

## The business benefits of using sustainability standards

### A meta-review

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# Executive Summary

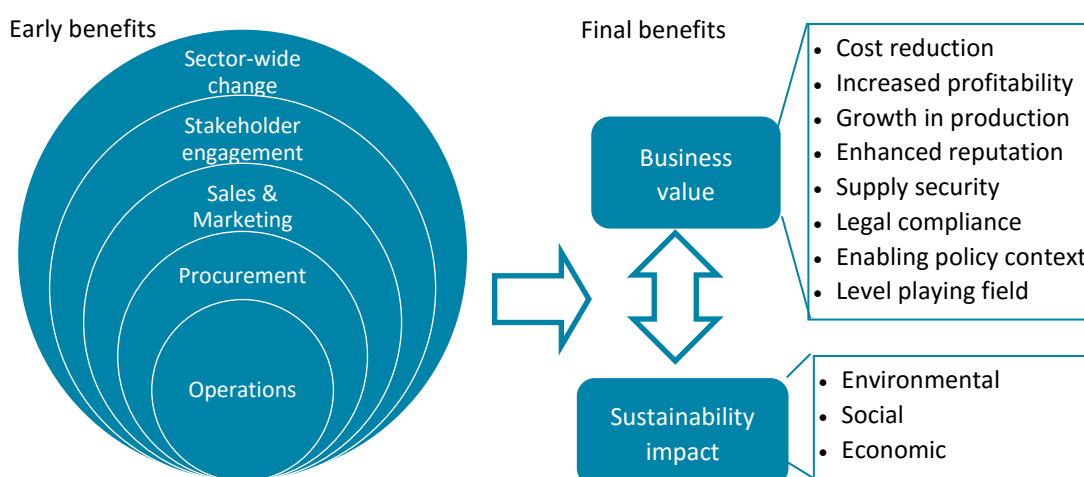
## Introduction

Available research indicates growing use of sustainability standards by businesses in many sectors in mature and emerging markets. The standards community has made good progress in researching its own impacts in recent years. However, in addition to evidence on sustainability impacts ‘on the ground’, there is also a growing need for evidence of the business benefits of using standards, demonstrating value to business entities along the supply chain. To fill this evidence and knowledge gap ISEAL has commissioned Aidenvironment to conduct a comprehensive review and synthesis of existing literature and evidence of the business benefits of using credible sustainability standards. The objective of this review is to inform the ISEAL community and users of standards about the business benefits that standards deliver to various business entities along the length of the supply chain. It also aims to gain understanding on how benefits materialise and the limitations to the delivery of such benefits.

## Methods

This study has reviewed 40 selected articles, reports and studies from academic institutes, research and consultancy organisations, ISEAL members or ISEAL itself. They were selected based upon relevance, scope and methodological robustness. The 40 source documents present findings that are based on a variety of research methods including cost-benefit analyses, survey based studies, meta-reviews, literature reviews, key informant interviews and primary data collection. This study searched for evidence on realised benefits stated by businesses. This study also considered grey literature (e.g. company reports) which were used to validate the findings as well as to provide some examples. To emphasise causal relationships between benefits the research distinguishes between early and final benefits. Businesses are defined as businesses along the value chain (from producer organizations / large-scale producers through to retailers).

