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GREENWASHING OR REAL IMPACT?

Strategic Investment Governance and Management Analysis

Enhancing Stakeholder Trust through Transparent and Credible ESG Reporting

KMMB Consulting is a consulting company that focuses on providing comprehensive management services to help companies to achieve their business goals.

Since its inception, KMMB has successfully attracted many clients by offering a variety of services that are essential for company development and management.

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Greenwashing or Real Impact?

Enhancing Stakeholder Trust through Transparent and Credible ESG Reporting

Environment, Social, and Governance, or commonly known as “ESG”, is a framework to analyze a company’s sustainability, risk management, and long-term financial performance. Investors, regulators and other stakeholders are currently recognizing the ESG factors as an important aspect to consider in their business or policy-making process. This is because ESG implementation is expected to help organizations achieve sustainability and improve its performance by also tackling environmental issues, social issues, and enhancing corporate governance [1][2]. Additionally, a study from Gong et al. [3] also argues that because of today’s fierce business competition, it forces companies to implement ESG practices to differentiate their business with competitors.



Sigma Highlight

However, stakeholders are increasingly concerned because multiple greenwashing cases have been identified, in which companies engage in deceptive practices to impress stakeholders and appear as a “green and sustainable business” to enhance their company reputation. Over the past four years, more than 2,000 companies worldwide have been involved in greenwashing incidents, as investigations into unverified sustainability claims have increased [4]. For example, in 2024, the Amsterdam District Court found that several environmental statements or claims made by KLM airlines (a Dutch-based airline company) were misleading, particularly in relation to the CO2 emissions impact compensation and the sustainable aviation fuels (SAF) usage [5]. Other than that, recently in 2025, Deutsche Bank-owned asset manager DWS was fined 27 million USD by German prosecutor for overstating its ESG credentials and misleading the investors [6]. These cases demonstrate the importance of transparently and accurately stating a company’s ESG performance or goals to avoid misleading claims and enhance stakeholder’s trust.



What is ESG and Why it Matters for Company's Sustainability

ESG stands for “Environment, Social and Governance”, a framework used to measure a company’s sustainability goals, performance, and ethical impact beyond the mainstream financial metrics¹. Stakeholders such as investors and the public are increasingly using ESG factors to evaluate a company’s risks, opportunities, and long-term performance, influencing their investment decisions as well as corporate strategies. By implementing ESG factors in the business process, it demonstrates the company’s responsible and ethical operation for a greener and more sustainable future.

ESG is vital for a company’s sustainability performance because it provides a framework to manage non-financial risks² and creates value that supports future business development in a dynamic and evolving global landscape³. The following explanation shows the benefits in implementing ESG:

Managing risks and business resilience

Integrating ESG factors into the company’s strategies and practices helps the company to identify and mitigate major risks that could disrupt business operations and strengthen its financial performance [7] [8] [9]. Below are the examples of the ESG-related risks that company needs to manage:

Environmental Risks

Addressing issues like climate change, biodiversity loss, and resource scarcity prepares the company to mitigate physical risks (e.g., extreme weather events), biodiversity risks (e.g., habitat loss because of deforestation) or facing a tighter environmental regulation. Ignoring these risks can lead to operational shutdowns, especially if the business heavily relies on natural resources.

Social Risks

Ensuring a safe workplace environment, fair labour compensation, and building strong community relationships can reduce the risk of labour disputes, supply chain disruptions, and reputational damage from negative stakeholders or public opinion.



Governance Risks

Building a strong governance mechanism, transparent reporting, and conducting ethical business process can prevent fraud, mismanagement, and regulatory non-compliance which can lead to severe financial penalties or sanction from the stakeholders.



¹**Mainstream financial metrics:** conventional financial indicators commonly used to evaluate corporate performance.

²**Non-financial risks:** Risks not directly related to financial figures, such as environmental, social, and reputational risks.

³**Dynamic and evolving global landscape:** A global environment that is continuously changing and developing.

