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# Misreporting Sustainability and the Regulatory Response in the Euro- pean Union

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## Abstract

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Misleading reporting about corporate sustainability is increasing in the European Union. From 2017, large companies in the EU have been required to report on non-financial matters under the Non-Financial Reporting Directive (NFRD). The NFRD will be replaced by the Corporate Sustainability Reporting Directive with a wider scope and more comprehensive requirements. Previous research has established that the lack of standardised frameworks for sustainability reporting and assurance, and the voluntary nature of sustainability reporting assurance have contributed to misleading sustainability reports. This study aims to answer the question “How is the EU addressing the issue of misleading sustainability reporting with the Corporate Sustainability Reporting Directive?” by studying the problem through a literature review and identifying the characteristics of misleading reporting and the fundamental requirements of the CSRD. Two case studies are included to concretise the issue of misleading reports accompanied by a discussion on whether such reports would be likely to exist under the CSRD. The thesis finds that by introducing new mandatory standards for sustainability reporting and mandatory assurance, the CSRD has the potential to significantly limit the number of misleading sustainability disclosures in the EU if implemented appropriately.

Keywords: Sustainability Reporting, Greenwashing, CSRD, Misreporting, ESRS

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## Contents

List of Tables

Glossary

1	Introduction	1
2	Research Methods	2
3	Literature Review	3
3.1	Sustainability Reporting	3
3.2	Frameworks and Tools	5
3.2.1	The Global Reporting Initiative	5
3.2.2	The Lack of Standardised Frameworks	7
3.3	Sustainability Reporting Assurance	8
3.4	Misleading Sustainability Reporting	10
3.5	Mandatory Sustainability Reporting	14
4	Corporate Sustainability Reporting Directive	15
4.1	Sustainability Reporting Assurance	16
4.2	European Sustainability Reporting Standards	17
4.2.1	Cross-Cutting Standards	18
4.2.2	Topical Standards	18
4.2.3	Sector-specific Standards	20
5	Forms of Misleading Sustainability Reporting	21
6	Case Studies	23
6.1	Volkswagen	24
6.1.1	Volkswagen's Sustainability Controversies	24
6.1.2	Volkswagen Sustainability Reports	25
6.2	Bayer	27
6.2.1	Bayer's Sustainability Controversies	27
6.2.2	Bayer Sustainability Reports	28
6.3	Case Studies Discussion	30

7	Discussion	30
8	Conclusion	33
	References	34

## List of Tables

Table 1. GRI Standards (GRI n.d.).....	6
Table 2. ESRS Standards (EU 2023/2772).....	17
Table 3. Characteristics of Misleading Sustainability Communication (Vollero 2022: 40-45).....	22

## **Glossary**

CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
EBA	European Banking Authority
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
NFRD	Non-Financial Reporting Directive
SDGs	Sustainable Development Goals
SME	Small and Medium Sized Enterprises
SRTs	Sustainability Reporting Tools

# 1 Introduction

The concern for sustainability issues has been growing in the past decades, and sustainability reporting is becoming more common and even mandatory for some. The number of companies issuing sustainability reports in Europe has increased, and so has the number of misleading sustainability reports. Large companies in the EU are required to report on sustainability issues. The lack of standardisation in sustainability reporting is a major problem. To address the reliability and quality of sustainability reports, some companies opt for third-party assurance. However, assurance of sustainability reporting is not mandatory in most countries. The EU is addressing this issue by requiring limited assurance in the new Corporate Sustainability Reporting Directive.

The topic of this thesis is sustainability reporting, focusing on misleading sustainability disclosures in Europe and the EU regulatory response. This thesis is an addition to the ongoing discussions on sustainability reporting, corporate social responsibility, and the European Union's regulation on sustainability reporting. The goal of the thesis is to investigate what the EU is doing to resolve the issue of misleading sustainability reporting and to analyse whether it is likely to be successful in addressing the problem, to answer the research question “How is the EU addressing the issue of misleading sustainability reporting with the Corporate Sustainability Reporting Directive?”

This study is highly significant due to a rise in misleading sustainability disclosures, the EU's Corporate Sustainability Reporting Directive (CSRD) coming into force and growing interest in sustainability in business. Studies on misleading sustainability reporting and EU legislation on sustainability reporting are extremely important. Stakeholders, especially investors need accurate reports to make informed decisions, and this study will help understand the risk of misleading sustainability reports. Studies in sustainability reporting helps identify the strengths and weaknesses of sustainability reporting legislation and is crucial for closing the gaps that allow misleading reporting to happen. Overall discussion and research on corporate sustainability help further ethical business

practices by bringing unethical and unsustainable practices to light. Research and discussion on the Corporate Sustainability Reporting Directive is important for companies following the directive to be able to understand and apply the requirements comprehensively.

This thesis will first introduce the research methods used. Followed by a literature review on sustainability reporting, which considers issues and EU legislation. More theory on CSRD and misleading reporting is introduced based on the findings of the literature review. Two case studies discuss examples of misleading reporting and speculate if such reporting would be possible under the CSRD, and the thesis concludes with a discussion of how the EU is addressing misleading sustainability reporting with the CSRD.

## **2 Research Methods**

This study uses a qualitative analytical research approach conducted by utilising secondary data through a literature review by identifying common themes in the existing literature of sustainability reporting, through case studies exploring specific instances of how misleading reporting occurs, and by reviewing and analysing EU legislation on sustainability reporting to answer the research question: How is the EU addressing the issue of misleading sustainability reporting with the Corporate Sustainability Reporting Directive? Analytical research uses logical inference to analyse certain situations, make appropriate assessments, predict possible consequences and outcomes, and develop proper strategies (Aityan 2021: 18).

A literature review was conducted by searching for research and scholarly articles with the following search terms: sustainability reporting, misreporting, misleading sustainability reporting, corporate social responsibility, greenwashing, and sustainability assurance. Some articles from two books were included in the literature review, as well as some internet sources to provide more information on certain terms and topics to broaden the understanding of these. The literature search was conducted using the Google Scholar search engine, ProQuest



Central, ScienceDirect, Wiley Online Library, Emerald Insight, O'Reilly, Taylor & Francis Online, Metropolia library and MetCat Finna. A literature review is helpful in, for example, explaining available information related to the problem, relating the rationale and significance of the research, offering evaluative techniques or criteria, and pointing out findings that will support or contrast with the findings of the study (Aityan 2021: 86).

For the theoretical framework, the EU's Corporate Sustainability Reporting Directive was selected for further inspection, and some characteristics of misleading sustainability reporting were identified. In addition to the information acquired for the literature review, documents on EU legislation, press releases and announcements by EFRAG, the European Parliament, the European Commission and European Council were reviewed to explain the CSRD.

Two case studies were conducted by exploring news articles and the company websites for background information and analysing the company's sustainability reports through the lens of the EU's CSRD. The case studies present real-life examples and context on what misleading sustainability reporting is in practice.

### **3 Literature Review**

The literature review will first look into the background and development of sustainability reporting. Literature and research on frameworks and tools for sustainability reporting will be discussed, followed by sustainability reporting assurance, misleading sustainability reporting and finally mandatory sustainability reporting.

