KPMG

Assurance Insights

Risk of greenwashing and greenhushing

Board Leadership Center

As companies around the world make commitments or statements related to climate principles and sustainability, there is increasing demand from consumers, investors, regulators, and the greater public for transparency, reliability and balance in these disclosures. It's no surprise that greenwashing and greenhushing have become a significant concern in today's corporate boardrooms as both practices can undermine the integrity of sustainability reporting and expose organizations to reputational, regulatory and financial risk.

What are greenwashing and greenhushing?

Greenwashing refers to the deceptive marketing and/or reporting practices that create a false impression of a company's environmental responsibility. This strategy involves providing misleading or false information about the environmental impact of a company's products, services, or operations to appear more eco-friendly than they actually are.[1]

Greenhushing, by contrast, refers to the practice of businesses and organizations withholding, downplaying or under-promoting their green or environmentally friendly initiatives to avoid accusations of greenwashing. For instance, a company might be making significant efforts to reduce its carbon footprint but chooses not to publicize these efforts out of fear of potential litigation.

Common characteristics Boards should watch for

There are many ways greenwashing and/or greenhushing may manifest. Being aware of these practices is crucial for prevention.

1. **Misleading information:** False or overstated information about the environmental impact of products, services, or operations. For example, a company receives an email from its foreign subsidiary regarding an accidental spillage of hazardous sludge into water sources during production. The email downplays the incident, stating that the spillage was not significant, an immediate clean-up was conducted, and no further action was necessary. The parent entity then bases its sustainability report on this email, without seeking further evidence.
2. **Partial disclosure:** Companies may partially disclose to avoid drawing attention to what might be perceived as incomplete sustainability. For example a mid-sized fashion brand transitions to using recycled fabric in 70% of its product lines. Despite this significant shift, they avoid promoting this achievement due to concerns it might invite criticism about the remaining 30% of its products (greenhushing).
3. **Omission of relevant information:** Communications that omit relevant information, making them misleading to consumers, investors, or other market participants. For example, an entity's management decides not to include details about a significant environmental incident despite the impact on the environment (greenwashing). Alternatively, a major bank withholds climate risk disclosures despite significant internal progress toward aligning its investment portfolio with net-zero goals (greenhushing).
4. **Obscuring relevant information with irrelevant information:** Burying essential information within extraneous disclosures leading to misrepresentation and lack of transparency. For example, when an entity presents extensive and bold text on its 'green' financing projects, while relegating information about its 'brown' projects, such as investments in a major oil pipeline, to a single line in non-bold text.

[1] The Challenge of Greenwashing: An International Overview, KPMG Law, KPMG International, 2024

5. **Vague statements:** Making generic claims that cannot be substantiated, for example using dubious labels and terminology such as 'sustainable' or 'green' but fail to disclose concrete data or detailed actions to support these assertions leaving consumers, investors and other stakeholders unclear about the actual benefits.

6. **Disguised objectives:** Creating a misleading impression on the entity being more committed to sustainable projects than it is, including presenting company goals in a way that hides the lack of ambition or alignment with broader environmental goals. For example, when a company presents its goal of reducing carbon emissions by 10 percent over the next decade as a significant commitment, it may reflect a lack of ambition compared to norms in the industry.

7. **Overly optimistic attitude:** The entity includes images of eco-construction projects, forests and clean lakes in its sustainability report or marketing activities to reinforce that it is committed to ecologically sustainable projects. However, the amount of investment in non-green projects is much larger than investments in green projects.

8. **Future uncertainties on climate-related transition risks:** For example, the entity made a large loan at the end of the previous year to a construction entity involved in a long-term contract for a major oil pipeline. There may be significant reduction in demand for oil in the future as consumers switch to low-carbon alternatives, which may affect the collectability of the large loan. This situation could be seen as greenwashing if the entity understates the impact of the planned transition on its operations and financial health, thereby misleading stakeholders about its true environmental impact and risks.

9. **Use of black box models to support data being reported:** Making 'green' claims based on data derived from black box models that lack transparency, making it difficult to verify the accuracy and reliability of reporting information.

These practices carry inherent risks that could have significant negative financial, environmental and reputational impact for companies such as heavy fines due to non-compliance with regulations, loss of customers and reduced capital inflows from investors.

Mitigate risk: Governance, capabilities, compliance and controls

For companies, effective governance, compliance, and internal controls are essential to ensuring the accuracy and reliability of their organization's sustainability disclosures. When the board oversees a robust strategy and risk management framework that helps identify material misstatements, sustainability reporting becomes more meaningful and actionable. This enables the organization to establish clear metrics for addressing risks and seizing opportunities. It also helps the board identify areas where governance structures can be enhanced, capabilities strengthened, and risk management procedures improved.

Independent sustainability assurance plays a vital role in preventing the risk of potential greenwashing and greenhushing by enabling the early detection of inconsistencies, data gaps, understated or overstated claims—giving companies the opportunity to either correct them or provide appropriate evidence to substantiate their disclosures. By identifying and resolving issues early, assurance not only safeguards the company's reputation but also strengthens stakeholder trust in the integrity of its sustainability reporting.

Questions Boards should consider

Sustainability goals	*Data integrity & verification*	*Transparency & communication*	*Governance, controls & assurance*
• How are we monitoring evolving regulatory expectations across the jurisdictions in which we operate? • Are our sustainability goals specific, measurable, and aligned with recognized industry standards? • How do we track and report progress toward these goals over time? • Do we have a process for regularly reviewing and updating our sustainability benchmarks?	• Are our sustainability claims substantiated by reliable data and evidence? • Do we have robust processes in place to verify the accuracy of our sustainability statements? • How are we addressing the challenges of obtaining reliable data from our global supply chains?	• Are our sustainability disclosures clear, balanced and accessible to all stakeholders? • What channels do we use to engage stakeholders in meaningful dialogue about our sustainability practices? • What measures are in place to ensure our marketing practices are not misleading? • Are we striking the right balance between transparency and legal risk?	• Are we proactively adjusting our reporting practices to meet new regulatory requirements? • What steps are we taking to mitigate legal and reputational risks related to greenwashing? • Are we conducting regular, independent assurance of our sustainability claims and performance? • How do we address discrepancies or concerns identified during the assurance process?

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