KYUSHU UNIVERSITY INSTITUTE
for ASIAN and OCEANIAN STUDIES
九州大学 アジア・オセアニア研究教育機構

IFIS and Spuerkeess Greenwashing Conference

7 March 2024 — Centre Bancaire "19 Liberté", Luxembourg

"Competence Greenwashing" as a part of"The Greenwashing Equation"

by Prof. Kim SCHUMACHER (Kyushu University)

I. Greenwashing Definition

Mismatch between Claims/Expectations and Capacities/Evidence

ESG Claims Stakeholder Expectations	>	Evidence of Performance ESG Capacities

I. Greenwashing Definition

Greenwashing as defined by the ISO 14100 *"Guidance on Environmental Criteria for Projects, Assets and Activities to Support the Development of Green Finance"*:

Greenwashing is an increasingly relevant issue that affects the financing of green projects, assets and activities. Greenwashing was first coined as a term to address the **intentional** (or unintentional) misrepresentation, overstating of positive impacts, understating of negative impacts, or making false environment-related claims about a company's products or services. These same challenges are affecting financial products, which can include:

1. *false, vague, misleading, overly optimistic, or unverifiable claims, such as unsubstantiated or unverified data;*
2. *the validity of green performance credentials;*
3. *the capacity to manage sustainability-related risks;*
4. ***<u>sustainability-related expertise or capacities</u>;***
5. *the degree of beneficial (positive) impact(s) of business activities or financial activities;*
6. *the degree of adverse (negative) impact(s) of business activities or financial activities.*

Source: ISO, 2021

II. Competence Greenwashing

FTfm Corporate governance

Jobs bonanza in stewardship and sustainable investing teams

The number of people hired doubled between 2017 and 2020

FTfm ESG investing

Battle to recruit ESG specialists intensifies

Applications are up but the right skills are hard for funds to find

Attracta Mooney 4 HOURS AGO

The world's biggest asset managers have embarked on a hiring spree across their stewardship and sustainable investing teams, as fund houses tap into growing demand for environmental, social and governance investing.

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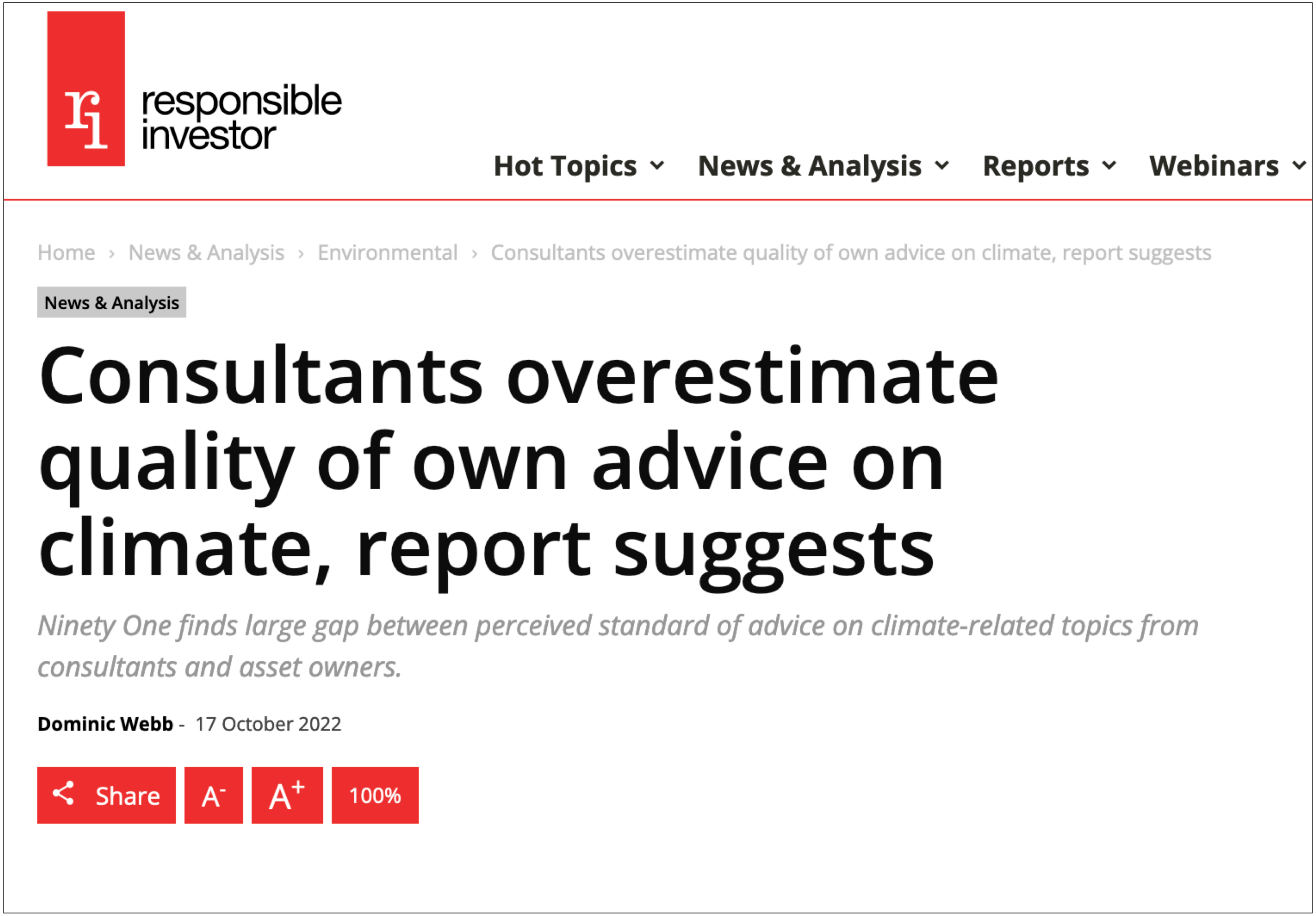

