GREENWASHING AND ESG COMPLIANCE: RETHINKING CORPORATE INTEGRITY

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ABSTRACT

In an era where sustainability is a strategic imperative, the rise of Environmental, Social, and Governance (ESG) frameworks has redefined how corporations signal responsibility. However, behind the polished facade of ESG disclosures lurks a deeper concern namely--greenwashing. This essay examines how the misuse of ESG narratives, absence of legal enforceability, and opaque rating systems distort public perception and investor trust. It delves into high-profile global scandals, critiques India's current regulatory framework under SEBI's BRSR guidelines, and highlights how self-regulation often masks environmental and social harm. By drawing from comparative models and proposing structured reforms including third-party audits, whistleblower protections, and supply chain accountability the essay offers a roadmap to restore integrity in ESG compliance. It argues that only through enforceable legal mechanisms and transparent governance can ESG transition from performative branding to genuine corporate accountability.

Keywords: *Environmental, Social and Governance (ESG), Greenwashing, Corporate Accountability, Sustainability Reporting, ESG Regulation.*

1. Introduction

In today's globally integrated economy, corporate influence extends well beyond financial performance. Evaluating businesses solely on profitability is no longer viable; a growing emphasis now lies in examining environmental and social responsibility as part of sustainable governance. Once-dominant indicators such as revenue growth and shareholder returns are insufficient in an age where development must be ecologically sound and ethically grounded.

Environmental, Social, and Governance (ESG) frameworks have emerged as vital tools to gauge corporate responsibility beyond balance sheets. However, what began as a hopeful shift toward transparency is now often diluted by superficial compliance. Instead of acting as mechanisms for reform, ESG disclosures are increasingly used for brand enhancement. Carbon reduction promises often overshadow ongoing emissions, and formal reporting frequently prioritizes appearance over meaningful action.

In the race for ESG recognition, genuine reform is frequently displaced by compelling narratives. Without reforming ESG reporting to incorporate third-party validation, transparency, and enforceable legal standards, the risk remains that ESG will serve image over impact.

2. Greenwashing and the Corporate Dilemma

Although ESG frameworks play a central role in guiding investment and shaping corporate reputation, their misuse has led to the rise of greenwashing the exaggeration or fabrication of sustainability efforts to mislead stakeholders. The absence of standardised criteria, combined with heavy reliance on self-reported data, gives companies room to disclose selectively. This is not only ethically questionable but also reflects systemic flaws in the governance of ESG claims.[1]

The scale of the problem is not marginal: an EU review found that more than half of environmental claims made by companies in the bloc were vague, misleading, or simply

[1] European Commission, 'Staff Working Document: Substantiating Green Claims' SWD (2021) 49 final https://environment.ec.europa.eu/publications/green-claims-initiative_en accessed 20 July 2026.

unfounded, and that 40% came with no supporting evidence at all[2].The Commission tried to address this directly in March 2023 with a proposed Green Claims Directive, which would have forced companies to get their environmental claims independently verified before making them public. It never became law. Facing objections from industry including a claim that 90% of European companies found its scope too broad and pressure from the European Parliament's largest political grouping, the Commission withdrew the proposal in June 2025, just as final negotiations were about to begin.[3] This doesn't mean the EU has dropped the issue. A separate law, the Empowering Consumers for the Green Transition Directive, is still going into force from 27 September 2026, and it bans some of the worst offenders outright blanket "climate neutral" labels and offset-based neutrality claims that aren't backed by real data.[4] It's a lighter-touch approach than what the Green Claims Directive would have done enforcement after the fact rather than sign-off in advance but it shows the EU hasn't abandoned the fight against greenwashing, just changed its method.

