

**Submission to
The Parliament of Australia
Senate enquiry into Greenwashing**

April 2023

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Delivered to ec.sen@aph.gov.au On 4th April 2023

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Background:

Ken is a technology and business professional with more than four decades steering strategy and corporate transformation and technology plans for large and complex entities.

Ken is an acknowledged subject matter expert in strategy, portfolio, program, project, organisational change and benefits management. Ken is also acknowledged by his peers as a thought leader in identification, analysis, optimisation, selection and prioritisation of project portfolios.

A practical implementation of Ken's and his wife, Patricia's knowledge is in a software product called AppO, that helps business select and prioritise project portfolios.

This submission relates to:

[Legislative options to protect consumers from green washing in Australia](#)

Summary

To control greenwashing legislation and regulation must include:

- Acceptance of the notion that the “Stage Gate” process used by government and corporates to decide on, and prioritise climate action must be the focus of legislation and regulation.
- Regulation of potential investment valuation methods to control the opportunity for valuation to be misleading.
- Legislation to require usage of Multi-Criteria Decision Analysis methods to:
 - Enable comparison of intangible outcomes with tangible outcomes, which becomes mandatory when deciding on climate action.
 - Eliminate bias from corporate and government decision making that would result in misleading assessments.
 - Overcome issues related to how much importance is ascribed to each possible outcome.
 - Inextricably tie climate action into corporate strategy development and execution.
- Regulation of value measures in developing strategy and planning climate action.
- Regulation of acceptable ranges of the relative importance of each value measure.
- Imposition of reporting standards.

Definition of Greenwashing

The act of providing the public and investors with misleading or outright false information about the environmental impact of a company's products and operations.

Source: Investopedia

The underlying tenet is that the organisation understands that the information they provide is false. However, this may not always be the case, which will cause any legislative options to narrow. For example, they will not recognise that their reports are flawed when their estimates of the outcome are developed without rigour. Thus, **valuation methods must be regulated**.

Making decisions about what to do and what not to do

To carry on business requires prioritisation decisions related to the judicious application of resources to grow the business or deliver the customer's requirements in the most efficient manner.

Businesses, especially very large businesses (and governments), have very large numbers of opportunities to improve their business and generally limited resources with which to achieve those improvements. We know of government agencies and corporations with a backlog (pipeline) of over 500 transformation projects and over 2,000 infrastructure projects, some planned to be achieved over five, ten and twenty years. Transformation activities are usually planned over less than ten-years while infrastructure projects can push out to twenty and even fifty years.

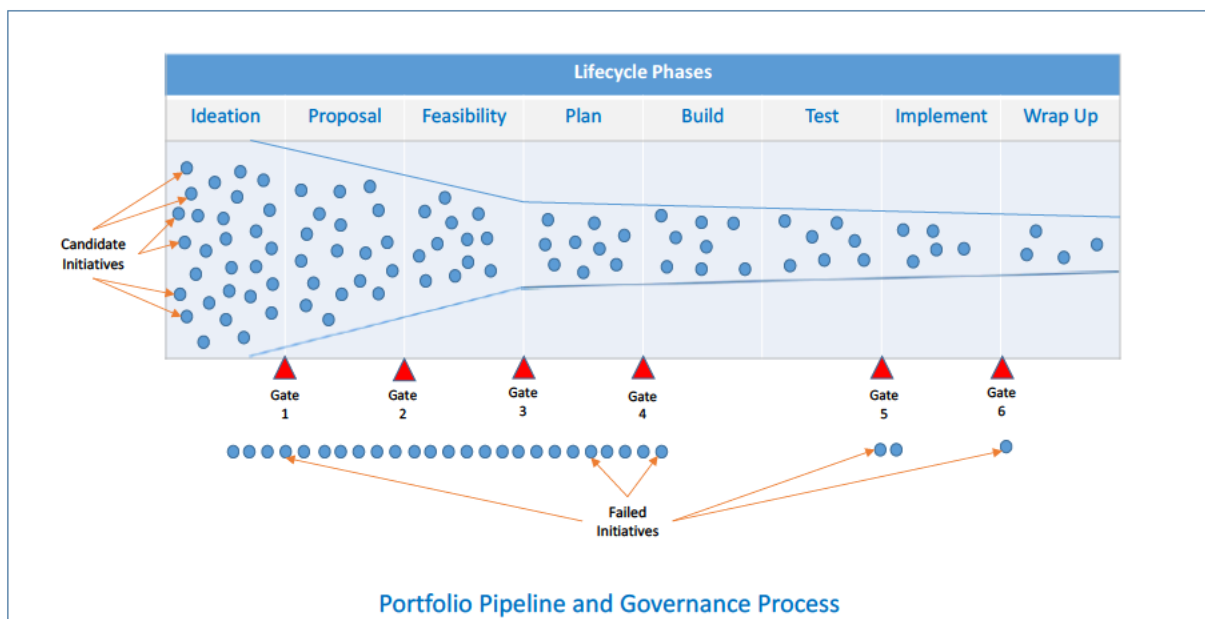
With limited resources available in any year it becomes a choice of which activity can we perform that will increase the overall value of our asset (our business) the most? Which is second? which is third? etc. to determine the order in which resources might most optimally be allocated and consumed.

