Governance Institute of Australia

Greenwashing

a governance perspective

Why is greenwashing problematic?

Greenwashing is problematic for many reasons. It misleads consumers about the environmental impacts of products or services they procure, creating distortions in the markets. It also delays companies from taking real actions to prevent environmental harms, including undermining efforts to tackle climate change. Undermining such efforts has the potential to create and contribute to adverse societal impacts. Further, greenwashing has negative consequences for capital markets, and for the organisations which engage in it.

Greenwashing also has negative implications at a market level.
It is a form of inaccurate or distorted information, which can lead to poor investment decisions and to the misallocation of capital which has been intended for sustainable investments. Businesses can become overvalued based upon flawed information. In the long-term, this can contribute to economic and financial instability, through distorting capital market assumptions and undermining trust in the market.[11]

At the level of individual organisations, greenwashing also has potentially severe negative consequences: reputational, legal and financial. These are discussed in greater detail in the next section.

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[11] Climate greenwashing liability: Key risks for boards in the transition to net zero | United Kingdom | Global law firm | Norton Rose Fulbright

How should governance professionals manage greenwashing?

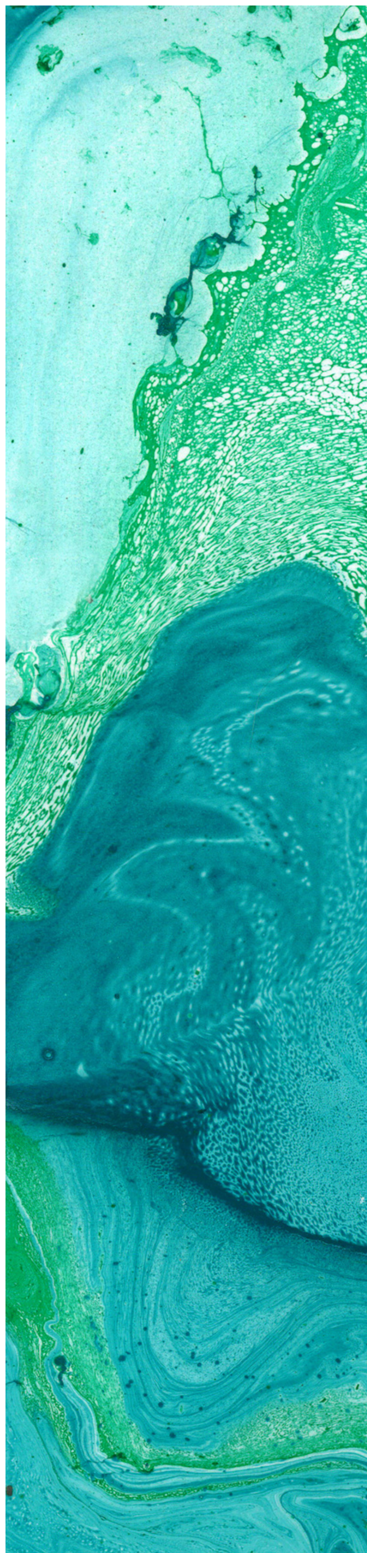
This section lays out three guiding principles which those working in governance should consider when dealing with greenwashing. While these are particularly relevant to those working in the for profit sector and involved in climate and sustainability reporting, they can be applied more widely to those working in other sectors.

Three guiding principles

Below is a summary table of three guiding principles for governance professionals to consider about greenwashing. Each principle is broken down into categories and corresponding actions. The section discusses each principle in detail and includes practical actions that governance professionals can implement to tackle greenwashing.

Principle	**1. High-quality, transparent disclosures**		
Category	***Reporting frameworks***	***Materiality and metrics***	***Transparency***
Actions	Use reputable reporting frameworks	Conduct materiality analysis	Ensure balanced disclosure
	Ensure environmental and climate-related targets are science-based	Select relevant, specific metrics / KPIs	Substantiate claims and make them specific; verify data

2. Board capacity and robust oversight		**3. Change and accountability**	
Board education	***Monitoring and audit***	***Strategic/ operational change***	***Accountability***
Provide environmental and climate-related training and resources	Embed internal / external oversight procedures	Develop a climate strategy	Publish regular progress reports
Put greenwashing on the agenda	Create environmental and climate-related governance structures	Implement changes to business	Compare progress YoY and / or against peers



'Having robust governance structures in place is a foundational step in mitigating against the reputational, regulatory and financial risks of greenwashing.'