Figure 1: The business benefits framework of using standards



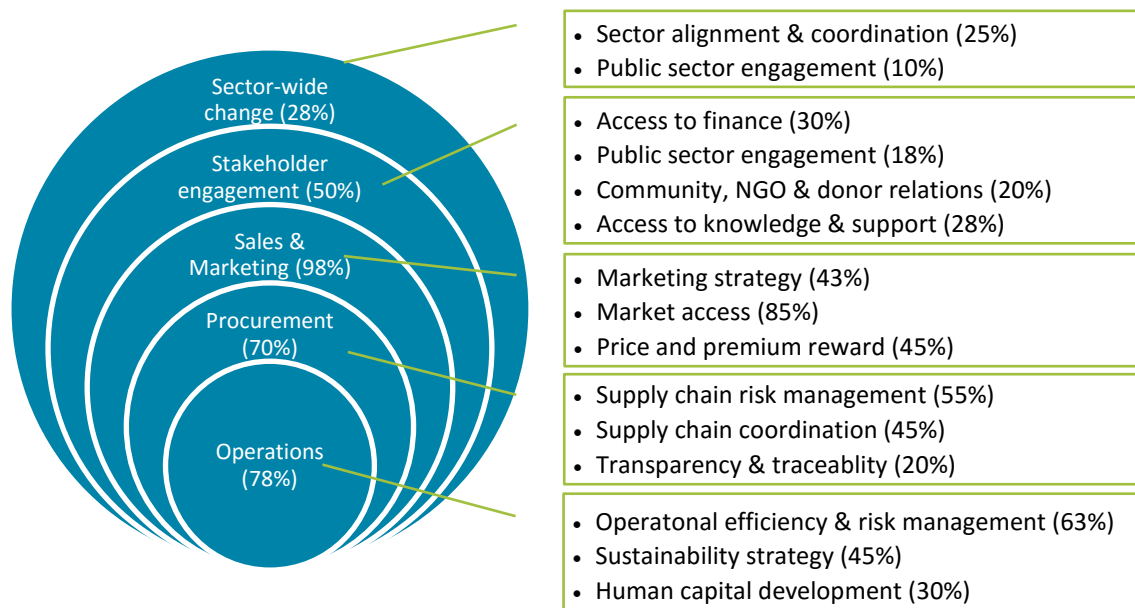
When reading this report one should consider that the focus of the review is on the business benefits and the conditions under which these materialise. It does not analyse the disadvantages or limitations of using standards. Therefore, the study does not provide a complete and decisive overview on the business case of using standards.

## Early benefits

**Five different clusters of early benefits of using standards were identified: sales and marketing related benefits were most frequently mentioned, followed by benefits on operations, procurement, stakeholder engagement and sector-wide change.** Almost all sources (98%) referred to sales and marketing related benefits, 78% of the sources referred to operations related benefits and 70% referred to procurement related benefits. Benefits related to stakeholder engagement (50%) and sector-wide change (28%) were less frequently mentioned.

Early benefits of using standards to the **operations** of a business relate mostly to its contribution to operational efficiencies and risk management, followed by its use for sustainability strategies and human capital development. The most frequently mentioned early benefits of using standards in the **procurement** sphere relate to its value to supply chain risk management, followed by supply chain coordination and supply chain transparency and traceability. Within the cluster of **sales and marketing**, most sources refer to improved market access and sales, followed by increased price and premium reward and its use to a marketing strategy. The use of standards can also generate different types of benefits concerning **stakeholder engagement**, including relationships with the financial sector, public sector, NGOs, donors, and knowledge and service providers. Businesses also report benefits of standards which indirectly relate to their own business, and refer to **sector-wide changes** of raising standards across the industry (which stimulates a level playing field and eventually benefits all). They refer to improved sector dialogue and coordination, as well as public policy influence.

*Figure II: Early business benefits of using standards, with five clusters of early benefits, with proportion of sources referring to them*



## Final benefits

**Realising early benefits of using standards can contribute to a range of final benefits.** Final business benefits generally take some more time to materialise and are generally more influenced by external factors than early benefits. We distinguish between benefits contributing to **business value** and benefits contributing to **sustainability impact**. Business value refers to final benefits that improve the financial return on investment of the business itself. It includes aspects of profit, productivity, growth and

reputation. Sustainability impact refers to the social return on investment in terms of social, environmental and economic impacts. These benefits can materialise at business or supply chain level, but also for other stakeholders (e.g. communities living close to a production site), at landscape and sector level. In the source documents, the benefits that we defined as ‘final benefits’ were less frequently mentioned than early benefits.