II. Competence Greenwashing

U.S. Corporate Boards Suffer from Inadequate Expertise in Financially Material ESG Matters

13 Pages • Posted: 11 Jan 2021 • Last revised: 13 Jan 2021

Tensie Whelan
NYU Stern Center for Sustainable Business

Date Written: January 1, 2021

Abstract

Corporate sustainability and ESG investing are increasingly front and center for U.S. companies as issues such as climate change, health care and inequity have more and more impact on the bottomline. We reviewed 1188 individual Fortune 100 board member credentials to determine whether companies with material ESG risks and opportunities had relevant expertise on their boards. We found that very few sectors and very few companies were adequately prepared at the board level for issues that were already affecting their performance -- for example one property and casualty insurance company has no environmental expertise on the board in a year experiencing $100 billion in damage caused by climate change--heightened extreme weather events. On another issue of growing materiality, cyber/telecom security, just eight directors of 1188 had expertise. We also examine COVID-19 and #blacklives matter as related to board credentials and make recommendations on how to improve board ESG governance.

Keywords: ESG, sustainability, corporate governance, CSR, board diversity, board governance

Suggested Citation:

Whelan, Tensie, U.S. Corporate Boards Suffer from Inadequate Expertise in Financially Material ESG Matters (January 1, 2021). Available at SSRN: https://ssrn.com/abstract=3758584

II. Competence Greenwashing

Environmental, Social, and Governance (ESG) Factors and Green Productivity: The Impacts of Greenwashing and Competence Greenwashing on Sustainable Finance and ESG Investing

APO Productivity Insights Vol. 2-11 (2022)

32 Pages • Posted: 10 Jan 2023 • Last revised: 11 Jan 2023

Kim Schumacher
Kyushu University - Institute for Asian and Oceanian Studies; Tokyo Institute of Technology - School of Environment and Society; University of Oxford - School of Geography and the Environment

Date Written: December 15, 2022

"Competence greenwashing" is the *"the practice of intentional or negligent misrepresentation of knowledge, skills, competences, or expertise relating to sustainability or ESG-related activities."*

<u>Reference</u>: *Schumacher, Kim, Environmental, Social, and Governance (ESG) Factors and Green Productivity: The Impacts of Greenwashing and Competence Greenwashing on Sustainable Finance and ESG Investing (December 15, 2022). APO Productivity Insights Vol. 2-11 (2022),* Available at SSRN: **https://ssrn.com/abstract=4303609**

