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The Role of Governance Professionals in Preventing Greenwashing

How ESG Reporting can Solve Greenwashing and Improve Governance

WHITE PAPER

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Introduction: What is ESG in the Social Housing Sector?

There are no governmental requirements currently to report on ESG, but many banks and lenders now expect companies and organisations they invest in to report on non-financial activities to prevent any potential fallout of companies acting irresponsibly. As a result of this the Sustainability Reporting Standard was created and outlines very clearly what ESG metrics Housing Associations are expected to meet. The SRS demonstrates the activities required to attract investment, embed a culture of sustainability and prevent greenwashing.

However, when it comes to the S and G in ESG it can be a little trickier to define. The S in ESG focuses on the social aspect. In the Social Housing sector, this focuses on your residents' wellbeing. This means that they should focus on how often their residents can share feedback and what is done with this information.

This also goes beyond their residents and sees how their developments fit in with the local area. Do you create a green space which is just for your residents or is it open plan? These sorts of considerations all go into the S in ESG.

The G focuses on the way your Housing Association is run. How transparent are you as an organisation and what role does your Board play.

Beyond this, you need to consider how your supply chain is run. Are all of your external hires treated with fairness and paid a suitable wage. Are your own employees satisfied with their job and working conditions? These questions will have to be answered in internal reviews and employee questionnaires throughout the year.

Section 1: How Does ESG fit into Governance Processes?

ESG is essential for Housing Governance. The fact of the matter is any long term projects or goals need to consider the environmental, social and governance risk factors. This is why setting aspirational and attainable ESG targets is a vital part of the future of Housing Governance.

Your ESG score is a good benchmark of how successful a social housing company is because it allows the consumer to recognise how engaged the organisation is in their communities.

If you are implementing schemes that protect the environment, improve social engagement and create a good work environment, it's clear that you place the wellbeing of your residents above profit. This may mean more people want to work with you or live in your buildings.

Focusing on ESG also ensures that you are building and maintaining homes sustainably. This will save you money in the long run, especially when it comes to fuel prices.

With fuel prices increasing exponentially, ensuring that you have a home that is well insulated, conserves energy, or even better, uses renewable energy, will help your financial stability.

How Important Is ESG Reporting For Housing Associations?

ESG reporting can be tricky but it keeps us all focused on the issues at stake, which helps your employees, residents and investors prioritise sustainability and good governance above all.

The SRS can also make ESG scores more sector specific. You may find that, compared with other industries, it can be difficult to achieve a good ESG score because ESG is so vast but using the SRS allows you to be compared against your peers effectively.

Section 2: What is Greenwashing in Housing ESG?

Greenwashing is the attempt to make a product, practice or even an entire organisation appear more environmentally friendly, 'green', and sustainable than it really is. In recent years, there has been an increase in greenwashing tactics, as well as an awareness of what it is and why exactly it is so problematic.

Organisations in the UK are facing increasing pressure to take action on ESG issues, and for environmental affairs this can include producing a net zero transition plan or disclosing climate risk and opportunity according to the TCFD:Task Force on Climate-related Financial Disclosures.

The climate crisis has had a significant impact on consumer attitudes, with the future likely seeing a rise in eco-conscious buyers as more customers want to secure a green mortgage and greener finances. With the housing market being responsible, according to the Energy Savings Trust, for 21% of carbon emissions in the UK, it is crucial that the Housing sector attempts to combat greenwashing and make actual environmental efforts towards a sustainable future.

The lines between genuine reporting on ESG efforts and greenwashing can be a little blurred, due to the evolving nature of the ESG landscape and its regulations, so it's crucial to understand what actually constitutes greenwashing in order to inform an organisation's sustainability efforts.

Forms of greenwashing include:

– **Selective disclosure**: Not providing a full comprehensive view of an organisation's environmental impacts.

– **Meaningless targets:** Establishing environmental targets without putting into place the practices, plans and structures needed to achieve them.

– **Virtue signalling or symbolic actions:** Using trending environmental topics to bolster your organisation without making any meaningful action to address these issues.

– **Lobbying efforts:** Lobbying governments and policy-makers in order to avoid environmental regulation.

– **Baseless claims:** Utilising vague 'green' buzzwords and terms without providing evidence or information of the organisation's environmental efforts, such as "environmentally friendly", "sustainable", "eco".