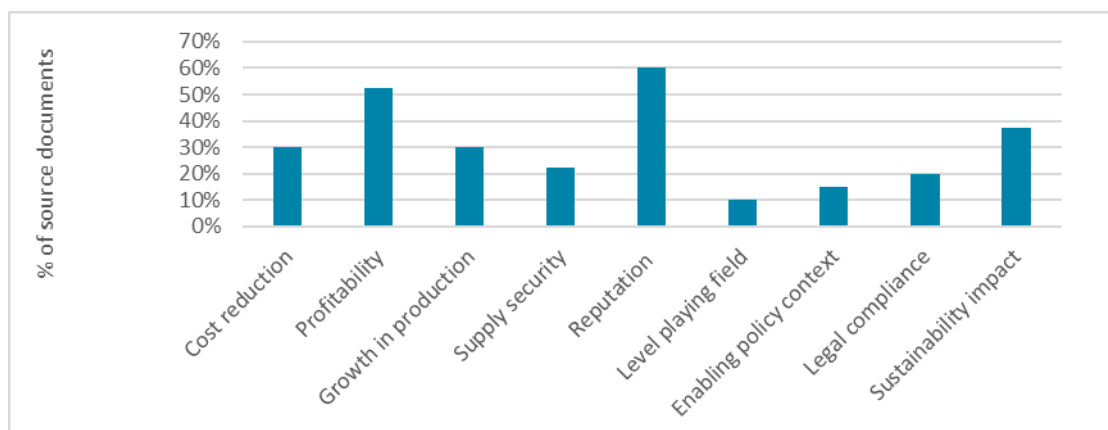
**Regarding the business-value-related final benefits, sources refer most frequently to improved reputation (60%), improved profitability (53%), cost reduction (30%) and growth in production (e.g. increased production volumes) (30%).** Other benefits identified are improved supply security (23%), enabling policy context (15%) and level playing field (10%). In several source documents a causal relationship between different types of benefits is identified. They report final benefits in reputation, cost reduction and profitability to be the result of early benefits from at least four clusters. Growth in production is primarily related to early operational benefits and supply security to procurement benefits. Early benefits in the sector-wide change cluster are also considered to contribute to supply security, as well as to an improved level playing field and enabling policy context.

**Sustainability impact is referred to by 38% of sources as business benefits.** Businesses value the sustainability outcomes and impacts of using standards as important values in their own right, but also because they generate other business benefits. Examples of sustainability impacts mentioned in the previous sections that support the business value of standards are:

- Improved working conditions with positive impacts on worker’s health and livelihood, as well as improved attention to sustainability in the supply chain, can contribute to improved employee satisfaction and commitment as well as reduced reputational risks.
- Reduced conflicts with local communities can contribute to reduced costs and reputational risks
- Improved performance of (small-scale) producers can contribute to improved short and long-term supply security and enhanced reputation.
- Enhanced sustainable forest and fishery management can contribute to the preservation of the resource and thus long-term supply security.

Importantly, sustainability impacts not only contribute to business benefits, they often are a condition for other business benefits to materialise. For example, when standards do not result in a sustainability impact, it undermines the potential reputational benefits for businesses that use that specific standard.

*Figure III: Proportion of sources referring to final benefits of using standards*



### Influencing factors

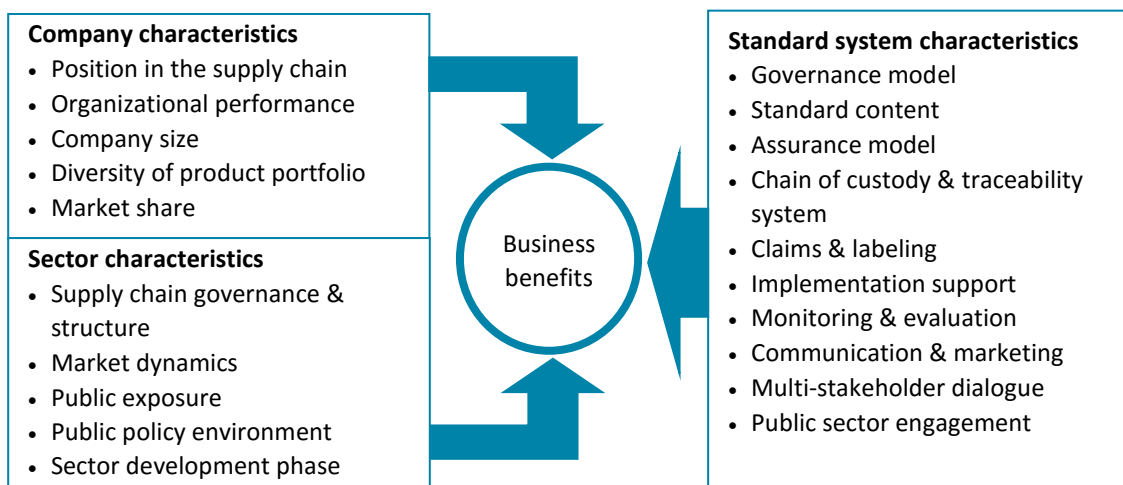
The review also looked at conditions under which business benefits can materialise. The most important factors influencing whether benefits materialise are company characteristics, sector characteristics, and standard system design.

