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# The crucial role of transparent communication in sustainability: Challenges and opportunities

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## ABSTRACT

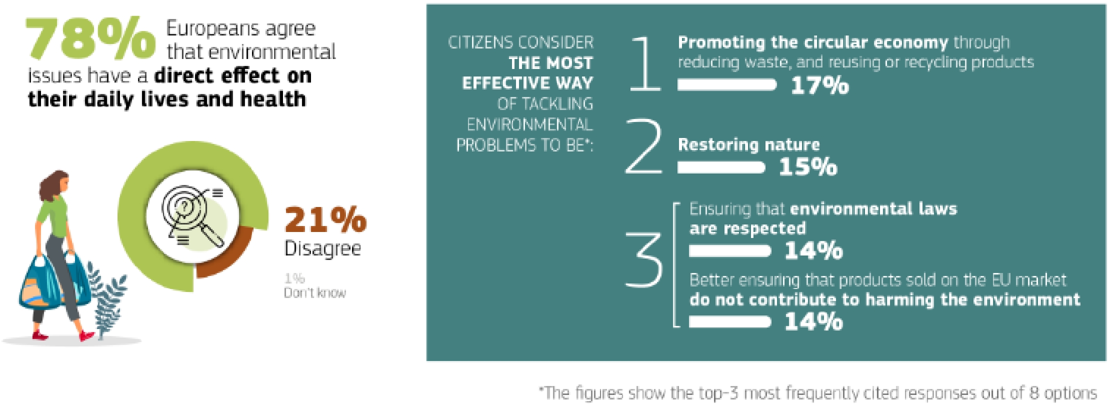
In the past decade, environmental issues have gained significant prominence in public discourse, leading to increased awareness and more favorable attitudes toward ecological concerns. This shift has been reflected in the growing active participation of individuals and communities in addressing environmental challenges, highlighting the critical importance of sustainability and the urgent need to tackle these issues. As sustainability gains global prominence, consumer purchasing behaviors are also evolving. Consumers are now more attentive to companies' sustainable practices when selecting products or services, driven by a deeper understanding of the environmental and social impacts of their consumption choices. However, effectively communicating sustainability presents a significant challenge. It involves more than merely promoting green initiatives; it requires building trust and authenticity amidst a landscape of expectations and public scrutiny. The rising prevalence of greenwashing, where companies exaggerate or distort their environmental actions, threatens consumer and investor confidence in eco-friendly products. To address this issue, it is crucial for companies to adopt a transparent approach, supported by verifiable data and independent certifications, and to set clear and measurable goals. The study by Oliveira Jr (2015) reveals that consumer purchase intentions are positively influenced when they are informed about companies' sustainable actions, supporting the findings of Choi and Ng (2011). Initiatives that reduce pollution, use recyclable packaging, and promote resource conservation have a positive impact on purchase intention. However, the communication of social initiatives, such as adherence to ethical principles and laws, did not show a significant effect.

**Keywords:** Sustainability, Greenwashing, Transparency, Corporate Communication, Purchase Intention.

## INTRODUCTION

Over the past decade, environmental issues have increasingly occupied the forefront of public conversation, leading to a surge in awareness and more favorable attitudes toward ecological concerns. This heightened consciousness has driven individuals and communities to become more actively involved and proactive in tackling environmental challenges. Such a shift underscores a broader societal recognition of sustainability's critical importance and the urgent need to address environmental issues, shaping public opinion and promoting more sustainable practices and policies (Calculli et al., 2021).

Figure 1: Perceived impact of environmental matters and how to tackle them. European Union (2024).




As sustainability gains global prominence, reflecting growing interest and awareness from both individuals and organizations, consumer purchasing behaviors are also evolving. Today, consumers are more attentive to companies' sustainable practices when selecting products or services, influenced by a greater understanding of the environmental and social impacts of their consumption choices (Vargas-Hernández, 2021). This increased concern has heightened the demand for corporate transparency and accountability, urging companies to align their strategies and communications with consumer expectations and advocate for more sustainable practices.