– **Hidden trade-offs:** Emphasising one positive environmental action while ignoring other negative aspects or actions in order to create a sustainable image.

– **The 'green halo':** Using imagery that is associated with 'being green' in order to colour a reader or consumer's perception of the organisation without making any real efforts.

– **Misrepresenting motivations:** Portraying actions taken under legal obligations as the organisation taking initiative in helping the environment.

– **Exaggerated progress:** Misrepresenting the actions and progress an organisation has made as more than it actually is.

Greenwashing is problematic simply because it undermines actual efforts to tackle climate change.

Section 2: What is Greenwashing in Housing ESG?

By organisations making themselves appear more sustainable than they are, they are denying and derailing genuine progress being made and misrepresenting how much is truly being achieved.

Greenwashing also distorts capital markets, as it presents inaccurate information which can lead to poor investment decisions and to the misallocation of capital which was intended for sustainable investments. In the long-term, this can contribute to major economic and financial instability, by undermining trust in the market and its accuracy.

This can especially affect Housing Associations, who rely on the capital markets and their information to make business decisions, and so it is important to fully understand the risks of greenwashing.

The most straightforward consequence of greenwashing is reputational risks. Greenwashing accusations can be related to both mandated disclosures and marketing materials, and negative media coverage has implications for an organisation's image and for brand loyalty in both short and long term. It can create more intensified scrutiny from the public, investors, suppliers, or employees, as well as activity from social pressure groups and NGOs.

The **legal and regulatory risks** are becoming more apparent, and enforcement action, litigation and civil suits, although less common in the UK, are on the rise globally. Across the US, France, Australia and the Netherlands, there have been at least 20 greenwashing cases filed before courts between 2016 and 2021, and a further 27 cases before non-judicial oversight bodies. The sectors that are particularly focused on in these cases are energy-based sectors, but it doesn't mean the increase in these kinds of suits isn't a cause for concern for every sector.

Organisations run the **financial risk** of shareholder scrutiny in the face of greenwashing, as investors are often sceptical of ESG statements and commitments, with 72% of investors globally not believing that companies will meet their climate commitments. Organisations which investors accuse of greenwashing often haven't taken enough action on climate change and open themselves up to the risk of hostile questions and potential activism.

It is important to understand the risks of greenwashing, and therefore understand the current rules and regulations relating to the environment and ESG. For the UK, there are a few more recent regulations to be aware of that focus on potential greenwashing.

– ***The UK's Competition and Market Authority (CMA)*** published the Green Claims Code in September 2021. The Code was born out of a review undertaken by the CMA, which covered environmental claims made across hundreds of websites. The results of this review indicated that 40% of green claims made on companies' websites could be misleading for consumers.The CMA has indicated that it will use the Code to monitor, investigate and prosecute greenwashing.

– ***The UK's Advertising Standards Agency (ASA)*** published guidance on the use of misleading environmental and social claims in advertising in December 2021. This guidance was updated in February 2023, with a particular focus on the use of the terms 'net zero' and 'carbon neutral'.

– ***The UK's Financial Conduct Authority (FCA)*** aims to publish principles designed to tackle greenwashing in the financial services industry during the first half of 2023. These principles will build on the existing requirement for claims to be 'clear, fair and not misleading', and will mean that firms need to justify the use of terms describing funds as 'sustainable', 'green' and 'ESG'.

Section 3: What is the role of Governance Professionals in Tackling Greenwashing and Embedding ESG?

"ESG needs to be integrated into everyone's day-to-day task management and governance processes."

To avoid greenwashing and keep in line with the current UK regulations, there are three key ways organisations and governance professionals can ensure their environmental actions and efforts are truly sustainable and effective.

1) By producing high-quality, transparent disclosures:

- Reporting frameworks should be reputable and targets should be science-based.
- Materiality analysis should be conducted and relevant, specific metrics/KPIs should be selected.
- There should be full disclosure, transparency and claims should be substantiated and specific.

2) By increasing board capacity and guaranteeing robust oversight:

- There should be greater Board education with ESG training and resources provided and greenwashing put on the agenda.
- Monitoring and verification procedures should be embedded, with internal/external oversight and ESG governance structures.

3) By implementing change and creating accountability:

- Climate strategies should be developed and changes implemented to businesses.
- There should be a push for accountability, with regular progress reports published and compared against peers.

