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Securing trust in times of greenwashing

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At a time when the urgency of environmental and social issues is becoming increasingly clear, customers have redefined their expectations of companies. They are no longer satisfied with simple product descriptions such as “sustainable”, “climate-neutral”, and “green”. Instead, they are critically questioning companies’ sustainability promises and demanding comprehensive evidence of their sustainability efforts as well as concrete measures to address pressing global challenges. Their awareness of greenwashing has also increased.

Greenwashing and its consequences

The issue of greenwashing is of increasing importance in today’s business world. Greenwashing allegations increase distrust of sustainability promises made by companies. This distrust is not always unjustified, as there are numerous examples of companies attempting to project an environmentally friendly image without actually making environmental or social progress.

The result of this skepticism is that many companies today either do not communicate their sustainable activities at all or do so only with strong restraint. They are concerned that they may be falsely accused of greenwashing and that the credibility of their efforts will be called into question. If a company is convicted of greenwashing, the consequences can be severe. Through social media, news quickly goes viral, which can shake customer trust in the long run and damage reputations.

Transparency as the key to trust

To regain the trust of customers, companies must above all carefully document their sustainability efforts and communicate them transparently. Despite a great general distrust of sustainability promises, the majority of the Swiss population wants to be informed when a company makes a social or environmental commitment. In doing so, it relies on political regulation and the companies’ own initiative¹.

Regulatory requirements, such as those of the European Union, on sustainability reporting are important guidelines for companies as to which sustainability aspects they must take into account and what information they must disclose in this regard. This is to ensure that sustainability reporting is standardized and can be compared and evaluated on a uniform basis. The EU Taxonomy, which was introduced by the European Commission as a classification system, also defines which economic activities may be described as sustainable and is intended to avoid greenwashing.

New regulatory requirements in the EU and Switzerland

In the EU, companies must pay particular attention to the regulatory innovations of the Corporate Sustainability Reporting Directive (CSRD), the draft of which was published by the European Commission in April 2021 and will come into force from the 2024 financial year. One of the main innovations of the CSRD is that companies will have to report more comprehensively and according to more uniform standards in the future. The introduction of the CSRD is part of the European Union’s efforts to improve sustainability reporting and ensure that investors and other stakeholders have access to transparent and comparable non-financial corporate information.

In order to introduce comparable requirements in Switzerland, the Federal Council adopted the “Ordinance on Reporting on Climate-related Issues” in November 2022, which is based on the internationally recognized recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and will come into force from the 2023 financial year. The new ordinance

¹ Sotomo. (2023). *Unternehmen in der Verantwortung*. <https://sotomo.ch/site/projekte/unternehmensverantwortung/>

requires public companies, banks and insurance companies that employ at least 500 people and have total assets of at least CHF 20 million or sales of more than CHF 40 million to publicly report on climate-related matters.

Voluntary sustainability standards and guidelines

However, voluntary sustainability standards and guidelines are also an important basis for sustainability reporting. Recognized sustainability standards and guidelines such as the Global Reporting Initiative (GRI), the ten principles of the UN Global Compact and the Sustainable Development Goals developed by the United Nations provide companies with comprehensive guidelines for preparing sustainability reports.

According to a study by IRF², by 2023 all of Switzerland's largest listed companies will already be applying at least one of the six most common voluntary sustainability standards and guidelines in their sustainability reporting. Compared to the last survey in 2021, there is a strong increase in the use of all six standards and guidelines and thus also in the general standardization of sustainability reporting. This means that companies are increasingly meeting the growing desire for transparency, credibility and accountability in the area of sustainability reporting step by step.

² IRF Reputation. (2023). *Sustainability Reporting of the Largest Listed Swiss Companies According to International Standards*. <https://www.irf-reputation.ch/en/know-how/blog/detail/irf-esg-sustainability-study-2022.html>