II. Competence Greenwashing

EBA EUROPEAN BANKING AUTHORITY

30 October 2020

EBA/DP/2020/03

EBA Discussion paper

On management and supervision of ESG risks for credit institutions and investment firms

“Members of the specialised committees on ESG risks ***should have appropriate knowledge, skills and expertise concerning ESG risks*** *and assist the management body in its supervisory function with regard to the extent to which institutions’ activities are exposed to ESG risks”*

(pp.95-96)

II. Competence Greenwashing


ESMA
European Securities and Markets Authority

31 May 2023
ESMA30-1668416927-2498

Progress Report on Greenwashing

Response to the European Commission's request for input on "greenwashing risks and the supervision of sustainable finance policies"

II. Competence Greenwashing

5) ESG corporate resources and expertise

43. This topic ranks high mostly for the investment management and investment services sectors, notably concerning human resources dedicated to ESG. **The related term "competence-greenwashing" has emerged to describe the misrepresentation of knowledge, skills, competences, or expertise relating to ESG-related activities.**[42] There appears to be a new trend of professionals relying on specific introductory-level ESG certificates to display their expertise which could be deemed neither fit nor proper. Furthermore, claims on governance and resources are presented in certain situations **as actual progress in achieving the desired strategy** such as decarbonisation. For instance, the hiring of a sustainability officer is just the input that can lead to a result but this in itself is not the actual decarbonisation result and should not be presented as such by entities.

6) Pledges about future ESG performance

44. **Future ESG performance – in particular net-zero or transition claims** - is one of the most difficult topics to substantiate given that methodologies and criteria are still in the process of

[40] E.g. claims about reporting under Task Force on Climate-related Financial Disclosures (TCFD), getting an "A" UNPRI rating for asset managers.
[41] For example, a fund shows in its marketing material that it has 5 "sustainable" or "ESG" stars or globes (offered by a given fund Platform X) without revealing this is based on a portfolio holdings analysis relative to the peer group composed by the Platform X and/or that the X proprietary peer group considered is not relevant (e.g. misclassification) or that its investment strategy (e.g. structural preference for European Large Caps relative to the entire peer group) may contribute in part to this good rating.
[42] Environmental, Social, and Governance (ESG) Factors and Green Productivity: The Impacts of Greenwashing and Competence Greenwashing on Sustainable Finance and ESG Investing by Kim Schumacher