Understanding what greenwashing is, how it might present itself and what an organisation can do to avoid it is essential in fighting the climate crisis. For the housing sector and housing associations, making sure that ESG initiatives are accurate, clear and free of possible greenwashing tactics is important in pushing the sector towards a sustainable future.

ESG needs to be integrated into everyone's day-to-day task management and governance processes. Here are our helpful tips on how this can be achieved simply and seamlessly.

How To Incorporate ESG Into Your Governance Processes:

1) Set Your ESG Metrics:
The first step is to consider which metrics are of high-priority to your Housing Association. The Sustainability Reporting Standard for Social Housing (SRS) outlines the environmental, social and governance issues for the housing sector, allowing you to hone in your attention on those metrics.

There are also alternatives such as the TCFD, GRI or Ritterwald Label to help you access ESG funding. Whatever you choose, it is likely that part of your ESG governance will require you to publish ESG reports.

2) Set Out An ESG Plan:
The main requirement in any successful project is a plan. Outline what you want to achieve; most providers will detail the steps you should follow to achieve an ESG rating, label or standard. It is also important to consider what asset management you will need to prepare for this project.

Once you know how you want to proceed, the next stage is assigning roles.

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3) Assign Tasks:
If you want ESG to become a core value for all your colleagues, then they need to be involved! From your Board of Directors to your supply chains, everyone should know the long term financial performance risks and opportunities that are associated with ESG investing.

To improve your ESG performance, then you should assign targets and metrics to the appropriate people. Ensure that everyone is aware of the long-term goals, and is reporting on their own efforts to achieve said targets.

With Convene ESG, you can also assign sections of the ESG report to different people. This makes producing an ESG report a collaborative effort, thus entrenching those core ESG values further into your day-to-day governance practices.

4) Publish Regular Reports:
Reporting internally and externally on your progress is essential in maintaining good governance practices. You want to see check up on potential areas of concern quickly, and being able to track your targets is key.

Convene ESG enables you to see if you are on track for both your long and short term goals, and publish reports with just the click of a button. Being able to report regularly to your Board of Directors on ESG matters

5) Benchmark Against Your Peers:
There are two main reasons as to why benchmarking against your peers is essential to good ESG governance. Firstly, it ensures that it is something you are constantly improving. You can see their best practices and match them. It ensures collaboration across the sector, improving living and working standards for all.

Secondly, it propels the Housing Industry forward. If targets are reached, they can be improved! Sustainability is important long-term for your tenants and the planet as a whole. But ESG is more than just the environment, focusing on the S and G can better society and improve your employee's morale too!

Convene ESG's built-in benchmarking capabilities can streamline this process for you, as we automatically collect data for all Housing Associations' published SRS reports. So, you can see how your organisation compares against your local area, competitor or the national standard in any and all metrics.

Conclusion: How Reporting can Solve Greenwashing and Improve ESG Governance?
As we have discussed, embedding ESG in your organisation is not only important to attracting green financing but also to transforming your culture for the better and avoiding greenwashing. Ensuring all relevant decisions and targets consider the environmental and social impact will demonstrate you care for the community and the climate. And by reporting against ESG frameworks, such as the SRS, you are able to prove, through measurable data, that the impact of all your activity (the results of your decisions made and targets set) are not fictionalised for the sake of greenwashing or simply to avoid negative PR.

Producing regular ESG reports - and the process of constantly tracking data related to your various activities – ensures that these considerations are taken into account as you will be more aware of potentially missing your targets and can therefore act to prevent this. Being able to avoid actions and decisions which would make you miss your targets automatically prevents greenwashing, demonstrating how vital close monitoring and reporting on these metrics are to good ESG. And reporting against the SRS means that you can materially track how you are performing in regard to the sector's expectations and your peers.

Why Choose Convene ESG To Help You Write Your SRS Report?

Convene ESG is designed for Housing Associations with the assistance of Housing Associations. Our Early Adopters discussed with us what they needed, and with their requirements we developed a tool that would help Housing Associations generate the best ESG and SRS Reports possible.

With Convene ESG you can compare benchmarks, organise your report, assign sections, automate reminders and input your ESG data and the solution will create a Word document ready to publish or edit as necessary!

If you would like to learn more, contact us for a demo

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