Corporate transparency is a step toward a greener economy, but further change is needed

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Could corporate transparency be one of the solutions to climate change? Or, at the very least, could it be a way to hold businesses accountable for their environmental impacts? Not by itself, according to our paper, "Shaping nature outcomes in corporate settings", recently published by The Royal Society.

Ninety-four percent of investors are doubtful of the validity of corporate sustainability reporting, citing unsupported claims, according to PwC's

Global Investor Survey 2023. And their skepticism is not unfounded.

Indeed, our paper shows that while corporate transparency is a crucial first step toward a more sustainable economy, it alone will not be enough to drive positive corporate nature outcomes. For change to actually happen, three critical steps are needed: linking corporate actions to their environmental impact, embedding nature outcomes into daily operations and aligning financial incentives with ecological goals.

The risk of greenwashing

Even if there is a growing push for nature-related regulation, and especially nature-related disclosures, companies have only started to provide information about their nature-related performance, impacts and risks. This is the essence of the European Union's Sustainable Finance Disclosures Regulation (SFDR) that came into effect in 2021 and the Corporate Sustainability Reporting Directive (CSRD) that came into effect in 2023. Both initiatives aim to strengthen transparency obligations on environmental, sustainable and governance (ESG) issues within the bloc. This is characteristic of a certain kind of governance, which uses mandated information disclosure as a way of regulating behavior.

Does it work? Not on its own, as companies still struggle to fully understand their impacts on nature or the impacts of their supply chain. And they often lack the knowledge and expertise to navigate the evolving and complex landscape of national and international sustainability reporting requirements, let alone take meaningful action. This could result in the dilution of the concept of transparency and a rise in greenwashing, the process of making false or misleading environmental claims.

Greenwashing might distort relevant information that investors require to make decisions and, in the end, erode their trust in sustainability-related products and/or practices. A study commissioned by the European Union in 2023 found that 53% of green claims on products and services make vague, misleading or even unfounded claims, and 40% have no supporting evidence. In the United States, 68% of executives admitted to being guilty of greenwashing. In this context, the standardization of sustainability reporting in the EU is necessary and overdue.

Three key factors for corporate accountability

My co-authors and I identify three conditions for information disclosures to positively impact nature outcomes: linking companies and ecosystems, translating aspiration into operations and shaping financial-system responsiveness.

Our current approach, which uses disclosure requirements to drive company behavior, may be limited, because providing information does not in itself encourage companies to fully achieve nature-positive impacts.

Linking companies and ecosystems

This first condition means putting in place radical traceability that links company actions to outcomes in particular settings. This would create the potential for companies to be held accountable regardless of whether they publish data, as well as incentives for them to produce their own data rather than having to respond to requirements created by third parties.

One example is Cargill, a supplier for the food sector. In the company's "South American Soy Sustainability Report," it traces the soy it produces and purchases through its supply chain with locations in several South American countries. The sites are geospatially located with data on the degree of deforestation in each polygon obtained from satellite images. In this respect, traceability creates the possibility for nature accounts.

Translating aspirations into operations

This approach is about developing routines and tools that translate strategic intent into on-the-ground behavior: in other words, linking knowledge and action. Even if companies are well informed about their impacts on nature, translating strategies to reduce impacts and restore nature into operational targets might be difficult. In this regard, it might be useful to translate ambitions into specific metrics that, once embedded in companies, create visibilities and routines that focus on making a change.

For example, Holcim Spain, an aggregates and cement producer, has developed a monitoring system to evaluate restoration processes by studying nature assets. It has also studied resources based on field samples by cataloging flora, identifying vegetation, establishing the distribution of birds and insects, assessing the status of biodiversity in the quarry and developing strategies and action plans. Monitoring of activities has been undertaken using a biodiversity index developed in collaboration with the World Wide Fund for Nature (WWF) and the International Union for Conservation of Nature (IUCN)'s Biodiversity Indicator and Reporting System.

Shaping financial-system responsiveness

The final requirement relates to identifying how financial-system actors can enable company actions. To put it another way, it is about aligning financial incentives with environmental goals.

Company owners and those who fund companies are the most powerful financial actors in this context. Financial stability relies on well-functioning ecosystems; indeed, recent studies have shown that climate change threatens it. Information governance could be used to draw investor attention to nature impacts, mirroring more developed interventions. An example of such a mechanism is the EU's SFDR, which requires banks, insurers and asset managers to provide information about how they address sustainability risks.

Another example comes from ASN Bank, which specializes in sustainability banking products and has developed a biodiversity footprinting tool for financial institutions to estimate the impacts of an investment portfolio and identify hotspots therein.

Better information, less greenwashing

The more solid, standardized and transparent corporate sustainability information is shared, the better we can combat the greenwashing that undermines the credibility of sustainability efforts. But, while disclosure is key, it is time we take its limits into account. For businesses, this implies adopting governance approaches that shape action and ceasing to rely solely on reporting.

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