Checklist: Avoiding Greenwashing & Greenwishing in ESG Communications

PracticalESG.com

Greenwashing has become a common term describing ESG reporting and other communications that portray a company's ESG initiatives, programs or status in an overly optimistic, or even intentionally misleading, way to convey more progress than is real. Greenwishing is a new term coined by economist Duncan Austin and means "the earnest hope that voluntary sustainability efforts are much closer to achieving the necessary change than they really are" — in other words, a strategy of hope.

Neither of these approaches to ESG disclosures or communications are desirable or effective as investors, regulators and the public are adept at seeing through them. Technology also aids consumers of ESG information to research companies more easily than any time in history. In extreme situations, greenwashing/greenwishing can lead to lawsuits, shareholder activism, proxy actions and have significant implications for Boards. These concepts and risks apply to manufacturers, suppliers, service companies, real estate, investment firms — essentially any organization making statements about their ESG programs.

Indicators of potential greenwashing/greenwishing in corporate ESG communications can include:

1. **Not specifically linked to the company's strategy or basic business proposition**. Good communication of meaningful and integrated ESG initiatives clearly show their relationship to the company's business. This can include cost reduction programs, meeting customer expectations, new product development or entry into new markets. ESG disclosures or communications that do not clearly connect to business fundamentals are considered hollow or even misleading and fraudulent.

2. **Statements or commitments that are highly aspirational or that assume development of new technologies that don't exist or not commercialized.** While some ESG targets are aspirational, some should be reasonably achievable now. Perhaps the most common example of a highly aspirational commitment is the popular Net Zero pledge, where carbon emissions reductions are "promised" by 2050. Net

Zero commitments also frequently include greenwashing/greenwishing elements below. New technological developments in areas such as carbon emissions controls are likely to arise in the coming decades, but for now they are unknown and should not be counted on in the present. Overly optimistic forward-looking public ESG statements that are not seen as achievable will be viewed as hollow or intentional misrepresentations.

3. **Omitting CEO or senior management support of ESG.** Companies serious about ESG commitments have the support of their CEO and other senior management, and that is publicized. Many experts believe that a lack of direct CEO involvement is a good indicator that a company is not truly committed to ESG programs. Furthermore, ESG reports and communications driven primarily (or solely) by marketing/communications departments — rather than a more executive function — are not viewed as meaningful or substantive.

4. **Long term goals with no measurable short term or mid-term milestones**. Many ESG initiatives take years to mature, but disclosures and communications should be made along the way with clear, specific and measurable interim steps. These offer a plan of action against which consumers of ESG information can assess the company's progress and give management/Boards clear direction for prioritizing ESG efforts and expenses. They also inform the public that the company considers ESG an actionable "now" issue rather than simply pushing it down the road to the next CEO.

5. **Statements or commitments based on many assumptions, limitations and disclaimers**. Certainly, any number of things can impact a company's progress towards achieving ESG commitments. Lawyers and risk management professionals are attuned to mitigating legal exposures to the company and reflect that in the language they provide in ESG communications. Disclaimers and disclosing limitations/assumptions play an important role in managing expectations and liability, but they can also be an impediment to the public's perception of a company's credibility, especially when used in combination with overly aspirational or long-term commitments.

6. **Communications full of buzzwords**. We have reached a point of backlash against ESG Buzzword Bingo. Many feel that relying on

buzzwords and jargon is a strong indicator of a company simply jumping on the ESG bandwagon, hoping to capitalize on catchphrase momentum. Companies not making effort to "translate" terminology into specific meaningful information are accused of not really understanding the subject themselves. Clearly communicating ESG topics in plain English and explaining why they are meaningful is a way to demonstrate the company's grasp of the subject.

7. **Reliance on and reporting of unaudited or unverified baseline data.** ESG disclosures and communications rely on internally generated data. Yet ESG data is rarely subjected to the same controls, verification and QA procedures that financial data is. Errors and omissions in ESG data generated at operating locations perpetuate through the information ecosystem and become embedded in ESG research used by investors, as well as information in the public domain. Imposing internal verification and quality controls on non-financial data before including it in disclosures/communications is a straightforward way to reduce a domino effect of information inaccuracies. It also communicates to external parties that a company take ESG data quality seriously.

8. **Publishing ESG commitments or communications that are not subjected to formal internal multi-departmental review/approval.** ESG initiatives require the participation of essentially every aspect of a company's operation. Disclosures and communications should not only reflect this in their content, but also in the process for putting the communications together. Seeking formal input from multiple departments ensures that the communication is correct and help avoid public disclosure of commitments/updates that key executives/managers are surprised by.

9. **Issuing a company ESG report that is not externally audited or assured**. Engaging a third-party auditor to audit or assure a company ESG report can reduce the potential for accusations for greenwashing/greenwishing. Especially at a time when very few US companies are subjecting themselves to external assurance, doing so is a powerful signal of their transparency and openness.

10. **Making claims of efforts that you are not actually doing.** This is common sense, but it remains something of a challenge in ESG

disclosure and communication. Don’t make statements or claims about activities unless you have done them, or seriously plan to.