#### Company characteristics

**The position of the business in the supply chain is an important factor determining what kind of benefits can materialise.** Benefits vary between upstream or downstream businesses. Upstream businesses (notably producers) more frequently experience early benefits on operational efficiency, working conditions and worker benefits, price and premium reward and stakeholder engagement. Upstream businesses also refer more often to the final benefits of production growth and enabling policy context. Downstream businesses more frequently experience early benefits related to sustainability strategy, employee engagement, procurement, marketing strategy and sector-wide change. They also refer more often to the final benefits of supply security and level playing field. Early benefits realised by businesses along the full supply chain are market access and access to finance, knowledge and services. Final benefits on cost reduction, profitability and reputation are also widely realised.

**Other company characteristics that influence benefits are organizational performance, company size, diversity of product portfolio and market share.** Smaller businesses may have high entry barriers (e.g. costs) to adopt standards which may negatively influence the business case. Larger and more professional businesses tend to have more market benefits because they have already privileged access to the buyers and are better positioned to fulfil the demands of international markets. Businesses with a lower benchmark might have more to gain from standards' operational benefits. The diversity of product portfolio and market share may influence procurement and market related benefits to downstream businesses. For example, the costs of using standards for businesses buying many products can be much lower than of setting up their own sustainability and assurance programs for all these supply chains. Businesses with large market shares may benefit when standards are mainstream as this reduces dependency on specific suppliers and allows for flexibility in sustainable sourcing.

Figure IV: Factors that influence whether business benefits materialise



### *Sector characteristics*

**The business benefits realised here span the agricultural, forestry, fishery and mining sectors, but within sectors a lot of variation exists.** The business benefits can vary considerably per specific product (e.g. a crop, fish type, wood type or mineral), country of origin, end product, destination market and type of supply chain. The review has been able to identify some influencing sector characteristics that explain part of this variation.

**Important sector characteristics are supply chain governance and structure, market dynamics, public exposure, public policy environment, and sector development phase.** Various sources consider the adoption of standards to generate more benefits where supply chains are shorter and less fragmented and trading relationships are more stable. Market dynamics such as an existing demand for sustainable products, a high degree of competition and concerns over supply security appear to favour procurement, market and reputational benefits. Reputational benefits are highly contingent on the degree of public exposure of a business or sector. Public policy can either support or jeopardize the benefits of using standards. For example, on the one hand, effective regulation in producing countries is needed to materialise the intended benefits of standards for producers. On the other hand, in absence of clear policies, the potential added value of using standards becomes larger. Finally, some benefits of using standards tend to decline when sustainability becomes more mainstreamed in a sector. This particularly refers to the competitive advantage standards can offer in marketing and reputation.

### *Standard system characteristics*

**There is a direct relationship between the services and scope of a standard and business benefits from using it.** Capacity building and funding provided by the standard system (or partners) can also contribute to improved operational efficiency realised by businesses using the standard. Some standards require the payment of premiums to producers, which can support benefits of supply chain coordination, operational efficiencies or sustainability impact. Benefits on sales and marketing, access to finance and reputation are closely linked to the credibility of standard systems or labels they use. This credibility partly depends on the content of the standard (e.g. scope and scientific rigor), the quality of the assurance model, the buy-in of key stakeholders and the standard system's capability to monitor impacts and performance. Chain of custody and traceability systems can enhance supply chain transparency and on-pack labels and marketing by standard systems promote marketing benefits. Finally, standard systems that have a multi-stakeholder platform (e.g. roundtable) and engage with the public sector can enhance benefits in terms of stakeholder engagement and sector-wide change.

### *Concluding thoughts*

**Standards offer a wide range of early benefits to businesses along the supply chain which can materialise at business, supply chain and sector level.** The use of standards can result in improvements on operations, procurement, sales and marketing, stakeholder engagement and sector-wide change as well. The early benefits of using standards can significantly strengthen business value and sustainability impacts. Sustainability impact can also support the business value of businesses along the supply chain.

