

Business and Water: Water Reporting in the Fashion Industry

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Introduction

With the uptick of public concern over climate change and environmental degradation in recent years, corporations have been under increasing pressure from stakeholders and consumers to showcase their sustainability and positive social impact. This has led to a rise in instances of greenwashing, where businesses claim to be more sustainable than they are or misrepresent themselves in order to appear sustainable. Research on this topic is highly salient, since proper corporate environmental management is necessary if the world is to reach targets minimizing the negative impacts of humans on the environment.

My research project focuses on if and how companies report on their water usage, including water consumption and wastewater treatment. Corporate water use and climate change have resulted in a growing global water crisis: 1.1 billion people currently lack access to clean water and two-thirds of the world's population may face water shortages by 2025 (World Wildlife Fund). My research project aims to help mitigate this trend by helping us understand corporations' relationship to water usage, whether or not corporations report their water usage properly, and what can be improved in corporations' approach to water stewardship. I focus specifically on the fashion industry, as the textile and apparel industry is one of the most water-intensive and water-polluting industries in the world (Ellen MacArthur Foundation, 2017).

Research Strategy and Methodology

Literature Review

I started off my research project by spending two weeks creating a literature review on the general topic of business and water. I began by reading some key texts concerning corporate sustainability reporting provided to me by my supervisor, before turning to Google Scholar and Web of Science to search for recently published papers with the aim to understand the general discussion around greenwashing and corporate reporting. Topics searched for at this stage of my literature review include greenwashing, ESG (Environmental, Social and Corporate Governance), and corporate sustainability reporting. Working with Microsoft Excel, I compiled a list of 33 papers on this topic, summarizing the key arguments and methodology of each and marking those that stood out as particularly salient to the theme of business and water.

I then narrowed my search to find papers published within the last 20 years on corporate water reporting and disclosure specifically. I was particularly interested in discovering what topics and industries past research tended to focus on and how much research existed in order to inform the subsequent direction of my research. Adding to my Excel spreadsheet, I compiled 46 papers related to corporate water disclosure, again summarizing their key arguments and methodology. I repeated this process for news articles concerning greenwashing and corporate water use, to find out which companies and industries were most represented in the public discussion on greenwashing, and again for articles and websites related to government policy, regulations, and international standards on corporate water reporting. I ended with 32 and 33 resources on these topics respectively.

Finally, I summarized my findings in a five-page document. My review of the literature showed that research on greenwashing and corporate sustainability disclosure usually focused on

whether or not corporate sustainability reports (CSR) are useful in combating greenwashing and what the effects of greenwashing are on corporations that engage in this practice. Research concerning corporate disclosure and water more specifically often centered around companies in China, South Africa, and Australia, and the agriculture and mining industries (two very water-intensive industries). Research on how the impact of water disruption on businesses was found to be missing. Additionally, while the fashion industry was identified in news articles and in the public sphere as one of the most water-polluting and water-intensive industries (Ellen MacArthur Foundation, 2017), research concerning water reporting in the fashion industry was very sparse.

A review of current government standards in the EU (Jones, 2022), UK (Pinkerton, 2022), USA (Securities and Exchange Commission, 2022), China (Asia, 2022), and Australia (The Reporting Exchange, 2018) revealed that governments in all of these regions are as of 2022 beginning to implement mandatory corporate sustainability reporting for certain companies and industries. All of these include reporting of water usage to some extent - in the EU, and in the UK and USA, reporting must be done to CDP (Carbon Disclosure Project) or TCFD (Task-Force on Climate-Related Financial Disclosures) standards respectively, two internationally recognized reporting standards. While CDP disclosures include a relatively thorough questionnaire on water usage (Water Security - CDP, n.d.), TCFD standards are more relaxed and merely recommend disclosing information such as water targets and water risk (Task-Force on Climate-Related Financial Disclosures, 2017). Additionally, none of the international standards reviewed mentioned the fashion industry as an industry of focus related to water.

Compiling Corporate Reports

After summarizing the findings from my literature review and considering the gaps in the literature, I decided to focus my research project on the fashion industry due to the scarcity of research related to fashion companies and corporate water reporting. My next task was to compile data representing the reporting practices of fashion companies. Using the list of companies scored on the Fashion Transparency Index (Fashion Transparency Index 2022, 2022), I compiled a dossier of the annual corporate reports and the sustainability reports of 252 fashion companies and/or their parent companies from the years 2006 to 2021. I organized these in files by company and type of report and systematized file names in an Excel document.

Coding Reports

Once all the reports had been compiled, I was compelled to narrow my research focus again further, due to the time restrictions of the project. My supervisor and I decided to analyze the reports of Nike, H&M, Deckers, and Esprit, all ranked within the top 25 companies on the Fashion Transparency Index, for the five years from 2015 to 2020. We chose these four companies so as to have a complete set of 5 years of sustainability reports and 5 years of annual reports for each company.