Value creation¹ and competitive advantage²

Other than managing or avoiding risks, by implementing strong ESG strategies and transparently disclosing its performance, companies can create long-term value and differentiate their business from their competitors [10] [11].



Cost reduction

If a company implements ESG strategies, for example, improving energy efficiency, reducing operational waste, or conserving water, it will lower the operational costs [12] [13].



Attracting capital

Investors are increasingly using a company's ESG-related performance to screen and select potential investments. Companies with better ESG performance are often viewed as more resilient and have lower risk, leading to better access to capital.



Attracting talent and boost company reputation

As the younger generations care more about the planet and the environment, they tend to choose to work in a company where they have similar values and strong commitments to protecting the environment. A strong commitment to implementing ESG and improving the company's sustainability will attract these potential talents as well as boosting the company's reputation [14] [15].

ESG in Indonesia: Regulatory Landscape and Market Trends

The significant influence of climate change on global economic instability has led to a significant growth in sustainable investment, specifically the integration of environment, social and governance (ESG) principles in investment decisions. In the context of Indonesia, the implementation of ESG is primarily driven by the Financial Services Authority (OJK) and IDX (Indonesia Stock Exchange), and is strongly focused on creating a stable, inclusive, and sustainable financial ecosystem.

¹**Value creation** : The process of generating long-term value for the company and its stakeholders.

²**Competitive advantage** : A strategic benefit that allows a company to outperform its competitors.

Mandatory Regulatory Frameworks¹

The regulation of sustainable finance in Indonesia is the comprehensive mandate issued by the Financial Services Authority (OJK). The OJK's regulations shift ESG from a voluntary corporate social responsibility (CSR) activity to a mandatory, auditable reporting requirement integrated into financial risk management.

Regulation	Core Requirement	Why it Matters for Companies
OJK Regulation No. 51/POJK.03/2017 on Sustainable Finance (2017)[16]	Requires Financial Institutions, Listed Companies (Issuers), and Public Companies to adopt Sustainable Finance Principles.	Mandates them to submit a Sustainable Finance Action Plan (RAKB) and a public Sustainability Report detailing their ESG and economic performance.
Indonesia Taxonomy for Sustainable Finance (TKBI)[17]	A key tool to classify economic activities into three simple tiers: Green, Transition, or Non-Compliant.	Gives financial institutions and investors a clear guide on what projects qualify for "green" funding, reducing confusion and preventing greenwashing.
OJK Sustainable Finance Roadmap Phase II (2021–2025)[18]	A plan to build a complete sustainable finance system, focusing on climate risks and green innovation.	Requires companies to start integrating social and environmental risks into their business strategies and financial risk management.

Capital Market Trend and Investor Demands

The Indonesia Stock Exchange (IDX) plays a key role by helping investors identify high-performing ESG companies, making sustainability a factor in capital allocation². In this context, The IDX released several key indices that track companies with strong ESG performance [19]:

ESGQKEHATI

An index that measures the stock price performance of 45 listed companies, selected by the KEHATI Foundation, that have good ESG performance, as well as having a high liquidity, and good financial performance.



ESGQKEHATI

An index that measures the stock price performance, selected by KEHATI Foundation, that has an ESG score above the sector average and has good liquidity and financial performance.



IDXESGL

An index that measures price performance of stocks that become leaders in ESG rating and do not have significant controversies selected from stocks with high trading liquidity and good financial performance. The ESG rating and controversy analysis is developed by Sustainalytics.



¹**Mandatory regulatory frameworks** : Binding regulatory systems that companies are legally required to comply with.

²**Capital allocation** : The process of distributing financial resources across different investments or projects.

IDXLQ45LCL

An index that aims to reduce the portfolio weighted average carbon intensity¹ by 50% compared to the LQ45 (parent index) and exclude coal production companies while maintaining LQ45 index sectoral availability.