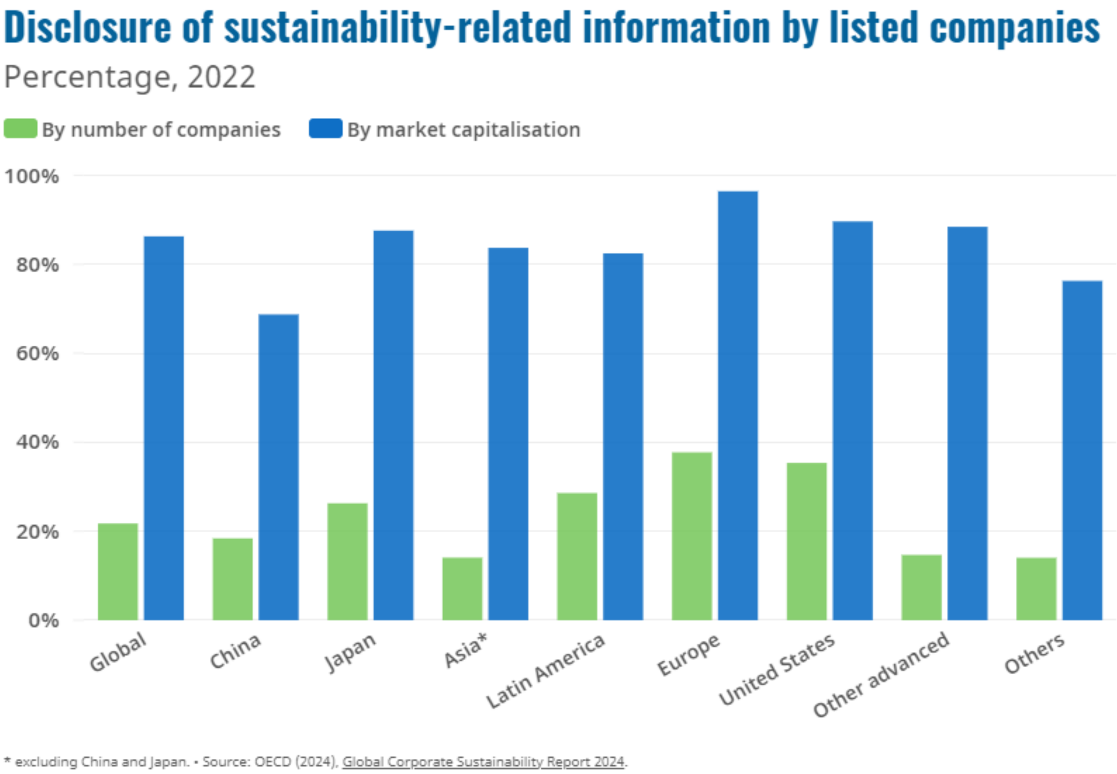
In this evolving landscape, companies face the challenge of effectively and transparently communicating their sustainability efforts. This goes beyond merely highlighting green initiatives; it involves building trust, showcasing authenticity, and managing a complex array of expectations and public scrutiny. Successfully addressing these communication challenges is essential for companies aiming to enhance their reputation and manage their sustainability narratives effectively.

Sustainable development relies on various strategies designed to minimize environmental impacts and uphold high standards of ethics and integrity in business practices (Wang & Lin, 2007; Hollos, Blome & Foerstl, 2012). The effectiveness of these strategies can be significantly enhanced when companies communicate their actions clearly to the public, fostering greater awareness and engagement with their sustainability efforts (Choi & Ng, 2011). Therefore, transparent and well-crafted communication is vital in promoting sustainable practices, reinforcing their credibility and influence within society.

