How institutional investors and standards can mitigate ESG-washing among Canadian corporations?

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Research Problem

The current ESG situation demonstrates a gap needed to be assessed and addresses:

- The magnitude of corporations' ESG-washing
- Various existing and proposed reporting standards impact both ESG reporting quality and actual performance
- Institutional investors impact and ways to reduce ESG-washing

Despite the extensive research on ESG, there is a gap in:

- Analyzing the influence of firms' ESG quantity and quality disclosures on the actual ESG performance, institutional investors and standards evolvement
- Different types of ESG-washing and impact on other institutional investors along with new proposed standards in the Canadian context
- Little in-depth research had been conducted on examining the effects of ESG-washing as a comprehensive examination measurement in the Canadian context

Research Questions

The primary three questions for the research include:

- How can ESG-washing be measured comprehensively in a Canadian context, and what factors make firms susceptible to different types of ESG-washing and impact?
- How can different standards influence ESG-washing and their impact on both companies and institutional investors?
- How do institutional investors contribute to influencing/preventing ESG-washing among corporations?

Methods

Mix method approach

ESG-washing measurement

Impact of institutional Investors

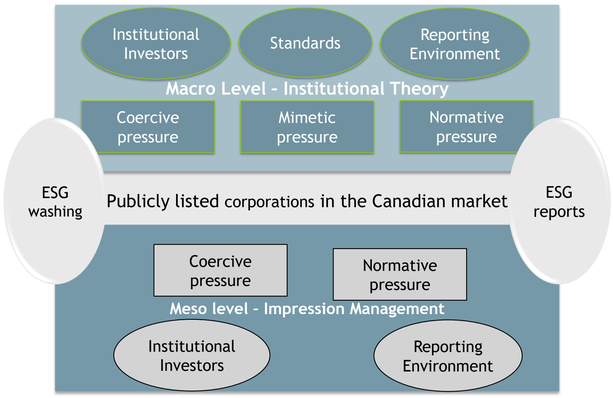
Effect of reporting standards

Quantitative Method:
Surveys
Existing data of ESG ratings and performance

Qualitative Method:
Interviews
Existing data and ESG reports

Theoretical Framework

- Since this study examines ESG-washing from three different perspectives, **diverse standards'** impact on ESG-washing, **firms' factors** contributing to varying types of ESG-washing and impact **and institutional investors' roles**
- The theoretical framework would be built upon the two theories: institutional theory and impression management theory in two different analysis levels
- Various researchers have applied this multilevel analysis to study ESG reporting, greenwashing, political, corporate social responsibility impact, and other perspectives of ESG-washing



Canadian Context

Canada still lags U.S. and European counterparts with:

- Adaption of mandatory ESG reports
- Investors being "lost in translations" and making misleading, uninformed or uncompleted investment decisions
- Additionally, the TSX has been relatively passively involved in ESG reporting , ranking 20th out of 47 stock exchanges for sustainability reporting worldwide in 2019 with a disclosure rate of only 48.5%
- ESG integration is "particularly relevant to Canada, given the severe physical and financial risks associated with our country's accelerated rate of warming.“
- Canadian institutional investors are unhappy with the current situation of Canadian firms' ESG reporting climate

Potential contribution

Contribution to scholarship:

- This study will investigate factors that make firms susceptible to different types of ESG-washing and impact. Existing studies focus on one dimension of ESG-washing
- Second, it will explore ESG-washing in the Canadian context; It is expected that institutional investors have an influence on mitigating ESG-washing to be substantial given the voluntary nature of reporting
- Thus, the research contribute to new theory to explain current ESG environment is leading to more ESG-washing and less meaningful impact as a result, that is currently unexplained in the literature

Contribution to practice:

- Additionally, this study will contribute to understanding how different standards (rules-based SASB vs. principles-based GRI) influence ESG-washing
- Furthermore, it will consider how standards can mitigate some forms of ESG-washing but amplify others
- Finally, the findings will propose a critical reflection on global standards which will contribute to improving and making standards more meaningful

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