#### **3.1 Sustainability Reporting**

According to Ramanathan and Isaksson (2022), sustainability reporting is the practice of disclosing and communicating environmental, social, and governance (ESG) goals with the aim of benchmarking the performance of companies year-on-year against themselves and others in their sectors to assess their

progress towards ESG goals (Ramanathan & Isaksson 2022: 1311). Mori Junior, Best and Cotter (2013: 1) describe sustainability reports as a communication tool between organisations and their stakeholders. To put it simply, sustainability reporting is the practice of organisations providing disclosure on their sustainability matters.

Gokten, Ozerhan and Okan Gokten (2020) date the beginning of sustainability reporting development back to 1962 when awareness and discussion towards economic development and the environment sparked. The general acceptance of the need for sustainability reporting was recognised in the 1980s after the World Conservation Strategy report in 1980, the World Commission on Environment and Development in 1983, and Our Common Future in 1987 provided the first theoretical frameworks for sustainability reporting (Gokten et al. 2020: 102-107). The Coalition of Environmentally Responsible Economies (CERES) was established after the Exxon Valdez oil spill in 1989, and the first detailed guide to establishing ethical environmental behaviour in business practices was published. In 1992 the United Nations established the Sustainable Development Commission, which focused on attempts to measure sustainability. CERES together with Tellus Institute established the Global Reporting Initiative (GRI) as a project department in 1997 to develop an environmental reporting framework with UNEP's support. The Triple Bottom Line (TBL) was introduced to express a three-dimensional perspective to measure development: people, planet, and profit (Gokten et al. 2020: 108-115). Sustainability -or CSR reporting was for a long time a voluntary means for companies to communicate their sustainability efforts. However, due to increasing sustainability norms and regulations the voluntary aspect of sustainability reporting has started to fade in the last decade (Vollero 2022:14). Over time, frameworks for sustainability reporting have evolved to a broad range with different categorisations for sustainability aspects (Bose 2020).

## 3.2 Frameworks and Tools

Siew (2015) divides tools for sustainability reporting into three main categories: frameworks, standards, and ratings and indices (Siew 2015: 181). Frameworks are typically principles, initiatives and guidelines designed to aid companies in sustainability disclosures by presenting means for categorising and calculating non-financial information (Siew 2015; Bose 2020).

Standards are like frameworks, but more formal documents spelling out requirements, specifications or characteristics used to guarantee consistent achievement of sustainability efforts (Siew 2015: 182). The GRI is undoubtedly the most popular sustainability reporting standard (Bose 2020; KPGM 2022). Other widely utilised standards and frameworks for sustainability reporting are the Task Force on climate-related financial disclosures (TCFD) standards and Sustainable Development Goals (SDGs) (KPGM 2022).

Sustainability ratings and indices (e.g. Dow Jones Sustainability Index, MSCI ESG indices, FTSE4Good index, Bloomberg ESG disclosure scores, Trucost) are typically provided by third parties to evaluate a company's compliance with sustainability or ESG performance principles and parameters (Siew 2015: 182; Vollero 2022: 80). However, some companies have created their own ratings or indices, for example, Walmart with their green rating (Vollero 2022: 80).

### 3.2.1 The Global Reporting Initiative Standards

The Global Reporting Initiative (GRI) is an international standard for sustainability reporting. There are three series of GRI standards: GRI Universal Standards, GRI Sector Standards, and GRI Topic Standards. The universal standards GRI 1, GRI 2 and GRI 3 apply to all companies and all three should be applied when reporting by the GRI standards. A company can choose from the four sector standards that apply to the company, and 31 topic standards based on material topics (GRI n.d.). The GRI standards are listed in Table 1 below.

Universal Standards	Sector Standards	Topic Standards
GRI 1 Foundation	GRI 11 Oil and Gas Sector	GRI 101 Biodiversity
GRI 2 General Disclosures	GRI 12 Coal Sector	GRI 201 Economic Performance
GRI 3 Material Topics	GRI 13 Agriculture, Aquaculture and Fishing Sectors	GRI 202 Market Presence
		GRI 203 Indirect Economic Impacts
	GRI 14 Mining Sector	GRI 204 Procurement Practices
		GRI 205 Anti-Corruption
	GRI 206 Anti-competitive Behaviour	
	GRI 207 Tax	
	GRI 301 Materials	
	GRI 302 Energy	
	GRI 303 Water and Effluents	
	GRI 304 Biodiversity	
	GRI 305 Emissions	
	GRI 306 Waste	
	GRI 308 Supplier Environmental Assessment	
	GRI 401 Employment	
GRI 403 Occupational Health and Safety		
GRI 404 Training and Education		
GRI 405 Diversity and Equal Opportunities		
GRI 406 Non-discrimination		
GRI 407 Freedom of Association and Collective Bargaining		
GRI 408 Child Labor		
GRI 409 Forced or Compulsory Labor		
GRI 410 Security Practices		
GRI 411 Rights of Indigenous People		
GRI 413 Local Communities		
GRI 414 Supplier Social Assessment		
GRI 415 Public Policy		
GRI 416 Customer Health and Safety		
GRI 417 Marketing and Labelling		
GRI 418 Customer Privacy		

Table 1. GRI Standards (GRI n.d.)

De Villiers, La Torre and Molinari (2022) discuss the evolution of the GRI and provide some criticism. The standards have been criticised for being demanding and difficult to implement for some companies. The double materiality concept makes balancing between investors' financial interests and other stakeholders' needs difficult and could result in prioritising financial gains over sustainable development. It is also pointed out that the GRI is not always applied properly, and organisations reporting selectively under the GRI could manipulate stakeholder judgement (De Villiers et al. 2022: 7). Ferreira Quilice, Oranges Cezarino, Fernandes Rodrigues Alves, Bartocci Liboni, and Ferreira Caldana (2018) conducted a survey among Brazilian companies regarding their opinions on GRI. The findings revealed both positive and negative perspectives on the standards. The positive aspects mentioned were improvements in internal company management, the provision of guidelines for report preparation, validation of the sustainability of company operations, and providing of marketing tools and benchmarking support. The survey identified several negative aspects, including concerns regarding the quantity and relevance of indicators, challenges with proposed processes, internal obstacles to implementing the standards, difficulties in assessing reports, and the overall outcomes of the reporting process (Ferreira Quilice et al. 2018).

### 3.2.2 The Lack of Standardised Frameworks

Measuring sustainability is challenging in the absence of a standardised framework for sustainability integration, and due to variations in sustainability practices (Mahajan 2023: 181). Organisations can follow standards proposed by different bodies such as the GRI, the International Integrated Reporting Council (IIRC), the Carbon Disclosure Project (CDP) and the Task Force on Climate-related Financial Disclosures (TCFD) to name a few, and multiple formats make comparisons difficult (Mahajan 2023: 190-192). Multiple standards and guidelines for sustainability reporting and the lack of a mandatory framework to ensure comparable and complete reports allow companies to pick and choose what sustainability impacts to report (Ramanathan & Isaksson 2022: 1315-1316). Several studies call

for standardised guidelines, as there is a plethora of different tools for sustainability reporting, and with multiple formats, the comparability of reports decreases (Guo & Yang 2014; Mahajan 2023; Ottenstein, Erben, Jost, Weuster & Zülch 2021; Siew 2015). Siew (2015: 187) mentions the lack of standardisation in criteria and methodology as one of the main problems with sustainability reporting tools. On the other hand, the abundance of frameworks and guidelines to choose from also has its defenders. According to Bose (2020), many ESG rating providers view the diversity of frameworks as a strength and could support the value of experimentation, resilience, and a variety of analytical approaches (Bose 2020).