A notable case is Volkswagen's "clean diesel" campaign, which was later exposed for fraudulent emissions reporting despite the company's high ESG ratings at the time. The fallout resulted in global penalties exceeding $35 billion.[5]

In India, SEBI's Business Responsibility and Sustainability Reporting (BRSR) mandates ESG disclosures from the top 1,000 listed firms. Yet, these reports remain unaudited and self-declared, creating loopholes for selective disclosure. Firms often highlight visible CSR efforts while downplaying environmentally harmful practices, mirroring global greenwashing patterns.[6]

Unchecked, this practice undermines genuine corporate responsibility, distorts investment decisions, and erodes trust. To address it, countries like India must adopt industry-specific ESG

[2] European Commission, 'Green claims' (Environment, European Commission) https://environment.ec.europa.eu/topics/circular-economy-topics/green-claims_en accessed 21 July 2026

[3] Gorrissen Federspiel, 'The European Commission Withdraws the Green Claims Directive Proposal' (20 July 2026) https://gorrissenfederspiel.com/en/the-european-commission-withdraws-the-green-claims-directive-proposal/.

[4] Directive (EU) 2024/825 of the European Parliament and of the Council of 28 February 2024 amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition.

[5] Jack Ewing, Faster, Higher, Farther: The Inside Story of the Volkswagen Scandal (W. W. Norton & Company 2017).

[6] Securities and Exchange Board of India, 'Business Responsibility and Sustainability Reporting by Listed Entities' (Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562, 10 May 2021) https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html accessed 20 July 2026.

standards, enforce independent verification, and penalize false claims.

3. The Illusion of Compliance: ESG as Soft Law

Despite the rising influence of ESG in corporate governance, its legal enforceability in India remains weak. Under SEBI's 2021 circular, the top 1,000 companies must submit BRSR disclosures annually. However, this framework is largely declarative, emphasizing reporting over results. ESG obligations currently exist as voluntary standards rather than binding duties.

This regulatory gap allows companies to meet minimum documentation thresholds without demonstrating meaningful environmental or social progress. Notably, most ESG indicators are not subject to mandatory third-party audits, enabling businesses to make unverified claims.

This has benefited many firms, enabling them to craft an image of responsibility without substantive action. Token initiatives like isolated renewable energy projects often mask broader environmental impacts. Meanwhile, companies committed to genuine sustainability are placed at a disadvantage.

A credible ESG regime requires enforceable benchmarks, independent audits, and penalties for misinformation. ESG must evolve from a voluntary checklist into a legal obligation grounded in measurable compliance. One of the core challenges lies in the absence of universally accepted metrics leading to inconsistent ESG ratings across different agencies and making meaningful comparisons difficult as to fund managers who prioritize ESG at the expense of financial returns may neglect their responsibility to shareholders. Furthermore, he questions the performance narrative surrounding ESG investments, noting that any apparent outperformance may stem from short-term trends rather than inherent strength. The risk of greenwashing is another critical issue, as companies often rebrand existing initiatives as sustainable without structural change approach ESG claims with healthy skepticism, demanding transparency, evidence, and measurable impact instead of relying on goodwill alone.

4. ESG Rating Agencies: The Opaque Intermediaries

One of the most under-scrutinized yet influential actors in the ESG ecosystem is the ESG rating agency. Firms such as MSCI, Sustainalytics, Refinitiv, and ISS ESG play a pivotal role in determining how companies are perceived in terms of sustainability, social responsibility, and corporate governance. These agencies assign ESG scores that heavily influence investor decisions, institutional fund allocations, and corporate reputations.

However, despite their critical position in the sustainability framework, ESG rating agencies operate with limited transparency, negligible accountability, and highly divergent methodologies resulting in what can only be termed as regulatory blind spots.

The core issue lies in the lack of standardization. A single company may receive vastly different ESG ratings from different agencies based on subjective weightings, opaque algorithms, and inconsistent data sources. For instance, a company ranked in the top quartile by one provider may simultaneously fall into the bottom tier by another. These disparities arise because ESG agencies are not regulated under the same rigorous standards applied to financial credit rating agencies. Unlike credit ratings which are grounded in standardized accounting norms and regulatory scrutiny ESG scores often depend on unverified self-reporting, subjective analysis, and variable data quality.