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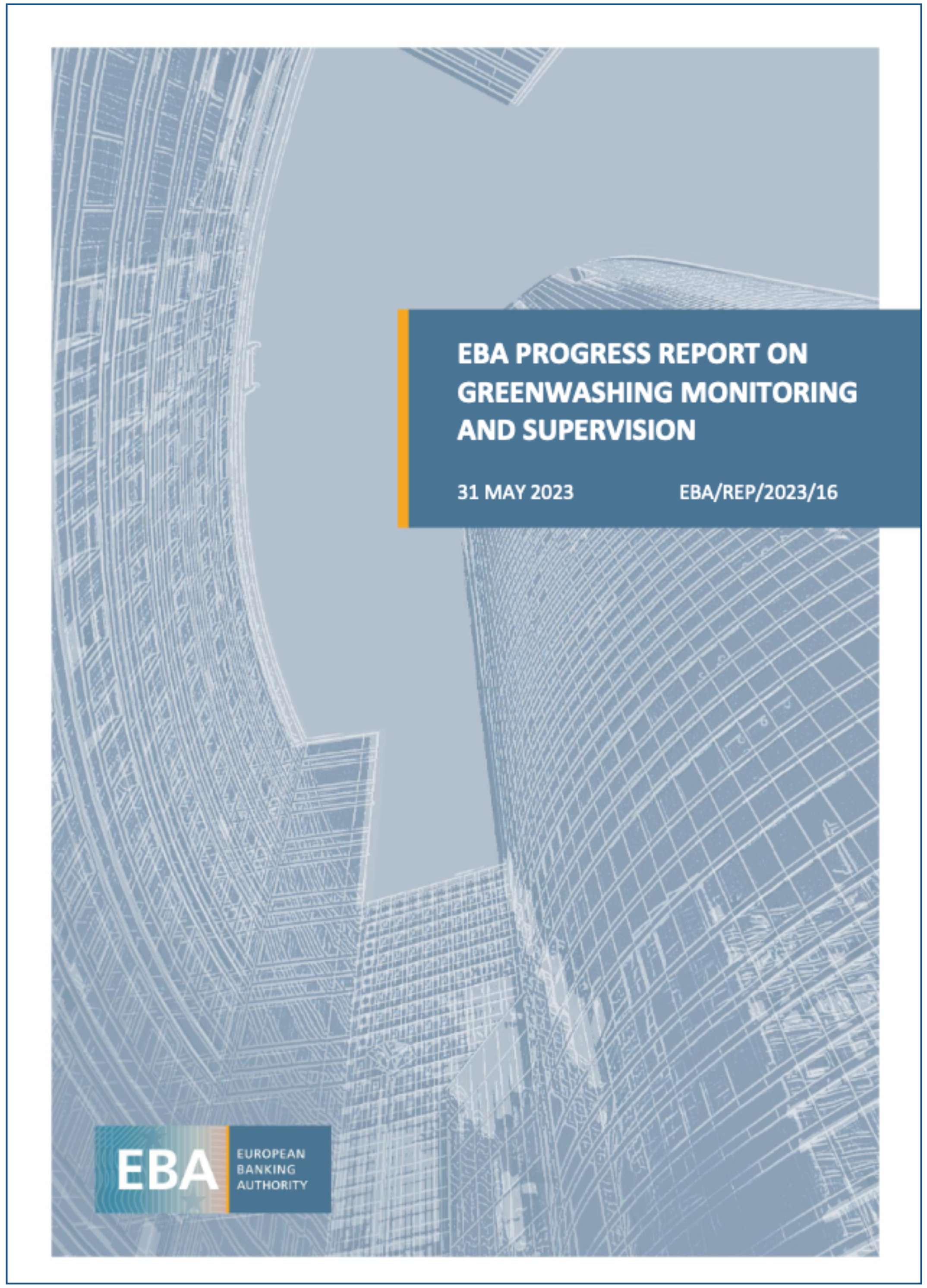
II. Competence Greenwashing



II. Competence Greenwashing

NGOs, think-tanks and consumer associations

48. Answers from **NGOs, think tanks and consumer associations** mentioned mostly **misleading communication and marketing** and also 'competence greenwashing'[10] where a position is rebranded by simply adding 'ESG' or 'climate' or 'sustainability' to existing job title; however, the activities of these positions were mostly limited to communications and marketing without conducting ESG risks assessments or sustainability impact monitoring. They also mentioned the

absence of real ESG subject matter expertise, especially on non-financial areas (climate, ecology, biodiversity), and setting targets without adequate means to achieve them. **Vagueness of information, insufficient standardisation, unreliability and absence of data** can also easily mislead consumers and retail investors and therefore increase the risk of greenwashing. As an example, there have been cases where an entity claimed to be 'carbon neutral' by making offset purchases yet conducting environmentally harmful activities in their daily operations.

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[10] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4303609