SRI-KEHATI

An index that measures the stock price performance of 25 listed companies, selected by KEHATI Foundation, that have good performance in encouraging sustainable businesses, as well as having an awareness of the environment, social, and good corporate governance or called Sustainable and Responsible Investment (SRI). SRI-KEHATI is a jointly developed index with the Indonesian Biodiversity Foundation (KEHATI Foundation).



Other ESG Indices (S&P/IDX Indonesia ESG Index)

An index that measures price performance of stocks that become leaders in ESG rating and do not have significant controversies selected from stocks with high trading liquidity and good financial performance. The ESG rating and controversy analysis is developed by Sustainalytics.



The existence and growing interest in these indices clearly signal to listed companies that strong ESG performance can improve market valuation and access to capital. Both local and international investors now actively use these scores when deciding where to put their investment.



From the perspective of the Environmental Policy Group at Wageningen University and Research, the topic of greenwashing is interesting and features in some of our research and teaching. What is particularly interesting is framing greenwashing as a risk that companies face, rather than a tactic that they might engage in. This gives a more complete picture of the topic.

Glen Smith, Lecturer, Environmental Policy Group, Wageningen University and Research, The Netherlands.

¹**Weighted average carbon intensity** : The average level of carbon emissions weighted according to portfolio composition.

What is Greenwashing and why is it dangerous?

The United Nations describes greenwashing as a company's attempt to mislead the public into believing that it is doing more to protect the environment than it actually is, making the effort to tackle climate change issues more challenging [20]. According to RepRisk, from 2019 to 2024, greenwashing has been most common in Europe and North America, with lower but still notable levels in Asia, Latin America and Caribbean. Most cases involve private companies: 70% of the organizations accused were private, while 30% were public [21].

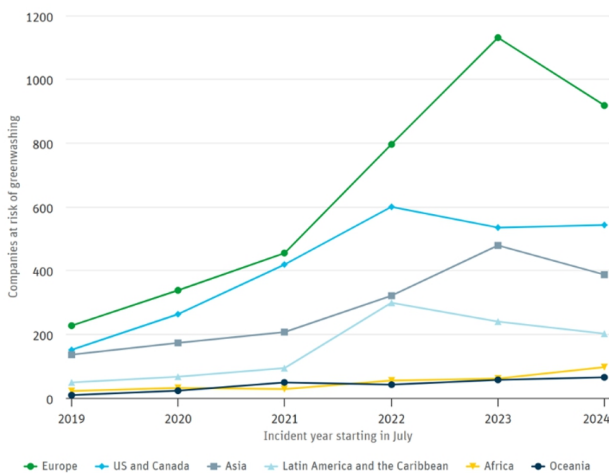


Figure 1: Reflects the count of companies with at least one ESG risk incident linked to both environmental footprint and misleading communication in a given year (Figure source: RepRisk, 2024)

Moreover, RepRisk also noted that, even though the total number of greenwashing cases dropped by 12% globally in 2024, the number of high-risk incidents jumped by more than 30%, and around 28% of companies were identified as repeat offenders [21].

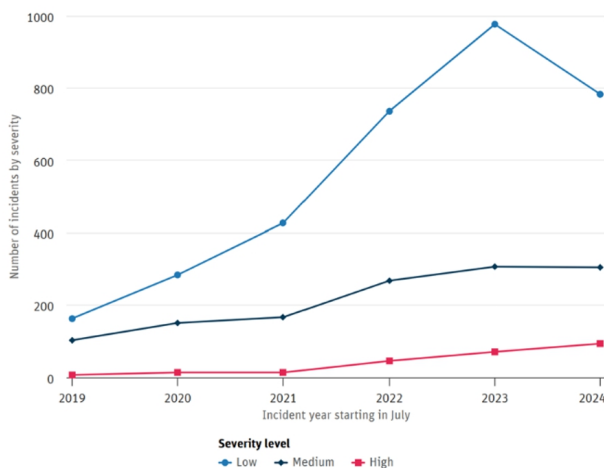


Figure 2 Reflects the change in global greenwashing incidents by severity (Figure source: RepRisk, 2024)