De Silva Lokuwaduge and De Silva (2022: 147) state that the inconsistency of reports creates an opportunity for misleading disclosures. ESG reporting is problematic due to reporting quality, and there is a need for a global framework to prevent fragmentation, provide better comparability and transparency, and reduce the complexity of ESG disclosure in an attempt to tone down the risk of greenwashing, as diverse approaches on sustainability are a threat possibly leading to an increase in greenwashing (De Silva Lokuwaduge & De Silva 2022: 146, 151-153).

### 3.3 Sustainability Reporting Assurance

Assurance of sustainability reports refers to the third-party evaluation and verification process of sustainability disclosures. Financial reporting is regulated, mandatory and required to meet criteria of relevance, reliability, comparability, materiality, and understandability. However, sustainability reports are not held to the same standards (De Silva Lokuwaduge & De Silva 2022). Sustainability reports have traditionally not been required to go under comprehensive third-party auditing and assurance processes like financial reports do (Ramanathan & Isaksson 2022: 1316). In the EU, this will change with the CSRD as it will require sustainability reports to be assured (Directive (EU) 2022/2464). Voluntary sustainability assurance is valid only to the extent of the accuracy of the information provided by the company, not the information found out later nor information not provided (Ramanathan & Isaksson 2022: 1316).

As for sustainability reporting, assurance for it has various standards such as the ISAE3000 standard by IAASB and the AA1000 standard by AccountAbility (Perego & Kolk 2012: 175). The assurance of sustainability reporting can be limited or reasonable. Differences between limited and reasonable assurance are described in IAASB Non-Authoritative Guidance on Applying ISAE 3000 to Sustainability and Other Extended External Reporting (EER) Assurance Engagements (IAASB 2021). In limited assurance, the assessor examines how sustainability information is prepared and reported. Limited assurance provides a moderate level of confidence but not to the level of reasonable assurance. Reasonable assurance requires a more extensive and complex review than limited assurance. Reasonable assurance requires the assessor to evaluate the design and implementation and suitability of relevant controls (IAASB 2021).

Mori Junior et al. (2013) divide the providers of assurance into four categories; accountants, non-accountants (e.g. consultant and certifier firms), stakeholder - or specialist reviews, and a combination of these referred to as the mixed approach (Mori Junior et al. 2013). Martinez-Ferrero, Garcia-Sanchez and Ruiz-Barbadillo (2017) found that assurance provided by accounting firms is perceived as higher in quality by stakeholders.

Even when assurance is provided, companies might choose not to publish full assurance statements. To improve the transparency of sustainability reports, full versions of assurance statements should be provided. If readers of sustainability reports are not familiar with the scopes and methodologies of different assurance providers, identifying the amount of information assured in the sustainability reports becomes a challenge (Mori Junior et al. 2013: 9). Mahajan (2023) expresses that assurance will be a critical element of credibility in sustainability reports, hence the lack of requirements for auditing or assurance becomes a problem, and therefore assurance or audit disclosures should be encouraged (Mahajan 2023: 193). Organisations providing sustainability reporting frameworks and standards do not always provide clear criteria assurance providers should use to evaluate the correct use of the standards. Assurance providers have wished for

more guidance from standard and framework issuers to support the verification process (Boiral, Heras-Saizarbitoria & Brotherton 2019).

Krasodomska, Zarzycka and Zieniuk (2023) studied the country- and firm-level impact of Sustainable Development Goals (SDGs) on EU companies' decisions to assure sustainability reports before the implementation of CSRD. The results show that increased efforts of companies to achieve SDGs promote the assurance of sustainability reports. Furthermore, the study implies that companies in environmentally sensitive industries are more hesitant to opt for assurance. Companies in countries with more emphasis on sustainability issues are more likely to seek assurance (Krasodomska et al. 2023). Similarly, Rezaee, Homayoun, Rezaee and Poursoleyman (2023) examined the link between SDGs and companies' tendency to opt for assurance of their sustainability reports. Companies in the EU adopting SDGs were found to be more likely to issue sustainability reports and have them assured (Rezaee et al. 2023).

### 3.4 Misleading Sustainability Reporting

Misleading sustainability reporting has become an alarming concern in the European Union, as reported by the European Banking Authority (EBA). The EBA has revealed that there has been an increase in the number of alleged misleading sustainability communications in the EU. According to their findings, misleading communication was found to occur across all three ESG sustainability dimensions; environmental, social, and governance. However, it is important to note that the alleged cases related to the governance aspect remained relatively minor compared to environmental and social issues (EBA 2023). Moreover, a recent report by RepRisk has drawn attention to the fact that companies associated with misleading environmental communication are more likely to be linked with misrepresenting social issues as well. This misreporting displays the contradictions between a socially positive image and underlying issues such as human rights violations, child labour, or community impact (RepRisk 2023).



Sustainability reporting contains a risk of being used as a tool to hide actual practices, undermining the severity of sustainability issues, exaggerating sustainability claims and acknowledging problems yet questioning the availability of solutions to help address them (Siew 2015: 187-188).

The term “greenwashing” is widely used in literature and research on misleading sustainability disclosure. The term is commonly associated with misleading or false communication and advertising of environmental aspects; however, it is also used to refer to deceptive communication of all sustainability issues, including social and economic aspects (Vollero 2022: 8). According to De Silva Lokuwaduge and De Silva (2022) greenwashing is a commonly used term referring to potentially misleading disclosures and claims encompassing actions exaggerating and misrepresenting “green” credentials (De Silva Lokuwaduge & De Silva 2022: 147). Some sources (e.g. RepRisk) use the term only to refer to misleading statements of environmental issues, while others use greenwashing to describe all misleading sustainability communication (e.g. European Banking Authority 2023; Vollero 2022). The EBA describes greenwashing as a practice where sustainability-related statements, declarations, actions, or communications do not reflect the fundamental sustainability profile of an entity, financial product, or service, and can be misleading to stakeholders (European Banking Authority 2023). Vollero has divided greenwashing into five distinctive types: selective disclosure, attention deflection, decoupling, deceptive labelling, and deceptive manipulation (Vollero 2022: 40). Deceptive labelling mainly refers to the use of eco-labels in products that are not environmentally friendly, and thus does not apply to sustainability reports. However, the four other types of greenwashing mentioned are truly relevant regarding misleading sustainability reporting.

