Pallavi has worked with many leading corporates and international financial institutions spread across geographies to manage ESG related aspects starting from maturity assessment to roadmap development. She has provided consultancy in enterprise sustainability performance management and has led many projects involving technology enablement for corporates.

Contributor



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Tavisha is a Consultant with SG Analytics. A professional in the field, she has expertise in analyzing ESG maturity of varied organizations and providing holistic ESG solutions.

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