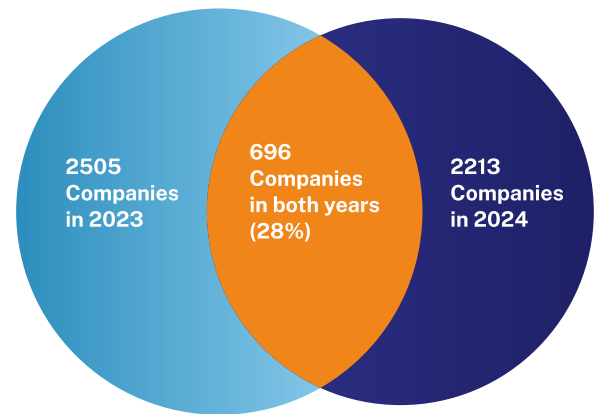


Figure 1: Reflects the count of companies with at least one ESG risk incident linked to both environmental footprint and misleading communication in a given year (Figure source: RepRisk, 2024)

Because of greenwashing, stakeholders may not be able to fully understand the organization's actual sustainability performance and commitment to protect the planet and society:

- **Misleads consumers**
Consumers may purchase “green” products or services offered by companies without knowing the real impact of those products or services.
- **Misleads investors**
The capital move towards companies that overclaim their sustainability performance and able to market their “green” commitment better, away from those who are actually doing real and measurable sustainability actions.
- **Confuses the broader public and policy makers**
Greenwashing can make it harder for the broader public and policymakers to distinguish credible actions from empty pledges made by companies.
- **Weakens stakeholders’ trust**
When stakeholders are aware that companies’ “green and sustainable” claims are deceptive and misleading, skepticism will rise, weakening trust or, even worse, destroying that company's reputation.



Define scope and boundaries



Companies should be explicit and clear about what their ESG reports or claims cover. It means that the report or claims need to demonstrate: which parts of the business activities that they report (is it the entire group or business units, all region or several regions, etc), which activities and impacts (all emissions or only specific emissions such as Scope 1 and Scope 2, and all part of the business chain or only several parts of the business chain, etc), which time period (clearly states the timeframe that the ESG reports or claims cover). By clearly defining scope and boundaries, stakeholders can monitor and compare the company's actual ESG performance year to year and across companies in the industry.

Use recognized standards



To avoid being accused of greenwashing, companies should base their ESG report and claims on nationally or internationally accepted and recognized frameworks or standards, such as GRI, SASB, GHG protocol for emissions accounting, TCFD for climate-related financial disclosures, TNFD for nature-related risks, etc. Using these widely recognized standards helps companies ensure the consistency and comparability of their ESG reports over time, demonstrate the credibility of the methodology in reporting the ESG performance, and enhance stakeholders' trust that the numbers and narratives published by companies are accurate and accountable.

Set science-based, time-bound targets with a baseline



In formulating credible ESG targets, companies need to consider the following aspects:

- Science-based: Aligned with national and global climate goals, biodiversity goals, and other social standards, such as the Paris Agreement, planetary boundaries, human rights standards, etc.
- Time-bound: Have clear deadlines, for example, short-term (1-4 years), medium-term (5-10 years), and long-term (>10 years). For example: "Our company will reduce Scope 1 and 2 emissions by 60% by 2035, from a 2025 baseline."
- Linked to a baseline: State the baseline year and the baseline performance. For example: "Our 2025 baseline for Scope 1 and Scope 2 emissions is 1.5 million tCO₂e; all emissions reductions are measured against this level". Without a clear baseline and time-bound goals, companies can overclaim their ESG performance, which potentially leads to greenwashing.