Increased pressure to disclose sustainability issues has resulted in some companies disclosing negative impacts selectively (Marquis, Toffel & Bird 2015; Sandha & Kurniawati 2023). Selective disclosure of sustainability issues has been widely discussed in research and literature around the topic (Vollero 2022; Marquis et al. 2015; Sandha & Kurniawati 2023; Roszkowska-Menkes, Aluchna & Kamiński 2024). Roszkowska-Menkes et al. (2024) introduce three forms of selective

disclosure: vague disclosure, avoidance, and hypocrisy. A commonly mentioned definition of selective disclosure in literature (Marquis et al. 2015; Vollero 2022; Font, Walmsley, Cogotti, McCombes & Häusler 2012) is that of Lyon and Maxwell (2006), which describes greenwashing as

“Selective disclosure of positive information about a company’s environmental or social performance, without full disclosure of negative information on these dimensions.” (Lyon and Maxwell 2006: 5).

Highlighting specific elements of a product or service which display marginally significant positive impacts of sustainability measures is a usual form of selective disclosure and attention deflection (Vollero 2022: 90). Marquis et al. (2015) describe selective disclosure as a symbolic strategy for companies to enhance their legitimacy by disproportionately highlighting positive or less important sustainability performance indicators to mask their overall unimpressive sustainability performance (Marquis et al. 2015: 1-2, 26, 28).

Roszkowska-Menkes et al. (2024) have studied selective disclosure in sustainability reporting. From a sample of 333 negative events from MSCI’s controversies database the analysis found 69% of them were selectively reported. The study found that neither following the GRI guidelines nor assurance measures were effective in preventing companies from engaging in selective disclosure (Roszkowska-Menkes et al. 2024). Marquis et al. (2015) in their study of companies across 45 different countries found that environmentally harmful companies were more likely to engage in selective disclosure (Marquis et al. 2015).

Attention deflection is in a way a form of selective disclosure. It includes selective and inaccurate statements, for example, incomplete comparisons and vague or irrelevant statements and influencing stakeholder's impressions of the company based on a few positive attributes. It deals with symbolic actions of sustainability while unsustainable actions are simultaneously ongoing (Majláth 2017; Vollero 2022: 41-42).

Some organisations have been found to intentionally manipulate sustainability information by providing unverified sustainability claims and statements (Vollero 2022: 45). This form of misleading sustainability disclosure, deceptive manipulation, involves false or exaggerated statements about the company's sustainability performance and practices (Pizzetti, Gatti & Seele 2021; Vollero 2022: 45). Companies might downplay the negative impacts of their operations in their sustainability reports. Due to the emphasis on smooth business operations and financial performance, the negative impacts of a company's activities are downplayed in fear of sustainability efforts getting in the way of lucrative business (Chassé & Boiral 2017; Siew 2015.).

Decoupling refers to when a company wants to meet the expectations of stakeholders but fails to implement changes in its organisational practices. In decoupling, there is a disconnect between structure and activities, or means and ends. It happens when companies communicate about ambitious sustainability plans without implementing adequate operational structures to execute these initiatives or lack the necessary means to achieve the objectives. (Majláth 2017, Vollero 2022: 40)

Some external market drivers such as investor demand and competitive pressure have been speculated to have an impact on misleading sustainability disclosures. Companies that face pressure to appear to be environmentally friendly yet are lacking behind their competitors might downplay negative impacts in their sustainability communication. Internal and external economic and ownership pressures have motivated fraudulent financial activities before (Rezaee 2005), so it can be speculated that external market drivers, such as consumer and investor demand and competitive pressure can have an impact on fraudulent sustainability communication as well (Delmas & Burbano 2011). Sustainable investing or ESG investing is a growing trend and creates pressure for companies to be more transparent on sustainability issues and to improve their efforts towards more sustainable business practices. However, it can be speculated that ESG investing could be a driver for greenwashing, as pressure to be more transparent on

sustainability could lead to superficial and selective sustainability disclosure. (Delmas & Burbano 2011; Sandha & Kurniawati 2023)

### 3.5 Mandatory Sustainability Reporting

Large and listed companies in the EU are currently required to report on sustainability by the Non-Financial Reporting Directive (NFRD), and from 2024 forward by the Corporate Sustainability Reporting Directive (European Commission n.d.).

Mandatory ESG disclosure has been found to have a positive effect on sustainability information quality and quantity (Ottenstein et al. 2021), on ESG ratings and on the commitment to reporting on sustainability issues (Cicchello, Marrazza & Perdichizzi 2022). Ottenstein et al. (2021) studied the effects of NFRD in the EU in terms of the quantity and quality of sustainability information in sustainability reports. The NFRD was found to have a positive impact on the amount of information within sustainability reports and seeking voluntary assurance of sustainability information. Companies not in the scope of the NFRD have also increased sustainability reporting and assurance, and a trickle-down effect is suspected to have an impact. However, the NFRD did not have a significant impact on the comparability of sustainability reports (Ottenstein et al. 2021). While there is an implication by Ottenstein et al. (2021) that mandatory sustainability reporting might promote the assurance of sustainability reporting, there is no evidence in the study of the level of assurance provided, and it only focuses on EU countries. The data is taken from before the NFRD and from 2017 after the directive came into force. However, the UN SDGs were introduced in 2015 (United Nations n.d.), which could be another reason for increased sustainability assurance in the EU for the years after, as other studies (Rezaee et al. 2023; Krasodomska et al. 2023) suggest that commitment to SDGs promote third party assurance of sustainability reports. Regulation on sustainability reporting increases the number of reports, yet an older study by Mori Junior et al. (2013) found no increase in assurance of sustainability reporting when the quantity of reports increases.

Going forward, EU companies subject to the CSRD will report using the European Sustainability Reporting Standards (ESRS) (European Commission n.d.). Krasodomska et al. (2023) suspect the credibility of sustainability reports will increase with the CSRD as they need to be assured by an accredited independent auditor or certifier at a limited assurance level, with the aim to introduce a reasonable assurance level in the future.

## **4 Corporate Sustainability Reporting Directive**

Directive 2014/95/EU, or the Non-Financial Reporting Directive (NFRD), was created to require large EU-based companies to be more transparent. The NFRD requires EU companies of over 500 employees to report on their business model, policies, outcomes, risks and KPIs on sustainability issues, such as environmental-, social and employee aspects, respect for human rights, anti-corruption, and bribery issues (2014/95/EU).

The European Commission has identified issues with the NFRD, in the sense that not all companies in the scope of the directive have disclosed material information on all major sustainability issues and that limited comparability and reliability of sustainability information is a significant problem, and many companies are not required to report on all necessary sustainability information under the NFRD. There was a need recognised for a legal reporting framework and effective auditing practices to avoid greenwashing and double counting and to ensure the reliability of data. Better sustainability reporting would benefit investors who wish to invest sustainably, and regular citizens would benefit from a stable, sustainable, and inclusive economic system (Directive (EU) 2022/2464). The new CSRD Directive is designed to modernise and standardise sustainability reporting and aims to enhance the transparency of companies' operations and ensure that stakeholders receive high-quality information on corporate responsibility and sustainability issues. By achieving the objectives of the CSRD, stakeholders will be able to evaluate the sustainability risks connected to climate change and sustainability, thereby making informed investment decisions (European Commission 2023).