This inconsistency has serious implications. First, it undermines investor confidence in ESG products, such as green bonds or ESG-focused mutual funds, which rely on these ratings to screen investments. Second, it allows companies to selectively highlight favourable ratings to burnish their reputations, even if those ratings are not backed by substantive operational changes. Moreover, companies can engage in “ratings shopping,” seeking out ESG agencies that use more lenient methodologies or that are willing to issue favorable scores in exchange for consultation or data service contracts. This presents an obvious conflict of interest, particularly when rating agencies are paid by the very companies they evaluate.

Prominent critics have raised alarms over this opaque system. Professor Aswath Damodaran, a well-known voice in corporate finance, has described ESG rating agencies as “black boxes” that claim moral authority without offering methodological clarity. He warns that investors may be misled by high ESG scores that are based on narrative embellishment rather than performance metrics. Global regulatory bodies have echoed these concerns. The International Organization of Securities Commissions (IOSCO), in its 2021 report, called for enhanced oversight and greater transparency in ESG ratings, highlighting the systemic risks posed by unregulated influence over capital flows.[7]

[7] IOSCO, 'Environmental, Social and Governance (ESG) Ratings and Data Products Providers: Final Report' (November 2021) https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf accessed 25 June 2025.

Recognizing these shortcomings, India has begun taking regulatory steps to rein in ESG rating arbitrariness. In 2023, the Securities and Exchange Board of India (SEBI) released a consultation paper proposing a framework to regulate ESG Rating Providers (ERPs). The proposal suggests licensing norms, disclosure mandates, and conflict -of-interest safeguards to ensure credibility in the rating process. If implemented effectively, this move could bring India to the forefront of ESG regulation in emerging markets.

To safeguard the integrity of ESG investing, it is essential that ESG rating agencies be held to transparent standards, subjected to independent audits, and prevented from engaging in practices that dilute the authenticity of sustainability assessments. Only then can ESG scores evolve from marketing labels into credible, decision-making tools that reflect genuine corporate accountability.

5. Reputational Risk: ESG In The Public Eye

Beyond regulatory shortcomings, one of the most immediate consequences of ESG misconduct lies in reputational fallout. As governance system is outdated and unregulated. public scrutiny has emerged as a powerful force for accountability.

Reputation today is shaped not just by official disclosures but by independent investigations and public revelations.

Investors are increasingly alert to inconsistencies between ESG rhetoric and actual practices. The case of DWS Group a Deutsche Bank subsidiary that lost $4 billion in market value after ESG misrepresentation allegations demonstrates how reputational damage can lead to regulatory intervention. [8]

In India, NGOs and watchdogs act as informal ESG auditors, spotlighting discrepancies between public claims and operational realities. Overstated sustainability initiatives and opaque practices have triggered public backlash, weakening stakeholder trust.

Social media plays a crucial role in amplifying these exposures. A single viral post can spark reputational crises, far beyond the reach of corporate public relations. Platforms like Twitter

[8] Tom Metcalf, 'DWS Drops $4 Billion in Value Amid SEC Greenwashing Probe' Bloomberg (31 May 2022) https://www.bloomberg.com/news/articles/2022-05-31/dws-faces-sec-probe-over-esg-greenwashing-claims accessed 25 June 2025.

and LinkedIn now function as real-time accountability forums, making it impossible for companies to manage their ESG image in isolation. A single instance of exposed ESG misrepresentation whether in emissions reporting or supply chain claims can erode years of brand equity. High-profile scandals, like that of Volkswagen or DWS Group, illustrate how swiftly reputational capital can collapse when sustainability rhetoric is found to be deceptive. Moreover, investors are now applying ESG filters with greater scrutiny, withdrawing capital from firms that fail to live up to their claims. This makes authenticity not just a moral imperative, but a strategic

necessity. In today's competitive landscape, reputation is no longer earned by appearing responsible it is sustained by being verifiably so

Reputation, once a supplementary asset, now acts as reputational capital. Losing credibility in ESG can result in exclusion from investor portfolios, consumer markets, and public goodwill.