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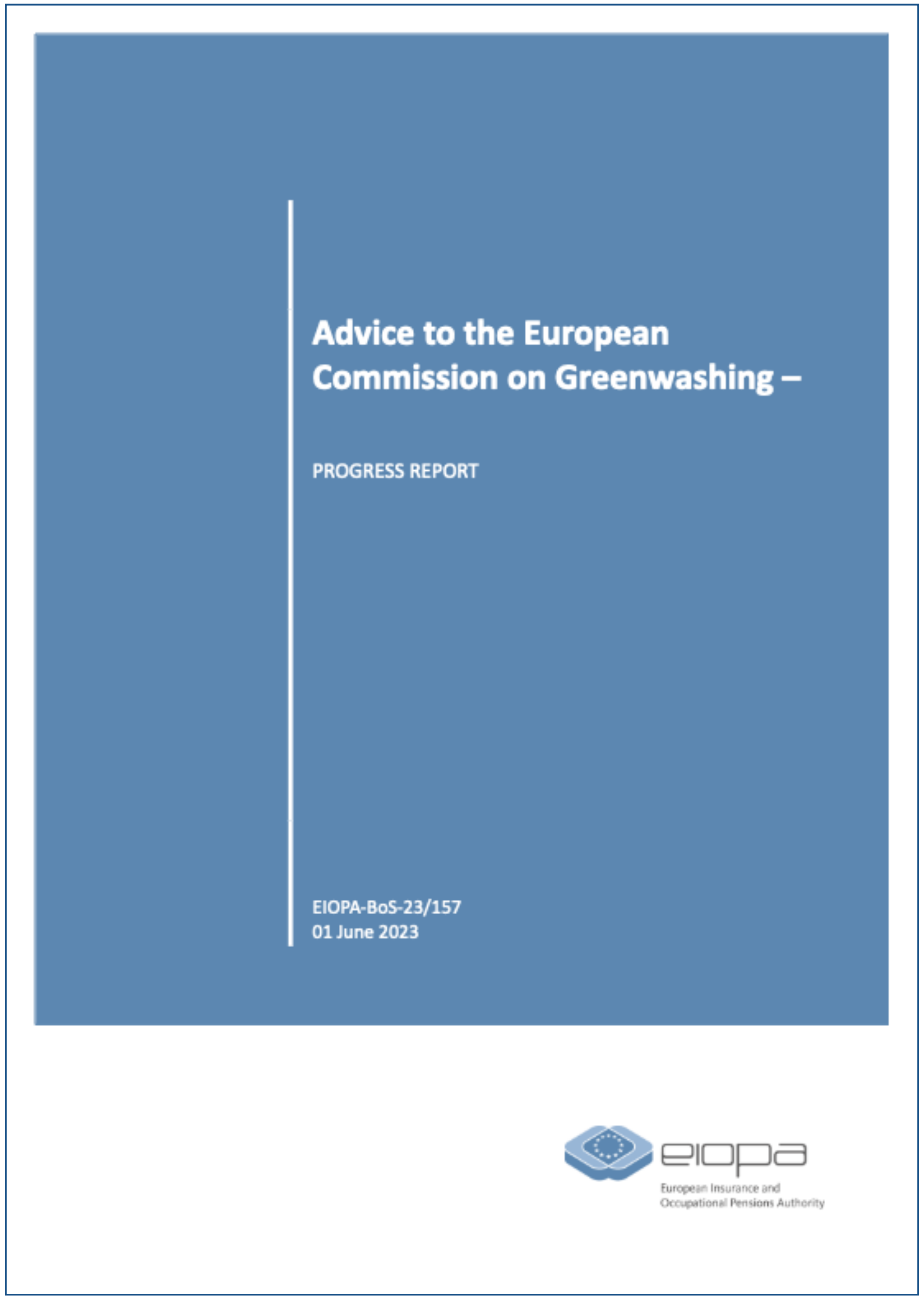
Advice to the European Commission on Greenwashing –

PROGRESS REPORT

EIOPA-BoS-23/157
01 June 2023

eiopa
European Insurance and Occupational Pensions Authority

II. Competence Greenwashing

Competence

Sound competence of the Board and senior management of insurance and pension providers allows the adequate steer and governance of their activities. Sustainability aspects are increasingly becoming relevant for providers' activities. Therefore, providers might make claims about their Board's or Senior Management's competence on sustainability. A respondent to the ESAs CfE reported that greenwashing could occur where a provider puts someone – often with little to no sustainability experience – within their existing managerial structures in charge of sustainability issues, often rebranding these positions by adding "ESG," "sustainability," "climate," or "environment" to a person's existing job title. The respondent also highlighted greenwashing could occur when senior sustainability positions are created with the objective of mostly managing interactions with external stakeholders, rather than to monitor the impact of the entities' activities on sustainability factors.

Employees' competence on sustainability is also important, particularly for employees that manufacture or distribute products. It is important they have sufficient expertise on sustainability to avoid greenwashing in other stages of the insurance and pension lifecycle, namely, in the product manufacturing stage (see section 3.1.3) and the product delivery stage (see section 3.1.4).

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FCA FINANCIAL CONDUCT AUTHORITY

Discussion Paper
DP23/1

Finance for positive sustainable change: governance, incentives and competence in regulated firms

February 2023

"We must be mindful of individuals rebranding themselves as sustainability experts, as well as firms who rebrand consultants and advisers as sustainability specialists.