It is only rational that governments and corporations are not prepared to authorise the total value of resource usage involved in a proposed activity without a full understanding of that activity. Thus the plans for potential investments are developed in stages akin to Concept (Ideation), Proposal,

Feasibility, Plan, Build, Test, Implement, Wrap up, and at any one time only sufficient resources to execute the next stage of any particular project (or activity) are allocated. This is formally called the “Portfolio Pipeline and Governance Process” and is used to control the pipeline of activity.

More simply it is called the “Stage Gate” process. Approval to proceed to the next stage, or not, is confirmed at a “Gate”, which is a meeting of those who are accountable to decide if the potential investment is sufficiently developed, is aligned to the overall plan, and represents sufficient benefit to commit the requested resources. Each stage gate asks many questions and considers the answers, many of which relate to the estimate of value to the organisation in delivering the proposed outcomes.

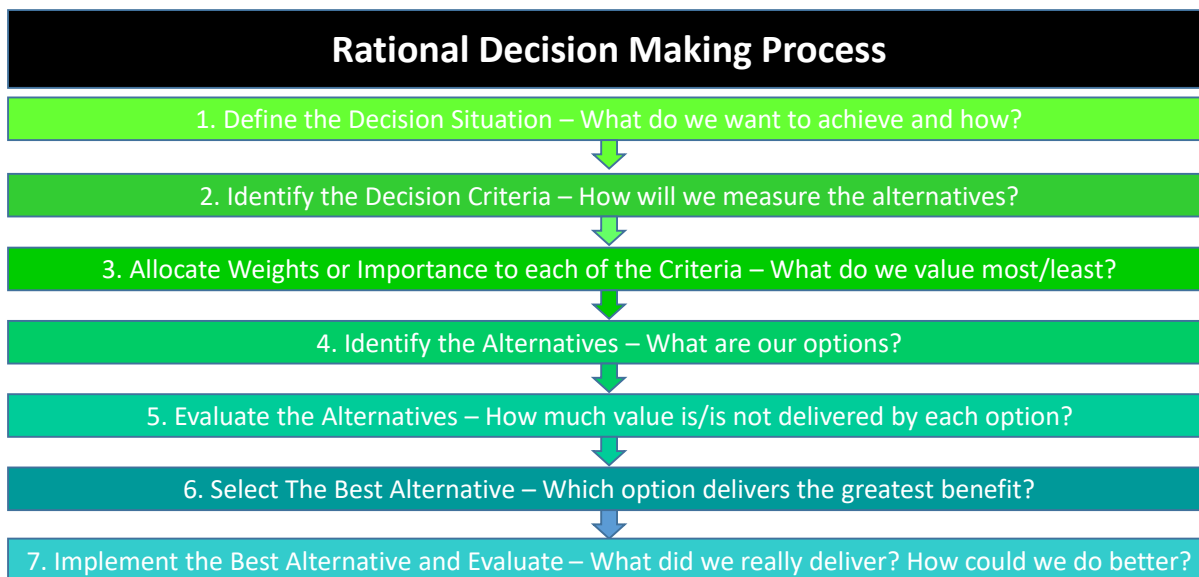
A conceptual view of the process is:



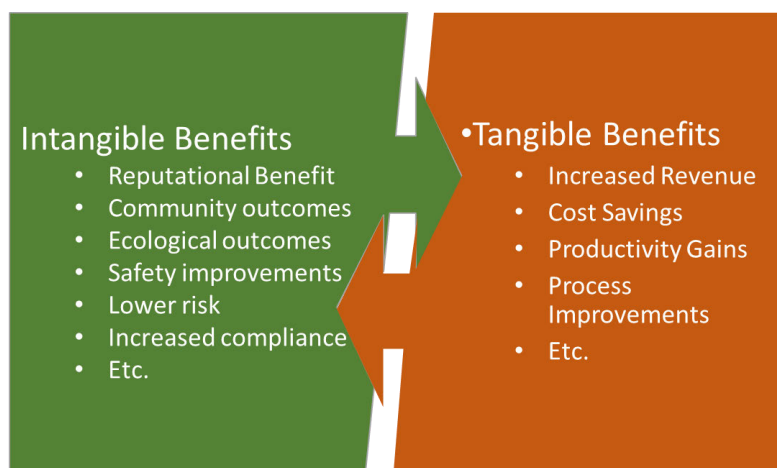
The view is not indicative of the resource consumption during each stage, instead it is indicative of the relationship of the number of proposed investments that might progress to each stage because the decision to terminate or continue to invest in a proposed activity is made at each stage gate.