6. Whistleblower Protection and ESG Fraud

The effectiveness of ESG compliance hinges not only on external reporting but also on internal accountability. In this context, whistleblower protection becomes a foundational pillar of any credible ESG regime. India's existing legislative framework, primarily the Whistle Blowers Protection Act, 2014, is limited in both scope and enforcement. The Act covers public sector employees and allows disclosures of corruption or abuse of power, but it lacks adequate mechanisms for anonymity, protection from retaliation, and fails to extend to private sector disclosures where the bulk of ESG violations occur. This legislative vacuum creates a chilling effect, deterring insiders from exposing false sustainability claims, social violations, or governance failures within corporations. In the ESG context, whistleblowers are uniquely positioned to reveal discrepancies between public ESG narratives and internal realities such as manipulated emissions data, mistreatment of contract workers, or greenwashing in disclosures.

Therefore, India must amend the 2014 Act or introduce sector-specific ESG whistleblower protections. This could include establishing a dedicated ESG Ombudsman under SEBI or the Ministry of Corporate Affairs, empowered to receive, investigate, and protect disclosures.

Anonymous reporting channels, modeled on international frameworks such as the U.S. SEC's Whistleblower Program, should be institutionalized with digital platforms and clear timelines for investigation. Further, companies should be mandated to set up internal ESG hotlines and grievance redressal mechanisms, supported by independent ethics committees. Without a strong whistleblower framework, ESG compliance risks becoming a façade vulnerable to unchecked fraud and public distrust. [9]

7. ESG in the Supply Chain

A significant yet often overlooked frontier in ESG compliance is the corporate supply chain, where sustainability risks are frequently externalized. Large firms often present a pristine ESG profile while outsourcing environmentally harmful operations or labor-exploitative practices to third-party vendors, thereby shifting the burden beyond public scrutiny. This creates a misleading ESG narrative, where the final product may appear socially responsible despite being rooted in unethical practices. For example, a fashion brand might promote its carbon neutrality while sourcing from factories with unsafe working conditions or excessive water usage.

To address this gap, India must move toward mandatory ESG due diligence across supply chains, similar to the German Supply Chain Due Diligence Act (2023), which requires companies to monitor, assess, and rectify ESG violations across their entire value network. Indian regulators could implement sector-specific supply chain codes of conduct, especially in high-risk industries such as textiles, mining, and pharmaceuticals.

Additionally, ESG disclosures under SEBI's BRSR format should include detailed reporting on third-party vendor audits, human rights impacts, and environmental footprints in the supply chain. Such measures would ensure that ESG compliance extends beyond corporate headquarters to the operational realities of production and distribution, reflecting a holistic and honest approach to sustainability.

8. Structural and Regulatory Reform

The erosion of trust in ESG disclosures calls for a systemic overhaul. Originally intended to shift business focus beyond profits to ethical and environmental impact, ESG frameworks have become vulnerable to manipulation.

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[9] Whistle Blowers Protection Act, 2014 (India).

In India, reform must begin with strengthening the BRSR framework. Requiring independent audits of ESG disclosures, especially in high-risk sectors like mining and textiles, is essential. Penalties under the Companies Act or securities laws should be levied for falsified or misleading reports.

Additionally, there is a grave need for standardization and regulation of systems. Without consistent metrics and oversight, ESG ratings lack credibility.

Tailored metrics should replace one-size-fits-all reporting. Sector-specific risks like water use, emissions, and worker safety must be directly addressed in reporting requirements. Whistleblower protection laws should also extend to ESG misreporting, encouraging internal disclosures.

International collaboration is vital. Initiatives like the European Green Claims Directive and organizations such as the ISSB and IOSCO can help standardize ESG norms across jurisdictions. Reforms like QR-coded product labelling and mandatory investor due diligence can also reduce misinformation and empower stakeholders.

Ultimately, ESG must become a mechanism for legal compliance, not merely branding. Only through enforceable, verifiable, and transparent frameworks can sustainability regain its integrity.