Recent years have seen a notable increase in the communication of companies' sustainable initiatives, a trend that continues to grow (Torelli et al., 2012; Wagner et al., 2009). Many organizations have invested substantial capital and resources to leverage the benefits of this expanding practice (Ki & Shin, 2015). Borges et al. (2023) highlight that effective communication can target various stakeholders — employees, suppliers, partners, regulators, society, and consumers — and that shifting the perception of key actors can add significant value to a brand. How a company communicates its actions and commitments to these diverse groups not only affects public perception but also enhances the brand's reputation and value. An effective communication strategy that meets the needs and expectations of each stakeholder can strengthen relationships and increase the company's perceived value.

According to the OECD (2022), among the 43,970 companies listed globally, with a combined market capitalization of $98 billion, 22% (9,600 companies with a market capitalization of $85 billion) have disclosed information related to sustainability.

Figure 2: Disclosure of sustainability-related information by listed companies. Source: OECD (2024).




According to the KPMG (2022) study, one survey reveals that the N100 companies have consistently increased their reporting rates over each global survey cycle. A decade ago, 64 percent of N100 companies were reporting on sustainability, whereas in 2022, this figure had risen to 79 percent. Currently, almost all of the world's top 250 companies (G250) are engaged in sustainability reporting. The reporting rate among the G250 remained at 96 percent in 2022, unchanged from 2020.

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Figure 3: Global sustainability reporting rates (1993-2022). Source: KPMG Survey of Sustainability Reporting 2022 (2022).


According to Argenti (2006), a company's reputation is shaped by its corporate identity, which includes elements such as names, brands, symbols, and self-representations, as well as the perceptions held by clients, the community, investors, and employees. The way a company interacts with its stakeholders, communicates information, and engages in societal actions is pivotal in forming public opinion. Effectively communicating sustainability, however, is a major challenge. It must go beyond simple brand promotion and function as a genuine strategic tool. To build a strong image and reputation, companies must emphasize transparent and ethical communication, focusing on accurately representing their practices (Carlesso & Riffel, 2012).

A significant challenge in conveying sustainable practices is the risk of accusations of greenwashing, where companies exaggerate or misrepresent their environmental efforts. To mitigate this risk, organizations should adopt a transparent approach, supported by verifiable data. Detailed sustainability reports, independent certifications, and external audits are crucial for enhancing credibility. Companies that set clear, measurable goals, such as reducing carbon emissions or minimizing waste, are better able to engage authentically with their audience.

Economic theory-based researchers view sustainability reporting as a vital organizational communication strategy that can mitigate risks and enhance performance. From this perspective,

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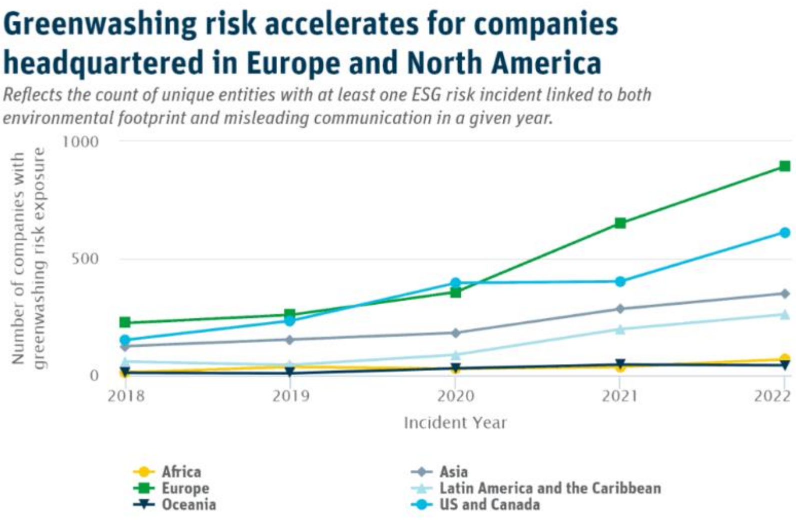
effective sustainability reporting is seen as a strategic measure to improve operational efficiency and manage potential risks. Conversely, scholars using neo-institutional theory often critique sustainability reporting, suggesting that it can sometimes be a facade for greenwashing. They argue that companies facing significant risks or underperformance may use sustainability reporting to mask underlying issues rather than addressing them genuinely. This critical view posits that the motivations for sustainability reporting might focus more on projecting a favorable image than on achieving real improvements (Lueg & Lueg, 2020).