Competence greenwashing *is as serious a threat to the integrity and future growth of ESG as greenwashing itself. In fact, it enables and facilitates the latter." (p.89)*

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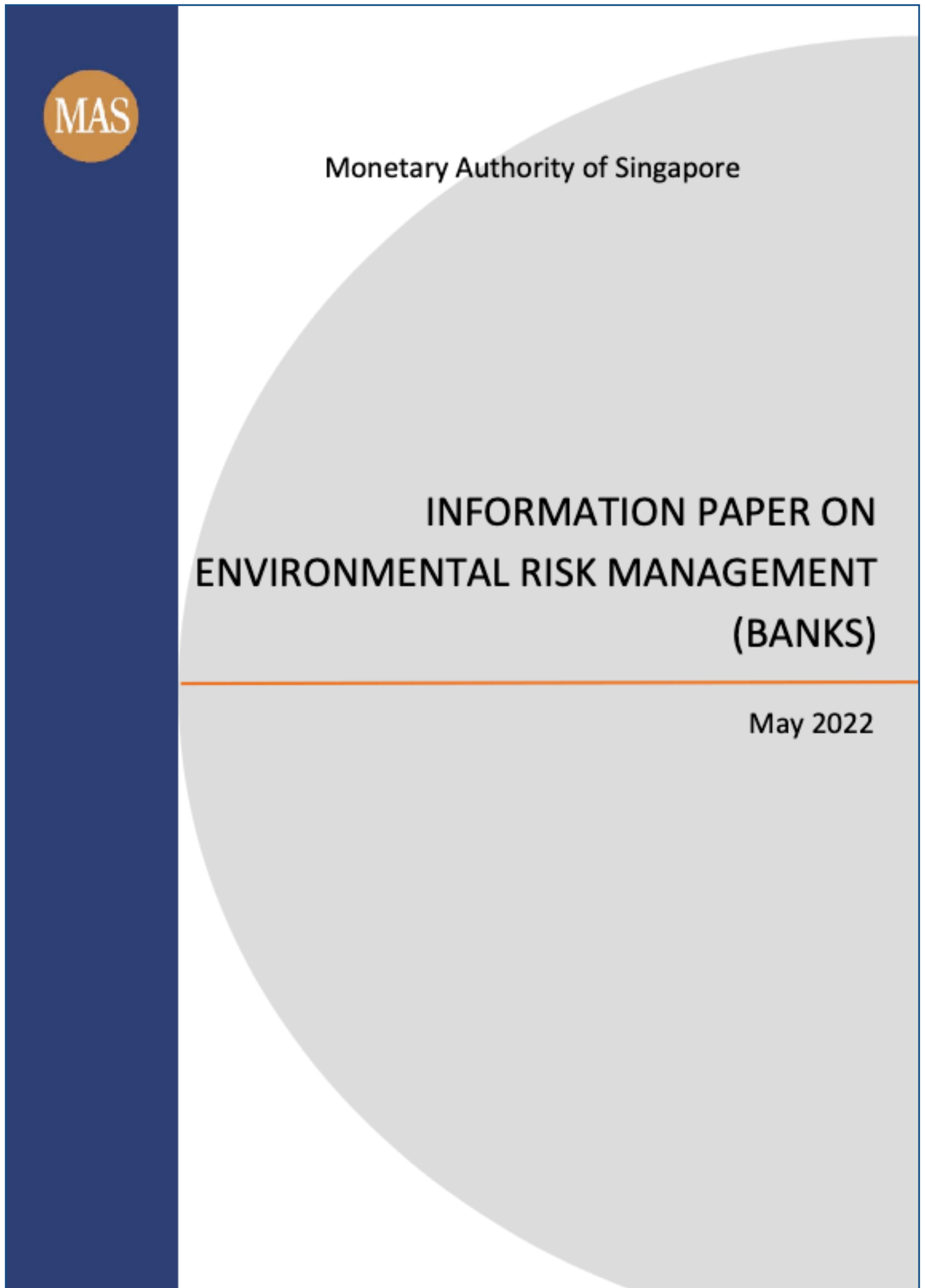
MAS

Monetary Authority of Singapore

INFORMATION PAPER ON
ENVIRONMENTAL RISK MANAGEMENT
(BANKS)

May 2022

"All banks had begun to build capacity across the organisation to better integrate consideration of environmental risks in a holistic manner.