A significant legislative change that strengthens corporate accountability is the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026[10]. The amendment added Rule 4A, which allows eligible companies to use up to 10% of their annual CSR obligation to subscribe to Zero Coupon Zero Principal (ZCZP) Instruments issued by eligible Not-for-Profit Organisations listed on the Social Stock Exchange (SSE). This change broadens the ways companies can implement CSR by linking it with regulated social finance. It aims to improve transparency, direct institutional funding to trustworthy social enterprises, and enhance accountability in how CSR resources are used. While the amendment does not specifically regulate ESG disclosures or tackle greenwashing, it shows India's changing attitude toward incorporating corporate responsibility into a clearer and more regulated governance system. The success of this reform will depend on strong oversight, clear eligibility criteria, and

[10] Ministry of Corporate Affairs, *Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026*, Notification No G.S.R. 332(E), 27 May 2026.

protections against the misdirection or misuse of CSR funds.

9. Sng

The mandatory third-party ESG audits are critical to transitioning from self-declared metrics to verifiable corporate conduct. Currently, many firms submit unaudited ESG disclosures that remain unchecked for accuracy or impact. In India, SEBI's BRSR framework, while a progressive step, still permits companies to report without external

verification. This undermines data credibility and encourages selective disclosure. Just as financial statements require statutory audits under the Companies Act, ESG statements should be subject to independent assurance by accredited professionals. These audits must include not just environmental impact but also social factors such as labor conditions, workplace diversity, and stakeholder rights. A standardized assurance process will not only enhance transparency but will also restore stakeholder trust in the numbers being reported.

Second, ESG misrepresentation must be addressed through clear legal penalties for greenwashing. In most jurisdictions, there is no binding statute that defines or penalizes sustainability-related misinformation. This regulatory void emboldens companies to embellish or falsify ESG credentials without fear of consequence. Drawing from consumer protection laws and securities regulation, jurisdictions must introduce statutory penalties civil and criminal for deliberate ESG fraud. The EU's proposed Green Claims Directive offers a model framework, penalizing unverifiable environmental marketing. India too must bring ESG under the scope of deceptive trade practices or corporate fraud, making accountability a legal requirement, not optional.

Third, the credibility of the ESG ecosystem hinges on the regulation of ESG rating providers. These agencies wield immense influence over investor decisions, yet operate with inconsistent methodologies and opaque metrics. To prevent conflicts of interest and ensure uniformity, regulatory oversight preferably by SEBI in India should mandate transparency in rating methodologies, public disclosure of scoring parameters, and independent governance structures within these agencies. Licensing and supervision, akin to that of credit rating agencies, will prevent rating inflation and enhance trust in ESG evaluations.

10. Conclusion

Finally, the entire framework must be underpinned by whistleblower protection for ESG-related disclosures. Employees and stakeholders often have firsthand knowledge of greenwashing or data manipulation but hesitate to come forward due to fear of retaliation. Expanding India's Whistle Blower Protection Act, 2014 to explicitly cover ESG violations will create a safer channel for ethical reporting. Additionally, regulators should establish confidential reporting platforms and ensure follow-up action, making whistleblowing a key pillar of ESG enforcement.

Together, these four reforms represent a shift from voluntary declarations to verifiable, enforceable, and equitable ESG governance. Only when businesses are audited, accountable, transparently rated, and open to internal challenge, can ESG commitments evolve from promises into proof.

The problem lies not with ESG principles, but with their voluntary, unregulated execution. From Volkswagen to DWS Group, high-profile scandals have revealed how easily ESG can be exploited when oversight is weak. In India, similar vulnerabilities persist, exacerbated by the lack of sectoral benchmarks and independent scrutiny.

Reform is not only possible it is necessary. Legal and structural changes must convert ESG into a system of obligation, not option. Enforcement, third-party audits, sector-specific metrics, and international consistency are key pillars for a credible ESG framework.

There must also be a cultural transformation. Boards must see ESG as integral to governance and risk management, not public image. Stakeholders must demand transparency, and regulators must be equipped to verify and penalize misconduct.

As sustainability claims grow more complex, so must the tools we use to evaluate them. Only by restoring substance to ESG grounded in integrity, accountability, and enforceability can we prevent the erosion of public trust and turn ESG from illusion to impact.