As greenwashing becomes more prevalent, it undermines consumer and investor confidence in environmentally friendly products. This issue is compounded by the current regulatory environment, which is often limited and unclear, making it difficult to tackle misleading claims effectively. Addressing greenwashing remains a complex issue, necessitating greater transparency and stronger regulatory frameworks to protect authentic sustainability efforts and rebuild trust among stakeholders (Delmas & Burbano, 2011).

According to ESG data and research firm RepRisk (2023), companies engaging in greenwashing, or making misleading environmental claims, represented 25% of climate-related risk incidents between September 2022 and September 2023, a notable increase from 20% during the same period the previous year. This rise highlights a growing trend where companies are increasingly resorting to deceptive environmental practices to appear more eco-friendly than they are, thus exacerbating the problem of misinformation in sustainability claims. The increase in greenwashing incidents underscores the urgent need for more stringent regulatory oversight and transparency to ensure that companies' environmental claims are accurate and genuinely reflect their sustainability efforts.

Figure 4: Greenwashing risk accelerates for companies headquartered in Europe and North America. Source: RepRisk (2023).



Several factors are fueling the growing discourse on greenwashing. Primarily, the increasing demand from ESG investors for transparency and accountability has heightened scrutiny, as these investors aim to support companies that authentically align with their values and positively impact society and the environment. This demand has led some companies to overstate their sustainability efforts. Additionally, the financial importance of ESG factors is becoming more apparent, with investors acknowledging that environmental risks, social issues, and poor governance can significantly influence a company's long-term performance and risk exposure. Greenwashing exacerbates the risk of capital misallocation, diverting funds from genuinely sustainable projects to those merely presenting a green image. The expansion of ESG investing has also intensified scrutiny, with investors, regulators, and stakeholders requiring solid evidence for sustainability claims, leaving little room for vague or misleading statements. Moreover, companies with robust ESG credentials are increasingly appealing to investors, talent, and consumers, leading some firms to falsely project a positive sustainability image to remain competitive in the market (RepRisk, 2024).

According to a study by Oliveira Jr (2015), consumer purchase intentions (PI) are positively influenced when they are informed about a company’s sustainable actions (SA), which enhances their evaluation of both economic and environmental aspects. This finding supports Choi and Ng’s (2011) research, indicating that consumers are more likely to purchase from companies that improve product and service quality, reduce costs, and adopt long-term strategies, while also considering customer satisfaction. Similarly, initiatives like pollution reduction, recyclable packaging, and energy and water conservation positively impact PI. However, communication of social initiatives such as ethical commitments, legal compliance, and societal concerns did not significantly affect consumers' PI.

In conclusion, the growing focus on environmental issues over the past decade has reshaped consumer behaviors and business practices alike, with sustainability now playing a critical role in corporate strategy and public perception. As individuals and organizations become more attuned to the environmental impact of their actions, the demand for transparency and authenticity in sustainability efforts has intensified. Companies are now expected to not only implement sustainable practices but also communicate them clearly and honestly to avoid accusations of greenwashing.

The challenge of effective communication in sustainability lies in maintaining trust and credibility. Greenwashing, as highlighted in recent studies, undermines this trust and can lead to misallocation of capital and resources, further complicating the global sustainability agenda. To combat this, businesses must adopt transparent reporting methods, including verifiable data and third-party certifications, ensuring that their environmental claims are both truthful and impactful.

As the landscape of sustainability reporting evolves, it is essential for companies to align their communication strategies with the growing expectations of consumers and investors. This alignment can enhance both corporate reputation and consumer trust, especially when backed by clear, measurable goals and a commitment to long-term sustainable development. Companies that embrace these principles will not only avoid the pitfalls of greenwashing but also contribute to the broader goal of fostering a more sustainable and environmentally conscious society.

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