The Corporate Sustainability Reporting Directive came into force on 5 January 2023. The CSRD broadens the scope of companies that are required to report on sustainability issues, introduces new standards for reporting, and requires assurance of sustainability reports. Companies subject to the NFRD are required to report under the rules of the NFRD until 2024, and the rules of CSRD are to be applied to reports published from 2025 onwards (Directive (EU) 2022/2464). The adoption of the CSRD for some sectors and non-EU companies has been delayed by two years, and they will start reporting under the CSRD from 2026 onwards (European Council 2024).

Under the Corporate Sustainability Reporting Directive, companies based in the EU with more than 500 employees, listed SMEs, and non-EU trading companies with an annual net income of over 150 million euros in the EU will be required to report on their sustainability performance. Micro-enterprises are excluded from this requirement. (Commission Delegated Regulation (EU) 2023/2772).

#### 4.1 Sustainability Reporting Assurance

The CSRD requires sustainability reports to be assured with limited assurance, with the intent to move to reasonable assurance by October 2028. A limited assurance engagement requires fewer tests than a reasonable assurance engagement. Reasonable assurance engagements include extensive procedures including consideration of internal controls of the reporting undertaking and substantive testing (Directive (EU) 2022/2464).

Article 26a of the CSRD states that member states must make sure that auditors and audit firms follow assurance standards set by the European Commission for sustainability reporting. If the Commission has not set such standards, Member States can use their own, but they must inform the Commission about them beforehand. The European Commission will specify assurance details for auditors and companies to follow by October 2026. Member states must ensure that auditors and audit firms follow the assurance standards set by the

commission after such standards have been set by October 2028 (Directive (EU) 2022/2464).

## 4.2 European Sustainability Reporting Standards

The European Sustainability Reporting Standards (ESRS) consist of three sets of standards: cross-cutting standards, topical standards, and sector-specific standards (Commission Delegated Regulation (EU) 2023/2772). The eight sector-specific standards will be published later and adopted in June 2026 (European Council 2024). EFRAG created the draft ESRS standards, which the European Commission has adopted to CSRD with modifications.

Cross-Cutting	Environmental	Social	Governance
ESRS 1 General Requirements	ESRS E1 Climate Change	ESRS S1 Own Workforce	ESRS G1 Business Conduct
ESRS 2 General Disclosures	ESRS E2 Pollution	ESRS S2 Workers in the Value Chain	
	ESRS E3 Water and Marine Resources	ESRS S3 Affected Communities	
	ESRS E4 Biodiversity and Ecosystems	ESRS S4 Consumers and End Users	
	ESRS E5 Resource Use and Circular Economy		

Table 2. ESRS Standards (EU 2023/2772)

The GRI has served as an inspiration and reference point for the ESRS, and the ESRS has been partly developed in parallel with the ISSB standards (European Commission 2023). The ESRS build on a double materiality principle, meaning that companies reporting under the CSRD must disclose information from both impact materiality and financial materiality perspectives, i.e. the impact of the company on people and the environment, and on how sustainability matters affect the company. Companies must perform a materiality analysis, which defines the topical standards and data points to report on. Currently, there are 12 published standards for reporting and a total of 1144 data points. The requirement to report is determined by the materiality assessment. However, if an organisation's materiality assessment finds ESRS E1 (climate change) not

material to the organisation, a detailed explanation of why the standard is not material to the organisation must be disclosed (Directive (EU) 2022/2464).

#### 4.2.1 Cross-Cutting Standards

The ESRS includes two cross-cutting standards; ESRS 1 - General Requirements and ESRS 2 - General Disclosures.

ESRS 1 sets the general requirements applied for compiling sustainability reports under ESRS. The standard covers the structure and categories of ESRS, reporting areas, drafting conventions, qualitative characteristics of information and fundamental concepts such as double materiality, value chain and due diligence (EU 2023/2772).

ESRS 2 sets the mandatory information to be disclosed regardless of the sector the reporting organisation operates in. The standard outlines the disclosure requirements that organisations must follow to provide information about all material sustainability matters. This includes information on governance, strategy, impact, risk and opportunity management, as well as metrics and targets (EU 2023/2772).

#### 4.2.2 Topical Standards

The topical standards are divided into three themes of the ESG dimensions (environmental, social and governance), sub-topics, and when necessary, sub-sub-topics. For example, ESRS E3 includes the sub-topics of water and marine resources, which are again divided into sub-sub-topics; water consumption, water withdrawals, water discharges, water discharges in the oceans, and extraction and use of marine resources (EU 2023/2772).

ESRS E1 – Climate Change standard is divided into three sub-topics: climate change adaptation, climate change mitigation and energy. ESRS E1 requires some organisations to present for example a transition plan to reach climate neutrality by 2050, GHG emission reduction targets and total GHG emissions.



The requirement to report is determined by the materiality assessment, however, if an organisation's materiality assessment finds ESRS E1 not material to the organisation, a detailed explanation of why the climate change standard is not material to the organisation must be disclosed. (EU 2023/2772).

ESRS E2 – Pollution is divided into seven sub-topics: pollution of air, - water, - soil, - living organisms and food resources, substances of concern, substances of very high concern and microplastics. ESRS E2 involves disclosing amounts of certain pollutants, and anticipated financial effects from pollution impacts, risks, and opportunities (EU 2023/2772).

ESRS E3 – Water and Marine Resources includes the sub-topics of marine resources and water, which are divided into sub-sub-topics; water consumption, water withdrawals, water discharges, water discharges in the oceans, and extraction and use of marine resources. Some of the disclosure requirements to report on by ESRS E3 are total recycled and reused water and total water consumption in metric cubes per net revenue on own operations (EU 2023/2772).

ESRS E4 – Biodiversity and Ecosystems is divided into four sub-topics: direct impact drivers of biodiversity loss, impacts on the state of species, impacts on the extent and condition of ecosystems, and impacts and dependencies on ecosystem services. Direct impact drivers of biodiversity loss is divided to six sub-categories: climate change, land-use change, fresh water use and sea-use change, direct exploitation, invasive alien species, pollution, and others. ESRS E4 includes reporting on sustainable land-, agriculture-, oceans- and seas practices or policies and policies to address deforestation (EU 2023/2772).

ESRS E5 -Circular Economy has three sub-categories: waste, resources inflows including resource use and resource outflows related to products and services. ESRS E5 disclosure requirements include non-recycled waste and hazardous and radioactive waste (EU 2023/2772).

ESRS S1 - Own Workforce and ESRS S2 – Workers in the Value Chain both have the same three sub-topics: Working conditions, Equal treatment and

opportunities for all, and other work-related rights. Both standards include over 15 sub-sub-topics, some of which are: secure employment, work-life balance, gender equality and equal pay for work of equal value, diversity, child labour, forced labour and privacy. Some of the disclosure requirements these two standards deal with are human rights policy commitments, accident prevention and numbers of fatalities and work-related accidents (EU 2023/2772).