Publish clear and transparent ESG-related key performance indicators (KPIs)



ESG reports and claims need to be backed by specific, clear indicators. Therefore, good ESG KPIs should be relevant, consistent, comparable, and transparently explained. For example: "Scope 1 emissions: 500.000 tCO₂e in 2025 (-15% vs 2024)", "Increase in share of renewable electricity sources: 55% in 2025 (45% in 2024), etc. Publishing these ESG-related KPIs in a structured and transparent way (tables, charts, etc.) makes it easier for stakeholders to understand the companies' actual ESG targets and performance.

Explain misses, changes, and adjustments



No company can change entirely in one night. Being honest about where your company fell short is one of the strongest indicators that it is not engaging in "greenwashing". This can be done by: explaining the missed targets (for example: explain why the target was not met: because there are unexpected supplier issues, change in regulation, the technology is not ready, etc), explaining the change in methodology (for example: if you change the way you measure your performance, clearly state what you changed and restate the differences). Other than that, explaining other changes and adjustments is also important (for example: if there is reorganization, merger, divestment, etc, that affect the ESG performance and/or targets, explaining when and how this happened).

Get independent assurance¹



Having an external, qualified third-party review of your ESG targets, data, performance, and claims or narratives is crucial to enhancing the credibility of your ESG report and statements. The independent assurance will verify the accuracy of key ESG metrics, assess whether the reporting is in line with nationally or internationally recognized standards, and identify weaknesses or blind spots in data collection² that can serve as sources of improvement.

What KMMB can do for your company

To support companies in strengthening the transparency and credibility of their ESG reports and claims, KMMB acts as a strategic partner that understands both global standards and Indonesian regulations. The services that KMMB can offer are as follows:

- KMMB helps companies conduct an ESG assessment.**
Review your ESG report, sustainability report, annual report, websites, and marketing materials to identify gaps, inconsistencies, and potential greenwashing risks.
- KMMB helps companies to align their ESG reporting with Indonesian regulations and global standards or frameworks.**
Designing the structure and content of the ESG report and/or Sustainability report that is in line with OJK and IDX requirements or international standards.
- KMMB helps companies define their ESG KPIs, baselines, and science-based ESG targets.**
Supporting companies in selecting material ESG indicators, setting baselines, and formulating short, medium, and long-term targets that are science-based and measurable.
- KMMB helps companies strengthen ESG data governance and internal controls.**
Designing ESG data collection flows and mechanisms across the business chain, assigning roles and responsibilities, and formulating standards or report templates. This ensures that ESG data used in ESG reports are credible, consistent, and traceable.
- KMMB helps companies review their ESG claims and external communication.**
Assessing corporate ESG-related claims such as "carbon neutral", "eco-friendly", "sustainable product", etc, against the company's credible evidence. KMMB develops internal guidelines for "green" claims, including standardized wording, required supporting documents, and approval workflows to avoid greenwashing.
- KMMB helps companies prepare for independent ESG assurance.**
Conducting a pre-assurance review of ESG data, processes, and documentation or evidence before the company engages with an independent assurance provider, such as an audit firm. KMMB will identify weaknesses, recommend improvement actions, and help companies organize evidence so that the assurance process runs efficiently.
- KMMB helps companies develop internal capacity and awareness of greenwashing risks.**
Providing workshops and training for staff and management to understand ESG regulations, greenwashing risk, and strategies to avoid that, and hands-on training on how to use the specific ESG tools that support their work.

¹**Independent assurance** : Verification of data or reports conducted by an independent third party.

²**Blind spots in data collection** : Gaps or weaknesses in the data collection process that may affect accuracy or completeness.

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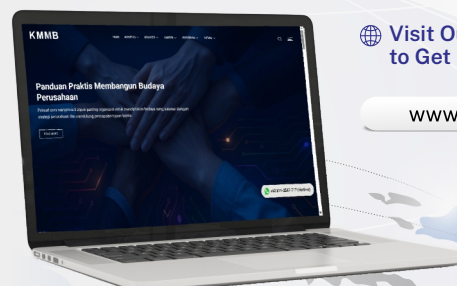
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