The cross-cutting nature of environmental risks requires that they be taken into consideration at all levels and areas of business operations.

*Given the limited talent in this field, the risk of **competence greenwashing** has also been observed." (p.33)*

II. Competence Greenwashing

FT FINANCIAL TIMES

Sustainable

Sector Focus

Demand for ESG expertise reveals 'competence greenwashing' risk

By Claudia De Meulemeester
January 25, 2023

The recruitment drive for corporate sustainability and ESG experts has highlighted concerns about candidates misrepresenting their competence and experience in the field.

II. Competence Greenwashing

The challenges in identifying minimum standards in environmental, social and governance skills have led to the growing risk of "competence greenwashing", as Kim Schumacher, associate professor in sustainable finance and ESG at Kyushu University, described it in a 2022 note.

Schumacher defined competence greenwashing as "the practice of equating immaterial ESG knowledge, basic sustainability awareness, or passion for ESG-related issues with subject matter expertise", and argued that there was a disconnect between "professional ESG

01/02/2

or ESG expertise reveals 'competence greenwashing' risk... https://www.sustainableviews.com/demand-for-esg-expert

competence claims and the realities around the material expertise gaps of many so-called ESG experts".

Elsewhere, research by the NYU Stern School of Business in 2021 also concluded that US corporate boards lacked the right skillset to address financially material ESG issues.

II. Competence Greenwashing

a) Examples of competence greenwashing

II. Competence Greenwashing

a) Organizations put someone within their existing managerial structures in charge of sustainability-related issues, often rebranding these positions by simply adding “ESG,” “sustainability,” “climate,” or “environment” to a person’s existing job title. Often, these newly designated sustainability “experts” had little to no material sustainability-related track records, and their activities were often limited to communications and marketing.

II. Competence Greenwashing

c) Organizations, boards, executives, and practitioners from, but not limited to, the financial, business, or corporate sectors would seek to upskill by completing one of the many introductory ESG-related certificate or executive sustainability leadership courses that are offered by finance or accounting institutes, banking industry groups, or business schools. While these courses are important instruments in terms of broadening industry-wide sustainability awareness, they are no substitute for genuine, material ESG subject matter expertise, especially in non-financial areas such as climate change, ecology, and biodiversity.

Still, numerous practitioners start labeling themselves as climate, ESG, or sustainability "experts," "leaders," or "professionals" after having completed one or a few such short introductory courses, which often bear misleading course titles such as "certified expert" or "sustainability leader," blurring the lines of what constitutes substantial sustainability expertise.

II. Competence Greenwashing

d) Organizations, notably financial institutions and corporations with inadequate ESG and sustainability capacities, often rely on external advisory and consulting firms, for which the same competence greenwashing issues, such as immaterial upskilling or job profile rebranding, apply. Many such firms created climate and sustainability service departments, yet the lack of material expertise risks leading to inconsistent or immaterial ESG impact MRVs, which render proper green growth tracking difficult.