ESRS S3 – Affected Communities is divided into three sub-topics: communities' economic, social, and cultural rights, communities' civil and political rights and rights of indigenous people. There are ten sub-sub-topics, such as adequate housing, - food, water and sanitation, impacts on human rights defenders, and cultural rights. Some disclosure requirements for ESRS S3 are human rights issues and incidents, and non-respect of UNGPs on Business and Human Rights, ILO principles and OECD guidelines (EU 2023/2772).

ESRS S4 – Consumers and End Users is divided into Information-related impacts for consumers and/or end-users, personal safety of consumers and/or end-users, and social inclusion of consumers and/or end-users. There are nine sub-sub-topics, for example, privacy, freedom of expression, protection of children and responsible marketing practices. Disclosure requirements are for example policies related to consumers and end-users (EU 2023/2772).

ESRS G1 – Business Conduct is divided into six sub-topics: corporate culture, protection of whistle-blowers, animal welfare, political engagement and lobbying activities, management of relationships with suppliers including payment practices, and corruption and bribery. There are two sub-sub-topics: prevention and detection including training, and incidents (EU 2023/2772).

#### 4.2.3 Sector-specific Standards

The sector-specific ESRS standards have not been released at the time of writing this thesis. However, EFRAG has released information on the progress of creating the standards, and as of now, there are seven sectors suggested to be

included in the ESRS sector-specific standards, which are listed below (EFRAG n.d.).

- Oil and Gas
- Coal, Quarries, and Mining
- Road Transport
- Agriculture, Farming and Fisheries
- Motor Vehicles
- Food and Beverages
- Textiles, Accessories, Footwear and Jewellery

## **5 Forms of Misleading Sustainability Reporting**

As stated in the literature review, greenwashing can be divided into five distinct types: attention deflection, deceptive manipulation, decoupling, selective disclosure, and deceptive labelling (Vollero 2022: 40). These types of misleading sustainability communication, except for deceptive labelling, can be detected in sustainability reports. Table 3 shows the main characteristics of four types of misleading disclosure relevant to sustainability reporting. Each characteristic found in the type of misleading disclosure is marked with X. Table 3 below is compiled after Vollero's description of the greenwashing types.

	Attention De- flection	Deceptive ma- nipulation	Decoupling	Selective Dis- closure
Highlighting positive information	<b>X</b>			<b>X</b>
Withholding negative information	<b>X</b>			<b>X</b>
Emphasizing marginally significant positive impacts	<b>X</b>			<b>X</b>
Symbolic strategic use	<b>X</b>		<b>X</b>	<b>X</b>
Unverified or exaggerated claims	<b>X</b>	<b>X</b>	<b>X</b>	
Downplaying negative impacts	<b>X</b>	<b>X</b>		<b>X</b>
Manipulation driven by risk to business operations		<b>X</b>		
Disconnect between structure and activities, or means and ends			<b>X</b>	
Diverting attention	<b>X</b>	<b>X</b>		

Table 3. Characteristics of Misleading Sustainability Communication (Vollero 2022: 40-45)

The characteristics are explained in more detail in the list below, based on conclusions drawn from other authors descriptions (i.e. Chassé & Boiral 2017; Majláth 2017; Marquis et al. 2015; Pizzetti et al. 2021; Roszkowska-Menkes et al. 2024; Sandha & Kurniawati 2023.; Vollero 2022) discussed in the literature review.

- **Highlighting positive information:** Focusing on the positive aspects of sustainability performance, highlighting achievements.
- **Withholding negative information:** Excluding negative information about sustainability performance, for example not disclosing higher emissions, incidents, or labour rights issues.

- **Emphasizing marginally significant positive impacts:** Focusing on minor and superficial sustainability achievements to divert attention from larger negative impacts.
- **Symbolic strategic use:** Using sustainability reporting merely as a tool to enhance legitimacy and reputation presenting a positive image of corporate responsibility to improve stakeholder perceptions.
- **Unverified or exaggerated claims:** Intentional misrepresentation of sustainability practices or data. For example, setting goals and programs without the intent to achieve or execute them, providing unverified or exaggerated claims or false statements of the company's sustainability performance, and overstating achievements and impacts, without adequate evidence or verification.
- **Downplaying negative impacts:** Minimizing and playing down information about environmental or social harm caused by the company's activities.
- **Manipulation driven by risk to business operations:** Manipulation of sustainability information driven by a perceived risk to the company's business operations.
- **Disconnect between structure and activities, or means and ends:** Communicating about ambitious sustainability plans but not implementing sufficient structures to execute them, or lacking the necessary means to achieve the objectives

## 6 Case Studies

This section presents two companies with allegations of misleading sustainability reporting. The companies were selected due to both being European (and coincidentally German) and having sustainability reports assured by a third party along with providing assurance statements. Another factor considered in the selection of the companies for the case studies was that there is existing

evidence, news, and discussion of the sustainability controversies of both companies. Not reporting on certain issues is not a crime, and in some cases might not even be a conscious choice of a company. It is also important to keep in mind that these companies are not in any way unique in their reporting practices and the reports were not compared to other companies within their industries.

## 6.1 Volkswagen

Volkswagen Group is a German car manufacturer. In 2015, the company faced a scandal where it was exposed for emissions fraud. The scandal damaged the company's reputation and finances and resulted in legal consequences. The emissions scandal has been widely discussed and studied, yet there has been little focus on Volkswagen's sustainability reports in previous studies. It is worth noting that in 2015, sustainability reporting in Europe was still voluntary as the NFRD was not yet in force.

### 6.1.1 Volkswagen's Sustainability Controversies

This case study focuses on Volkswagen's sustainability reporting, and it is necessary to explain some background to the emissions fraud shortly to gain an understanding of the topic.

In 2015, Volkswagen was caught manipulating nitrogen oxide emissions tests in some of their diesel cars. Many Volkswagen cars were equipped with a device that detected when the cars were being tested and changed the engine's performance to create better results. Volkswagen has admitted that this device was installed in about 11 million cars, eight million of which were in Europe. In reality, the engines were emitting up to 40 times the allowed US limit of nitrogen oxide pollutants (Hotten 2015). Volkswagen had been using the "defeat device" since at least 2013 (Oehmke 2017). Volkswagen has also admitted to understating CO<sub>2</sub> emissions of certain diesel and petrol engine cars (Hungerford 2015). This case study looks into Volkswagen's sustainability reports of 2013-2014 and 2016.

### 6.1.2 Volkswagen Sustainability Reports

Volkswagen's sustainability report of 2015 is nowhere to be found, but the 2016 sustainability report mentions that it was released later than usual in November of 2016, just a few months before the 2016 sustainability report. The 2013 and 2014 sustainability reports were assured with a limited assurance level by PwC taking account of the AA1000AS 2008 assurance standards by AccountAbility in 2013, and the ISAE 3000 assurance standards by IAASB in 2013 and 2014. The 2016 report is assured with limited assurance by Deloitte following the ISAE 3000. Volkswagen's sustainability reports 2013-2014 express commitment to the UN Global Compact (UNGC) ten principles, state that Volkswagen's activities are in line with the International Labour Organization (ILO), OECD guidelines and conventions, and UN international pacts on fundamental human rights and freedom. These statements are not made in the 2016 sustainability report. The 2013 and 2014 reports specify the frameworks and requirements they follow: GRI (GRI 3.0 in 2013 and GRI G4 in 2014), AA1000, Global Compact, ILO, OECD, social charter, and Volkswagen Group's environmental principles. The 2016 report states that it follows the GRI guidelines and SDGs and communicates progress under the UNGC.

