
# Greenwashing to Green Virtue

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**In honor of Earth Day 2021,** let's accept "Greenwashing" as a natural and necessary step of change and improvement towards a more sustainable future.

Greenwashing is a play on the term "whitewashing," which means using misleading information to gloss over bad behavior. Greenwashing is also a term sometimes associated with ESG, SRI, sustainable and impact investing. At the core of the broad category of intentional investing is the belief that capital should be invested to make the world a better place, with the goal of integrating both environmental and social values with financial returns. Unfortunately, this idea of bettering the world has typically been tangled up in virtue-seeking and therefore reliance on a GOOD vs BAD dichotomy when selecting securities for investment.

The truth is that there are very few, if any, companies or industries that would qualify as virtuous in the eyes of ALL beholders. Companies are composed of imperfect people who can make questionable decisions. Most products and services that corporations produce in response to legitimate market demand have some harmful impacts attached to them. Decision-making at the corporate level, even when well-informed and well-intentioned, almost always involves trade-offs that solve some problems and create others. Therefore, when virtue is at stake in investment decision-making, there will be disagreements among investors that inevitably lead to accusations of Greenwashing.

The thing about Greenwashing is that it implies lack of authenticity, which can tarnish brands, but can likewise serve as a powerful incentive for actual, real improvement. When any corporation self-reports on goals and practices that have "green" surface appeal, whether or not those goals are specific, material or even achievable, they have put their green stake in the ground. From then on, investors, customers, employees, communities, and suppliers will start to evaluate whether or not the company is following through with real, measurable strategies and outcomes.

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Intertwined with this Greenwashing-to-green trend is the current rapid evolution of intentional investing. While exclusions are still an important element of the ESG landscape, generally we are moving away from evaluating virtue, and towards analyzing and valuing *mis-priced* externality risks like pollution, CO2 emissions, climate change risk, diversity risk, human rights risks, etc. Intentional investing is increasingly moving to capturing the cost/benefit of these externalities and deriving returns from investing in companies that deliver competitive results through externality management. With this whole-system approach to investing, there is no virtue or good or bad companies. Rather, the attention turns to corporate behaviors and impacts that can be measured and monitored for how much they can move that original greenwashed stake in the ground, and improve environmental, social, and governance outcomes. Broad momentum matters, even if the speed will vary across sectors, regions and companies.

Enabling all of this is a huge push to standardize ESG reporting, with support from the big four accounting firms. When you can measure, you can manage. ESG metrics are rapidly becoming performance factors as companies compete for investor capital by measurably reducing their CO2 intensity, improving their diversity, disclosing their sourcing practices, and managing the waste from their products down the value chain. The European ESG reporting standards for asset managers that go into effect this year are expected to accelerate ESG metric standardization and put a premium on how companies measurably manage the externalities they generate.

We have not yet achieved consensus on ESG standards. In any case, managing externalities and impact will always be a moving target because there will always be room for significant improvement. Therefore, it will always be easy to find fault with any given corporate initiative and call it "Greenwashing." And that's OK. If a portfolio is built around investments in companies who are moving their green stakes forward, then the portfolio in aggregate can measurably demonstrate improving impact.

There will never be consensus about what constitutes "Green Virtue," which means we'll continue to observe apparent Greenwashing. Nevertheless, we all understand how urgent it is to push every lever possible to mitigate climate change and social Injustice. "Greenwashing" is just a term that highlights the imperfection in how we address these challenges, but it also tells us we are moving in the right direction. It provides the signal for investors to follow up and use their capital to drive change.



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