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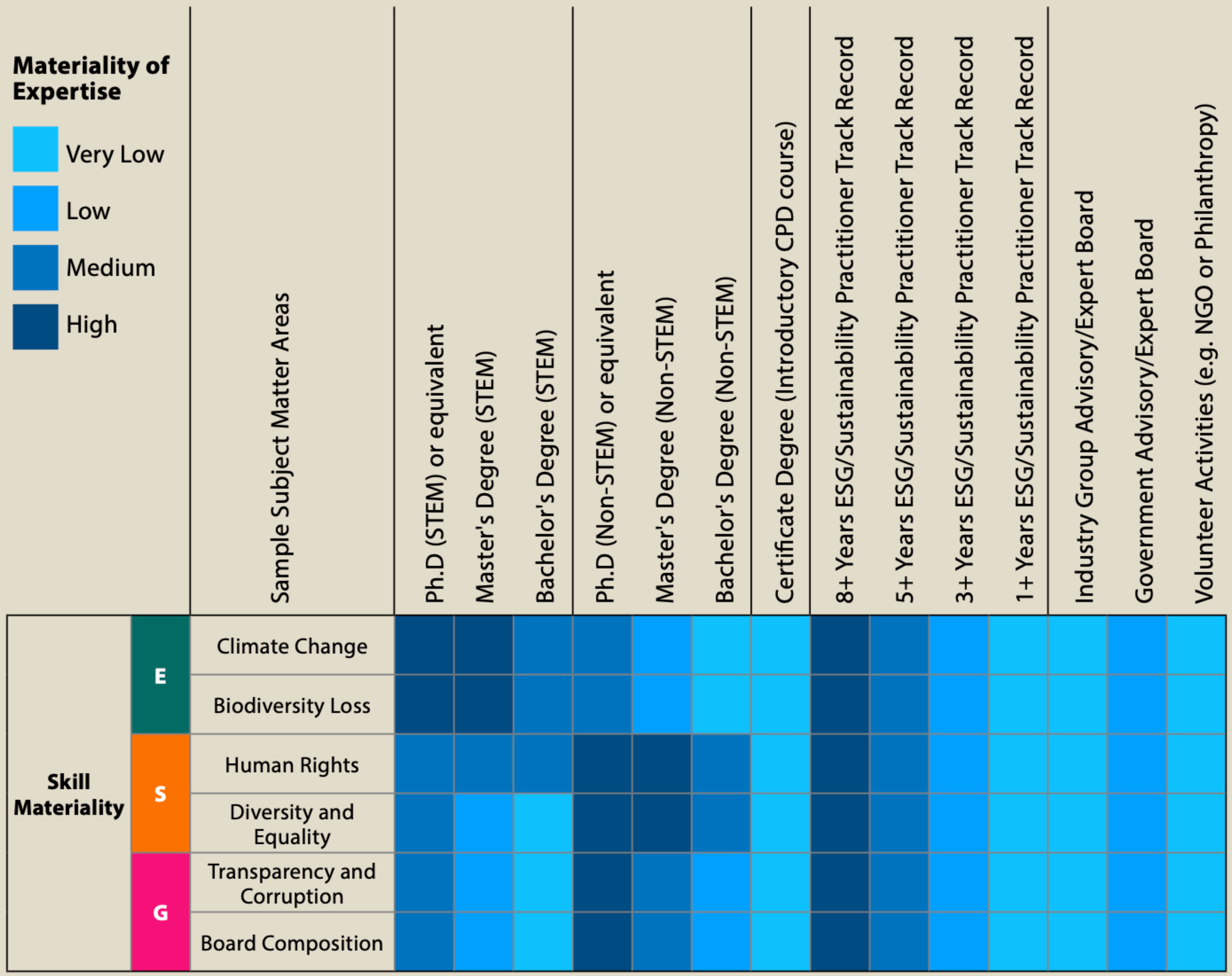
b) Recommendations to address competence greenwashing

IV. Other forms of ESG-related greenwashing

FIGURE 2

ESG SKILL MATERIALITY MATRIX.



Source: Produced by the author.

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- Adding “ESG,” “Climate,” or “Sustainability” to the job titles of existing executives/directors/managers/analysts.
- Creating token sustainability, climate, or ESG positions, often promoting someone remotely related to corporate social responsibility just to respond to market-level or reputational pressures or appointing big names “Head of ESG/Sustainability” or “Chief Sustainability Officer” without solid material ESG track records or genuine sustainability expertise.
- Recruiting “ESG experts” who only completed online introductory ESG certificate courses that are not equal to subject matter expertise in areas like climate change, biodiversity, or ecosystems.
- Creating climate service, ESG, or sustainability teams that lack disciplinary diversity at the skill level, as such teams require expertise in addition to financial, management, and business skills. An equal amount of non-financial scientific expertise is needed to properly assess climate- and nature-related risks and impacts.

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Board of Directors' Skill Matrix

Name	Skill							
	Corporate management	International business	Financial industry	Accounting/ Financial	Legal systems/ Regulations	Internal control (including Risk management)	Digital (IT)	Sustainability
	○	○	○					○
	○	○	○					○
	○	○	○		○	○		
		○	○			○		
	○	○						○
	○	○						○
	○	○		○		○		○
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ありがとうございます。Thank you very much.

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