In 2013, Volkswagen announced its goal to become the most sustainable automobile manufacturer in the world by 2018. The 2014 report focuses on Volkswagen's commitment to sustainability in its supply chain, highlighting the importance of sustainable sourcing of raw materials and environmentally friendly transportation solutions. The report also mentions investments in research and development to pioneer new models that address future challenges. Additionally, the report emphasizes Volkswagen's dedication to employee health and safety, as well as its focus on efficient production and reducing fuel consumption. Volkswagen's commitment to reducing CO<sub>2</sub> emissions is discussed in the report, however, there is little mention of nitrogen oxide emissions. The report provided data on CO<sub>2</sub> emissions in g/km and fuel consumption in L/100 km for each car model mentioned in the report. However, it was later discovered that, in addition to the nitrogen oxide scandal, Volkswagen had also understated the carbon

dioxide emissions of some cars, some of which were listed in the 2014 sustainability report. In 2016 Volkswagen no longer provided data on CO<sub>2</sub> emissions of specific vehicles in their sustainability report.

The 2016 sustainability report addresses the emissions scandal, or “diesel crisis” as it is referred to as in the report. In the report, Volkswagen admits to the misconduct and states that it contradicts Volkswagen’s values. A timeline of key events of the “crisis” is provided, and the financial impact and legal risks are discussed. Volkswagen shows intent and effort to improve its corporate governance and compliance measures. The issue of understated CO<sub>2</sub> emissions is addressed and admitted to as well, however, the specifics of the discrepancies are not detailed.

Volkswagen’s sustainability reports highlight positive information, such as reduced water consumption and emissions (2013-2014, 2016) and high rankings in sustainability ratings and indices (2013-2014). The reports also emphasize marginally significant positive achievements, for example, improved ergonomics in specific locations, and celebrating the decreased accident frequency of specific locations, when the overall accident frequency remained the same from the previous year, and while the overall accident severity had increased by 8.6% (2013). The overall sustainability performance is exaggerated (2013-2014) and at least some claims of CO<sub>2</sub> emissions are false (2014). Knowing what happened in 2015, the 2013 and 2014 reports seem to be plain virtue signalling with financial interests. In 2013 and 2014 there was a huge disconnect between what Volkswagen communicated and their sustainability-related actions. The 2016 report is significantly more transparent and addresses the issues that have come to light publicly, though the actual efforts to improve and take accountability remain vague.

Volkswagen’s sustainability reports show signs of various forms of misleading sustainability reporting, especially the 2013 and 2014 reports, which signal attention deflection, selective disclosure, deceptive manipulation, and decoupling. The 2016 report seems to be mainly guilty of selective disclosure.



## 6.2 Bayer

Bayer is a German pharmaceuticals and agricultural biotechnology company that has faced multiple controversies related to its sustainability practices. This case study will cover some of Bayer's controversies and discuss the lack of transparency and selective disclosure of the company's sustainability reports.

### 6.2.1 Bayer's Sustainability Controversies

Bayer has been involved in several sustainability controversies, mainly related to its practices with pesticides and chemical safety (Carrington 2023a; Dowler 2020; EEB 2019; Keating 2013; Storbeck 2023). In November 2023, the Financial Times reported that Bayer was ordered by a Missouri court to pay over 1.5 billion USD to plaintiffs who claim the active ingredient, glyphosate, of the weed-killer Roundup caused their cancer. Roundup was created by Monsanto, which was acquired by Bayer in 2016. Roundup has caused Bayer the loss of multiple billion dollars in lawsuits and settlements, and tens of thousands of US citizens blame glyphosate for causing their cancer (Storbeck 2023). The European Commission has stated there is no evidence to classify glyphosate as carcinogenic (Storbeck 2023). However, the International Agency for Research on Cancer has classified glyphosate as potentially carcinogenic (Dowler 2020). The European Environmental Bureau (EEB) published a press release in 2019 claiming that some major brands, including Bayer, have been breaking the EU chemical safety laws. The release states that millions of tonnes of chemicals have been used by cosmetics, food, medicine, and plastic producers without completing necessary safety checks (EEB 2019).

Greenpeace's Unearthed reported about an investigation by Unearthed and Public Eye in 2020. According to the investigation, the world's five biggest pesticide manufacturers, including Bayer, make over a third of their income from the sales of chemicals highly hazardous to humans and the environment. These chemicals have been found by regulatory authorities to potentially cause cancer

or reproductive failure. The companies were also generating over billion-dollar sales from chemicals highly toxic to bees, some of which are banned in Europe. The most valuable markets for the highly hazardous pesticides included commodity crops growing animal feed for the meat industry. Of the hazardous chemicals the article mentions, Bayer produces at least two, neonicotinoids and glyphosate. Neonicotinoids are harmful to bees, and glyphosate is classified as a probable human carcinogen by the International Agency for Research on Cancer (Dowler 2020). In 2023, The Guardian reported that Bayer, along with Syngenta, have failed to disclose studies on the brain toxicity of their products and have been criticized in a European parliament hearing. Bayer and Syngenta have denied the accusations (Carrington 2023b).

Bayer's pharmaceuticals have also caused legal consequences. Women in the US (Matthews-EI 2022) and the EU (NL Times 2023) have filed lawsuits against Bayer claiming contraceptive devices and pills have caused severe complications.

### 6.2.2 Bayer Sustainability Reports

The Bayer sustainability reports 2020-2023 follow the GRI standards. Additionally, the reports mention the consideration of the recommendations of the Greenhouse Gas Protocol, the European Federation of Financial Analysts Societies, the World Business Council for Sustainable Development, the European Chemical Industry Council, the International Council of Chemical Associations, and the SDGs in reporting specific areas. The reports are assured by Deloitte following the ISAE 3000 assurance standards.

The Bayer sustainability reports claim a strong commitment to transparency and detail the company's efforts to improve sustainability. The reports are extensive and cover a wide range of sustainability topics. Positive outcomes and results are often favoured, while negative impacts and results do not gain the same level of detail, if any. The reports extensively discuss technological advancements and their potential without always critically examining or reporting the

limitations or challenges faced in actual implementation or performance. A lot of broad language is used to achieve stated goals. For example, Bayer commits to reducing CO2 emissions, yet the specific tactics to achieve these reductions are not detailed. The reports create a picture of commitment to environmental and social issues at a surface level. The reports lack depth in explaining how specific goals are achieved, and they do not discuss controversies or failures in detail. Regarding specific controversies such as withholding toxicity data, the reports do not address these allegations directly. This lack of direct engagement with high-profile controversies suggests a lack of transparency. Reports from 2021 to 2023 all include the same information that claims neonicotinoids are considered safe by regulatory authorities in countries outside the EU, and that neonicotinoids are a less toxic and safer alternative to older insecticides. The 2021-2023 reports however do include a link to a separate report on neonicotinoids.

