

The Case of ESG & Greenwashing: A Kiss-and-Tell

Festus Kimeli

Introduction

Environmental, Social, and Governance (ESG) refers to the criteria used to evaluate the performance of an organization or company in dealing with and managing its environmental and social impacts effectively.

ESG today

In the contemporary governance era, ESG initiatives have become a strategic imperative for nearly all organizations. There has been an increased shift of focus and attention by regulators, investors, boards and employees from the traditional thinking to the current school of thought. According to Pensions & Investments (2003), there has been a shift from evaluating ESG factors to practical implementation across the investment universe. By aligning sustainability goals with ESG themes, companies can manage risks while creating growth and investment potential by addressing environmental issues.

Greenwashing

While striving towards sustainability concerning ESG, companies and organizations have gone overboard to be seen as compliant. Some companies and organizations report skewed

or misleading information about their sustainable initiatives hence misleading their clients and stakeholders into believing that they are compliant when they are not. For instance, some companies tailor their marketing communication to indicate that their products or services promote sustainability by using vague terminologies like ego friendly, sustainable, natural or locally grown among others. This act of reporting false information on environmental soundness is called “Greenwashing”. According to Adam Hayes (2022), companies greenwash by giving unproven claims or using misleading labels, environmental imagery, and hiding trade-offs to hide environmental wrongdoing, or an unpleasant situation which in fact is a poisoned chalice.

Contextualizing Greenwash

Greenwashing is an emerging issue in governance and management with many stakeholders including consumers expressing their discontent. There is a level of sustainability awareness among consumers that may affect how they perceive a company. It is crucial to note that giving misleading information for the sake of deceiving consumers and other stakeholders is unethical.

Case scenarios/study

The United Nations Climate Change Conference (COP26) in Glasgow in November 2021 saw protesters call for greater accountability from big companies’ climate promises. The demonstration was mainly informed by the protesters’ opposition to greenwashing by companies claiming to be protecting the environment while continuing to harm it (Jenny

Gross, 2021). In December 2015, the Federal Trade Commission (FTC) in the USA filed a complaint against Nordstrom, Bed Bath & Beyond, Backcountry.com and JC companies for mislabeling Rayon textile as made of Bamboo. The companies had to pay a fine of around Kshs. 169 million, this demonstrates the danger of giving misleading information for the sake of deceiving the consumers.

According to BBC, a global McKinsey study indicated that 70% of Gen Z Shoppers preferred to buy products from companies they considered ethical while Nielson's study indicated that 73% of millennials will spend more on products made by sustainable brands. This indicates a level of sustainability awareness among consumers that may affect how they perceive a company.

In Kenya, the issue of greenwashing is no different. In any case, the situation is even worse due to inadequate regulations and limited conversation on greenwashing. (Betterman Simidi M., 2021) Writes that, discussions on greenwashing in Kenya are very limited, even within the civil society movements. He attributes this to the fact that civil society's work on the environment is still growing and the fact that media reporting is still low.

Simidi (2021) in his blog explains greenwashing in Kenya by giving an example of corporations like "Coca-Cola sponsoring what he calls token community cleanups to be seen as doing something about plastic pollution yet they continue to produce millions of plastic bottles which continue to choke

the environment.” He adds by pointing out greenwashing by organizations like the Kenya Association of Manufacturers which set up structural organizations to reduce the legislation momentum on extended producer responsibilities and that they then engage in lobbying, questionable programs, media campaigns and fake recycling reporting without substantially addressing the root problem of packaging pollution on the environment. Another example given by Simidi (2021) is that in 2019 Petco Kenya and Coca-Cola through an elaborate media campaign announced that they had increased the recycling of plastics bottles in the country to 30% without any verifiable data to back their claims when such recycling globally is less than 10%.

Conclusion

Greenwashing remains a governance vice that we all need to deal with, as it is a threat to consumers and the environment. Consumers and other stakeholders bear the responsibility of reporting false or misleading information while companies need to engage consumers and explain their products and services better.

Recommendations

To avoid greenwashing and the damage it can cause to a company’s reputation and trust, companies can adopt the following strategies;

- i. Make their messaging clear and easy to understand by including details, specific certifications, and verifiable endorsements from credible third-party eco-organizations.
- ii. Be honest about their brand's sustainability practices and plans.
- iii. Ensure that they use the same product type when giving a comparative analysis regarding a product's sustainability to a competitor.
- iv. Use data that can be verified and credible third-party certification if possible.
- v. Avoid using misleading images, such as using the color green or images from nature, to imply that their products or brand are eco-friendly when that's not the case.
- vi. Champion public awareness of ESG and the dangers of greenwashing.
- vii. Accelerate the discussion on greenwashing among stakeholders.
- viii. Seek certification of companies before using terms like ethical.
- ix. Disclose environmental credentials alongside financial results.

References

ADAM HAYES. (2022, Nov 08). What Is Greenwashing? How It Works, Examples, and Statistics. Retrieved from Investopedia: <https://www.investopedia.com/terms/g/greenwashing.asp>

Betterman Simidi M. (2021, April). How greenwashing undermines Kenya's fight against pollution. Retrieved from Clean Up Kenya: <https://cleanupkenya.org/how-greenwashing-undermines-kenyas-fight-against-pollution/#:~:text=An%20example%20of%20greenwashing%20in,globally%20is%20less%20than%2010%20%25.>

Jenny Gross. (2021, Nov). A protest outside the main summit venue calls out 'greenwashing' by big companies. Retrieved from The New York Times : <https://www.nytimes.com/2021/11/03/world/europe/cop26-greenwashing-protest.html>

Pensions & Investments. (2003). The Institutional Investor's Guide to ESG Investing. Retrieved from Pensions & Investments: https://www.pionline.com/ESG-guide?utm_source=google&utm_medium=paidsearch&utm_campaign=pictet_guide_20230112_search&gclid=Cj0KCQiAx6ugBhCcARIsAGNmMbgwQQzxm9BdI2N7AX1DNMwnOsri89Z0Z_0s6Wt7B-ITUTXhv0Ph1AEaAoXoEALw_wcB

Sandra Mathis. (2023). Definition: environmental, social and governance (ESG). Retrieved from techtarget.com: [https://www.techtarget.com/whatis/definition/environmental-social-and-governance-ESG#:~:text=Environmental%2C%20social%20and%20governance%20\(ESG\)%20is%20a%20term%20used,and%20determine%20future%20financial%20performance.](https://www.techtarget.com/whatis/definition/environmental-social-and-governance-ESG#:~:text=Environmental%2C%20social%20and%20governance%20(ESG)%20is%20a%20term%20used,and%20determine%20future%20financial%20performance.)