The greenwash gambit

Introduction

It has been hard to miss the recent, high-profile instances of companies exaggerating their green credentials to boost their public image – so called 'greenwashing'. Of the most recent examples, statements around plastic-free packaging from some heavy polluters in the FMCG space are perhaps the most well known. But many will also have experienced the glossy reports with pictures of smiling children surrounded by nature that told the world how well the company was doing on sustainability, when the reality is proven different. Overstatement has become risky business for companies to conduct.

In a world with social media and other influences, it is sometimes hard to separate fact from fiction, and telling positive but unsubstantiated stories about a company's ESG performance is an obvious temptation. Not only do such stories paint a healthy and principled outlook for the business, but they also fit our societal need for heroes to lead us to a brighter, more sustainable future. The unchecked egos of some CEOs can undoubtedly play a part in pushing the green story beyond the factual truth, but this practice comes at a cost. The benefits of a positive but false spin on green and other ESG performance can severely undermine longer-term reputation and brand equity – both of the business and its leaders. This is a major threat to company reputation and stakeholder trust, and should find its way onto every risk register. It should also be subject to the scrutiny of those managing risk and reputation in their organisations, as well as those charged with governance.

Fact vs fiction

There is a well-trodden path for the evolution of reporting frameworks – in particular, those associated with company financials. It is 56 years since the idea of a worldwide standardised system of financial reporting took root, and now those international standards are viewed as the norm. As a result, the ability to overstate financial performance is greatly diminished, to the benefit of stakeholders and investors who want comparability.

The path for ESG reporting is at a much earlier stage, albeit evolving fast. Among the challenges, Deloitte's work in the field of sustainability has revealed that an understanding about which sustainability factors are important, reliable and relevant to business is lacking. This leaves a factual vacuum that could be tempting for leaders to fill with their own narrative, with little or no foundation in truth. Not that they would necessarily set out to mislead, but find themselves needing to provide stakeholders with a story of the company's future that matches or surpasses that of their competitors – and find themselves at times short on facts. The problem with sketching a sustainability future light on detail is that it affects more than the share price of one company – it has ramifications across many stakeholders and markets including investors, customers, regulators, suppliers and governments – and society as a whole.

Consequences

The time is gone that CEOs, sometimes characterized as storytellers-in-chief, can provide unsubstantiated promises about their strategies including those related to their environmental promises and actions.. Marketing and PR teams supporting CEOs with strong narratives but weak data should be aware of significant pushback. Today's organisations must know more about the content, principles and evidence underpinning their sustainability statements. The Corporate

Sustainability Reporting Directive (CSRD), if adopted, will set the standards for accurate and evidenced reporting in this area, and there will be consequences for non-compliance with those standards, as well as for non-performance against the targets set through those standards.

Those involved with risk management and internal audit will need to improve their capability to address and advise on such risks. Likewise, civil cases concerning misstatements made by senior management in the area of non-financial reporting are on the rise. Activists and fact-checkers closely monitor what companies say and do about their commitments to addressing climate change, and will unpick those words to get to the truth behind the statements leaders make. On a more personal level, few CEOs want to be exposed as having misled readers of their corporate statements about a subject so important to the life and wellbeing of the next generation – perhaps even their own children. It's about trust and reputation.

The way ahead

At Deloitte, we find that the majority of businesses we work with are keen for their businesses to make a difference – and to be seen to be doing so. What communications can they release along the way regarding their progress and promises? The best of the examples we've seen take a leaf out of the financial reporting handbook, and make claims that can be backed up, if only with regard to the company's own reporting systems. These are specific and verifiable claims that follow the commitments on sustainability already announced by the business, and support an overall narrative on progress made. Analysts and stakeholders are now also looking at the connectivity between sustainability performance and financial performance. For example, by the end of this year, credit institutions will have to report on the extent to which their business operations are environmentally sustainable, as part of their non-financial disclosure requirements. The most significant indicator is the green asset ratio (GAR), which measures the share of the credit institution's taxonomy-aligned balance sheet exposures versus its total eligible exposures.

Among this growing requirement to disclose ESG performance, some businesses may find themselves in the uncomfortable position where they don't have the data to support their claims. Rather than leading to more truthful and substantiated reporting, pressure from directives and societal expectations may lead to more greenwashing than ever – to be seen both to react to information demands, and appear to be in the vanguard of progress. The question of comparability will continue to be asked. Are businesses outperforming their rivals on the ESG – and specifically green – agenda, as well as on the financial front? Is the CEO worth their remuneration package, both in terms of their ability to push for financial outcomes and lead the business to a competitive sustainable future? Inevitably, there will be an increased demand for robust data frameworks to support ESG and green claims, plus some form of audit to ensure the data and claims are comparable across markets.

On the journey from a data-poor, story-rich environment to one where claims are supported by evidence, businesses will need to remain vigilant, to avoid committing acts of embellishment, and also to identify the best of the reporting frameworks as they emerge. Meanwhile, organisations should increasingly involve any risk management and internal audit capabilities, to help build the internal governance framework over sustainability progress measurement and reporting, and, just as important, to assess whether the company can substantiate the claims it makes – on products as well as in reports. Until the framework for reporting green stories with defendable accuracy evolves, the advice to CEOs is to be guarded about what they say and ensure adequate internal governance including legal review prior to making strong (marketing) statements, and steer their stories towards the measurable, internal facts, or towards globally agreed standards, rather than the fanciful.

Leading from the front

So far, we have witnessed the situations in which green storytelling goes wrong. This is likely to remain the case for some time, and the work by Milieudefensie is indicative of the way that activism will result in legal action for corporate failure to meet international accords on climate change. In such cases, greenwashing further increases the risk of legal consequences. Companies looking to navigate their way through this mire will increasingly find that it's better to present an honest reflection of their sustainability transition plan and related performance improvement, than make hollow claims that will attract negative press and legal action in the not-so-distant future.

Mitigating the risks of greenwashing accusations and legal consequences starts with having a corporate mindset that favours a commitment to fact and truth-telling over positive spin. That commitment needs to be supported by the use of robust and trusted ESG assurance frameworks that provide a comparable reference point for the green investments and outcomes of businesses. Building those robust processes can provide independent comfort beyond the limits of ESG ratings agencies. Having clear and unquestionable ESG reporting is key in many forms of lending, including that provided to the funders of green bonds, sustainability-outcomes-based bank mandates, and other evolving reporting where ESG performance is critical. Inevitably, the demands of those assurance frameworks will lead to significant changes in data, information systems, and internal audit capabilities. Organisations should engage openly with their supervisors and those charged with governance, to understand how to get the right balance.

Companies that substantiate their data with solid, balanced stories will protect their reputation, and more, in the end. They know their green story isn't perfect, but they can chronicle their intention to improve, and track progress. Our experience is that learning from the best of these actual business cases will help to shape how green reporting moves from the unprincipled and unverifiable, to a situation in which stories and claims must fit with an auditable version of the facts. For this to happen, more CEOs need to keep their ambition and desire to prove themselves in check, and focus purely on reality. The message for leaders and boards is clear: be ambitious and push for the much-needed change, but ensure that all communications on ESG performance stick to the verifiable truth; develop an organised system of fact-checking and reporting within a comprehensive data governance framework; and invest in scrutinising processes, so that any greenwashing is discovered and dealt with before any false narratives go public.