Bayer claims to be committed to SDG 3 – Good health and well-being and states in its 2022 and 2023 sustainability reports that some of its products directly impact people's health, some prevent diseases and others treat illnesses. However, all the reports from the years 2020 to 2023 fail to mention the possible negative health impacts, such as neurotoxicity and carcinogens.

The 2020 sustainability report highlights Bayer's extensive measures to combat child labour, even though the data shows a slight increase in child labour in Bayer's seed production in India. The blame for this is shifted to return migration and the COVID-19 pandemic. The 2021 report shows an even higher increase in child labour, despite the extensive measures against it. In the 2022 report child labour is reported at 0%, and the 2023 report shows no data on child labour.

Bayer has reported sustainability selectively. The sustainability reports of 2020 to 2022 are vague on negative information and downplay problems, while the 2023 report's strategy seems to be to not disclose negative sustainability aspects. Positive information, however, is significantly highlighted in all the reports. The reports are increasing in the quantity of information year by year, yet

there seems to be a decrease in meaningful information as the number of areas reported increases.

### 6.3 Case Studies Discussion

The EU's CSRD is introducing mandatory requirements for sustainability reporting in hopes of preventing the types of misleading sustainability disclosure discovered in the case studies. The ESRS will be quite strict on the sustainability topics and datapoints to disclose, and selective disclosure will likely become more difficult. Volkswagen and Bayer have taken the risk of not complying to regulation before, therefore it is difficult to speculate whether the mandatory aspect of reporting would prevent not following the standards as intended, yet it could force them to consider it more carefully. The assurance required by the CSRD will first be limited, but after moving to reasonable assurance and EU-regulated assurance guidelines, the verification is likely to be more reliable and therefore deceptive manipulation would be more unlikely. Would the CSRD have been in "full force" at the time of creating the sustainability reports reviewed for Volkswagens and Bayers case studies in this thesis, they would possibly have shown significantly less characteristics of misleading reporting. However, especially with Volkswagen, when there is serious emissions fraud involved, it probably would not be truthfully disclosed in any situation before getting caught.

## 7 Discussion

There is an evident need for a standardised framework for sustainability reporting to improve the consistency and comparability of sustainability reports. Research and literature (Guo and Yang 2014; Mahajan 2023; Ottenstein et al. 2021; Siew 2015) around sustainability reporting call for standardisation and assurance to minimise the risks of greenwashing and deceptive sustainability communication. Multiple tools for sustainability reporting weakens the comparability of reports. There have been attempts to create a standardized framework, for example the GRI, which has established the number one spot among the

multiple standards and frameworks for sustainability reporting. However, even the GRI has not been able to prevent companies from misleading stakeholders with sustainability reports. Research has found that neither the use of a standardised reporting framework nor assurance has discouraged companies from selective disclosure of sustainability issues (Roszkowska-Menkes et al. 2024), which is also demonstrated by the case studies on Volkswagen's and Bayer's sustainability reporting.

Currently the GRI is the most used framework for sustainability reporting, and the new ESRS is partly inspired by the GRI standards. The main difference between the GRI and ESRS is that the GRI is voluntary, while the ESRS is mandatory. The double materiality assessment requirement of the ESRS will likely force many companies to report on areas they have not reported on before, but the quality and reliability of this information is not guaranteed. The GRI also requires an impact materiality assessment, however companies have still managed to be vague and selective of the information required by the GRI standards determined by the materiality assessment. Having a mandatory, clear, and structured standardized framework will likely improve the comparability of reports. The strict and clear requirements of how sustainability reports should be compiled and structured, what information they must include, and the coming sector-specific standards provided by the ESRS will have a major impact on the comparability of sustainability reports.

The quality and reliability of sustainability reports partly depend on the requirements and clarity of the legislation and framework. If the standards and requirements are too complicated, vague, or unclear, there is more room for misconceptions, differing interpretations, and intentional misuse. Currently, the CSRD and ESRS are still a work in progress, and there are likely to be a lot of problems for companies implementing the new standards at first, including both intentional and unintentional selective disclosure.

Selective disclosure seems to be the biggest issue when it comes to misleading sustainability reporting. The CSRD will not completely resolve the problem, but

with the strict materiality assessment and especially the requirement to report on why ESRS E1 would not be material to the company, selective disclosure on at least climate change issues will be significantly more difficult. However, it is entirely possible some companies will find ways around these requirements and continue publishing misleading sustainability reports.

As for the manipulation of sustainability information, companies who are willing to disclose inaccurate or false sustainability data will likely keep doing so even under the CSRD. Unless there are comprehensive audits to verify the data, and regular supervision of the appropriate implementation of the ESRS, it cannot be confidently stated that the CSRD will decrease manipulated sustainability data. And even then, if companies are already willing to take the risk of getting caught in data manipulation, the CSRD might not change the situation. Broadening the spectrum of companies that must report on sustainability will increase the number of reports, which could mean increasing the number of misleading reports if the directive and standards fail to exclude the possibility of misleading reporting.

The standardisation problem in sustainability reporting is extended to sustainability reporting assurance. Different methods and standards in assurance create differences in quality and reliability. There are contradicting opinions about whether assurance has an impact on misleading disclosures. There is evidence that the assurance of sustainability reports does not discourage selective reporting. However, if assurance is mandatory and standardized, it could erase the issue of selective assurance, where companies can choose which information is assured if any of it. The mandatory assurance required by CSRD has the potential to minimize the risks of misleading disclosures with mandatory assurance. However, for the directive to significantly limit the risk of misleading sustainability reporting, clear standards, and guidelines for how the assurance is executed and by whom, need to be established. As of now, such guidelines are not published.

## 8 Conclusion

This thesis has introduced the topic of misleading sustainability reporting and the European Union's response to the issue with the new Corporate Sustainability Reporting Directive. Issues in sustainability reporting, such as selective disclosure, manipulation of sustainability information and the lack of standardised frameworks were identified in the literature review. The literature review also discussed developments in legislation and the characteristics of misleading sustainability reporting. Two case studies were conducted to provide further context to misleading sustainability reporting in real life. The research question for this thesis was "How is the EU addressing the issue of misleading sustainability reports with the Corporate Sustainability Reporting Directive?" Simplified, the answer to the research question is that the CSRD attempts to address misleading sustainability reporting by introducing mandatory assurance of sustainability reports, and the new European Sustainability Reporting Standards. However, just having mandatory assurance and new standards is not going to solve these issues, but the CSRD has great potential to limit misleading reporting when implemented fully.

It is important to mention the limitations of this thesis. As the CSRD is very new and some aspects of it are not yet introduced or implemented, there is no data to assess the impact of CSRD and thus the effectiveness of the directive can only be speculated. The directive is subject to change and the ongoing development of the ESRS standards and the CSRD could significantly change the scene and make this study less relevant. The limited number of case studies might not represent the broader situation correctly across all industries and regions. The commitment of EU member states to enforce the CSRD can vary and significantly impact the effectiveness of the directive. Future research could study how the CSRD is enforced in different industries, companies and member states after the directive is fully in force and there is more data on sustainability reports following the ESRS.

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