Organisations greenwash when they report the outcomes of this decision making process in other than a transparent manner. It then holds that forcing an organisation to report transparently on the process and its outcomes will eliminate greenwashing.

In a perfect world decisions will be taken using the Rational Decision Making Process:



By and large, most corporates and governments apply sound rationale to making decisions but the primary problem associated with making decisions relates to bias, either intended or unintended. An issue with making decisions related to climate is that some of the desirable outcomes are intangible (ecological outcomes, reputational outcomes, etc.) and are therefore very difficult to define (Step 2 of the rational decision making process) and to compare to tangible financial outcomes (Step 5 of the rational decision making process). Many organisations try to translate intangible to tangible by making financial assessments of their cost and benefit however, this cannot always be achieved (e.g. lowered risk, reputation), and in those that can be translated it introduces significant risk that the assessments will be accurate (and not greenwashed or in other ways biased).



Climate activity reporting standards around the world, in our view, fail to actually report on climate activity because they take a purely financial view, a tangible view of outcomes of a decision that must be taken using other than tangible measures. In other words they report the financial outcomes and no more, they are not even designed to accommodate both tangible and intangible measures of value to business and society.

Another approach is to use decision science to eliminate emotion and bias in the decision making process. The science we would recommend as appropriate is Multi-criteria Decision Analysis (MCDA), specifically an integration of Pairwise comparison (Thurlstone, 1927), and the Analytic Hierarchy Process (AHP, Saaty, 1978/1980), which have been found in studies by the University of

NSW in 2017 as one of only two methods that can produce statistically defensible comparisons of tangible and intangible measures to prioritise project portfolios, thus enabling clarity of view in prioritising pipelines of climate-related activity.

An additional issue in comparison of tangible to intangible is one of importance. In other words “how much of an intangible benefit equates to how much of a tangible benefit”. For example, how much reduction of CO2 emissions is equivalent to an increase in customer complaints by 10%, compared to an additional \$1.00 of net profit earned five years hence, compared to a rise in the share price of \$0.25 in the current period. This issue is also overcome using pairwise comparison and AHP in applying MCDA.

Business Strategy Development

Most organisations develop their business strategies cyclically, most annually. Their strategies identify value measures, which are generally hierarchical in nature and could be called strategic drivers, critical success factors, KPI’s, KRA’s, or in sufficient detail they may be called balanced scorecard measures. It is those value measures that are applied at each stage gate to determine if each activity should proceed or not, and in what form.

Of note is that MCDA is also a sophisticated tool when applied to developing strategy and using MCDA the value measures can be anything the human mind can imagine. They could be structured in a such a way as to exactly replicate any framework currently used across the world to report greenhouse gas emissions, and the United Nations Sustainable Development Goals, and any risk measurement frameworks. The structure can then also integrate with cost/benefit analyses and measurable financial outcomes, including all business ratios, to provide very sophisticated comparisons and analyses of the value to the business in achieving their planned outcomes.

Strategy development also identifies the activities or investments that are proposed to be resourced to enable delivery of the planned corporate strategy.

If you need to consider financial outcomes only then prioritisation is quite simple but when other than financial measures are used there is a need to develop a view of the relativity of importance of the value measures. That is the only information shortfall that would otherwise enable comparison of tangible and intangible and thus, the use of MCDA.

MCDA uses the value measures, the ratio of importance of the measures, and an assessment of the likely outcome of investment relative to each measure to create a view of Relative Business Value. Investment options, when ranked by Relative Business Value provides prioritisation, and thus the basis of whether the activity will be resourced in the current budget period or whether it must wait for further budget allocations.

Since comparison of tangible and intangible is mandatory in prioritisation of climate action then logically, MCDA or similar is also mandatory.

Regulation of allowable value measures, the ratios of value, the methods used to collect assessments and reporting standards will not only virtually eliminate the potential for greenwashing, but it will also provide sufficient levers to totally control climate change activity and therefore climate outcomes for the entirety of the Australian economy.

With this ambitious but easily deliverable approach, the Australian government will also enable the injection of best practice frameworks for climate control and standards for climate activity reporting into every business while, at the same time, arm every Australian business with the capacity to make

better decisions. Savings from the use of MCDA commonly exceed the cost of using MCDA, reportedly (perhaps notably) saving between five percent (5%) and twenty three percent (23%) of the value of decisions taken.

Regulated value measure frameworks, ratios of importance, methods for assessment of outcome and reporting standards will be an extension of existing financial reporting standards and could be managed by the same organisations that currently manage and control accounting and reporting standards.

END OF SUBMISSION