I first created a taxonomy of important corporate water-related phrases and words taken from the various corporate reporting standards I had reviewed, particularly the United Nations' CEO Water Mandate, the CDP, and the GRI (Global Reporting Initiative). Using the qualitative data analysis software NVivo 12, I input 33 important phrases into the system as nodes - themes that I could then mark a particular text or report as having. After importing the 40 reports from my selected companies into NVivo, I ran a text search for the word "water" on all the reports. I

then matched each instance of “water” with one of the nodes I had coded, which included themes like “water-related value chain engagement” and “water consumption”. In total, I coded 1566 instances of the word “water” across 40 reports.

Conclusions of Research Project

In analyzing the NVivo results, I discovered several important points relating to recent trends in water disclosure in the fashion industry. First, companies went into much greater depth on their water stewardship in sustainability reports than in annual reports. For one company (Nike), water was not mentioned in annual reports at all. This indicates that water issues are not a focus in terms of overall financial progress and strategy, and more of a focus in terms of public and stakeholders’ views on social and environmental impact specifically. Additionally, for smaller companies (Deckers and Esprit), references to water increased year by year, while reference numbers for larger companies (Nike and H&M) roughly stayed the same or went down year by year. This suggests that pressure to address water issues went up with time, spreading from larger companies, which may feel pressure sooner, down to smaller corporations.

My findings also revealed key points about what water information corporations specifically tend to disclose and how they do so. Both water consumption and wastewater treatment were prevalent in the discussion, with some companies putting more emphasis on one or the other. However, only one company reported water withdrawals by source (H&M), which is the recommended way to report water consumption according to CDP guidelines. Additionally, targets related to water consumption or wastewater treatment were often non-specific and vague and did not include measurable objectives. Only larger companies (Nike and H&M) included local context and water stress in their assessments of water risks and

impacts. According to CDP guidelines, considering local context when managing water issues is essential. However, all brands included engagement with their value chain in regards to water in their reports. The water footprint of fashion companies comes largely from raw materials and manufacturing processes. These steps in the supply chain are often undertaken by contracted facilities, making their inclusion in the discussion surrounding a brand's water usage crucial.

More broadly relating to the compiled database, publicly traded companies tended to be more likely to publish sustainability and annual reports, while private companies had less incentives to publicly report their corporate progress, including on water stewardship. Overall, annual reports (which tend to disclose less on water) were more prevalent than sustainability reports. Additionally, it was much more likely for corporations to publish sustainability reports after 2015 than before 2015.

I will be working on the continuation of this project with my supervisor. The next stages of research will include analyzing the rest of the reports in our database with NVivo and classifying instances of "water" in reports into more detailed subdivisions to further understand the use of frequency of water reporting in the fashion industry. Long-term, we aim to use our data and analysis to create an index which ranks companies on how well they disclose water use.

What I learned

Undertaking this research project has given me many opportunities for growth. Apart from the knowledge I gained on greenwashing and corporate water disclosure, I was also able to gain a much deeper understanding of the strategies corporations use to manage risks to their business and issues important to the public and stakeholders. I gained a better understanding of how companies balance goals with what they believe is physically and economically feasible.

Additionally, I got a glimpse of how public reports such as annual and sustainability reports are created and what goes into compiling the data and creating strategies to address the issues reported on.

I also gained insight on the fashion industry in particular. Reading through corporate fashion reports introduced me to how fashion companies engage with their supply chain and just how important the entire supply chain is to the creation of products. I also gained an understanding of the role companies play in managing their supply chain and how companies can influence their supply chain through internal regulations, even if contracted factories and facilities are not direct employees of the company.

Researching water disclosure has allowed me to strengthen several skills. Creating a literature review helped me skim and summarize papers more efficiently and taught me how to piece together many components to create a unified understanding of the discussion around a certain topic. It also improved my searching capabilities, as I became more experienced with how to find specific papers and themes on search engines. Compiling a database of reports allowed me to learn how to organize an online database and gave me experience in navigating websites to find particular documents. This task also gave me insights on what features are included on user-friendly websites, as I gained appreciation for websites that allowed me to find and download reports quickly and easily. Additionally, I learned how to focus during repetitive tasks, as the task, while repetitive, was also easily prey to errors. Finally, coding and analyzing reports during the last stage of my research project not only taught me how to use a new software, but also honed my ability to connect quotes of text with overarching themes to create a bigger picture.

Working with my supervisor was also incredibly rewarding. While he was extremely supportive and ready to answer any questions, he also allowed me to guide the direction of my research, giving me the opportunity to practice my skills in leading research on my own and making decisions impacting the direction of research.

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