**It should be acknowledged that although research highlights how many businesses report benefits from using standards, often the business case is not clear.** Benefits such as improved market access, premiums and profitability do not always materialise even though businesses might expect standards to deliver such benefits consistently. Using standards can also introduce new limitations such as high compliance costs, too much need for administration and record-keeping, supply-side challenges, and increased public exposure. These limitations should not be underestimated. Many studies investigating



the business case of using standards are often inconclusive on the nature of benefits, which are often difficult to quantify and highly context dependent.

**The wide range of potential benefits suggests that businesses can approach the choice of adopting standards more strategically.** The benefits of using standards can go well beyond the commonly expected benefits of premiums, market access or supply chain risk management. Rather than using them as a stand-alone tool, businesses are encouraged to use standards as an instrument that is part of more integrated medium and long term strategies on improved management, procurement, sales and marketing, stakeholder engagement and promoting sector-wide change.

**Standard systems are encouraged to do more research and regular monitoring and evaluation of their business benefits, and do so in a more consistent way.** Being market driven instruments, the uptake of standards depends primarily on the value that end users of products perceive and the extent to which different tiers of suppliers are willing and able to implement them. This calls for more evidence on the return on investment of using standards (including financial costs and benefits) and how they materialise for different supply chain actors and in different policy and sector related contexts. We recommend therefore that standards systems, or other research organizations, take a wide perspective when investigating the business case of using standards. We also strongly recommend to do so in a more consistent way, for example by adopting the benefit framework presented in this study. Standards could also include business benefits as topic in their monitoring and evaluation systems.

**Standards systems should use the improved insights on the business case of using standards to better promote the value of standards.** More detailed insights on the business benefits (as well as limitations) of using standards can help standards systems to communicate more clearly about the potential value to its users. This can promote uptake but also increase the value that users extract from using standards.

**Standards systems should use improved insights on the business case of using standards to improve their value proposition.** Standards systems can improve the business case for businesses by developing services for specific benefits and specific types of businesses, taking into account critical contextual factors. With a more explicit Theory of Change on the business benefits created by the use of standards, they may become more effective in supporting transformational change within businesses, supply chains and sectors.

## Introduction

There is growing use of sustainability standards by businesses in many sectors in mature and emerging markets. The standards community has made good progress in researching its own impacts in recent years, importantly through building robust monitoring and evaluation systems that underpin the functioning of credible standards. However, in addition to evidence on sustainability impacts ‘on the ground’, there is also a growing need for evidence of the business benefits of using standards, demonstrating value to business entities along the supply chain.

Research conducted in 2015 by ISEAL and Globescan confirms that businesses perceive a range of benefits from using standards that include the value of standards as frameworks to guide and operationalise sustainability, support in risk management, access to new and niche markets, expanding consumer demand and achieving business sustainability objectives. At the level of certified entities (also seen as businesses), there is a perception and some anecdotal evidence that using standards helps businesses become more bankable, well-run entities. Other efforts have been made by researchers, business consultancy firms and standards themselves to collect evidence of the business benefits of using standards. However, the available evidence is scattered, of variable quality and difficult to assimilate and comprehend. ISEAL feels there is a need to research the nature of these benefits more comprehensively and verify whether these perceptions are matched by actual evidence of benefits for businesses along the supply chain.

To further fill the evidence and knowledge gap ISEAL has commissioned Aidenvironment to conduct a comprehensive review and synthesis of existing literature and evidence of the business benefits of using credible sustainability standards. The research did not carry out any new data collection or validation of findings through primary data collection. This report presents the results and synthesis of this review. The objective of this review is to inform the ISEAL community and users of standards about the business benefits that standards may deliver to various business entities along the length of the supply chain. It also aims to gain understanding on how benefits materialise and the limitations to the delivery of such benefits. The scope of this research extends to four sectors (agriculture, forestry, fishery and mining) and covers the business benefits for upstream and downstream businesses. Whenever sources included information on other sectors, this has been included in the analysis. The focus of this research is on ISEAL member standards, but whenever sources included information on other standards this has also been included.

This study has certain limitations, which should be considered when reading this report. The first limitation is related to the robustness of the results. It should be noted that care was taken to make a selection of available studies that is both representative and focused on the most credible studies. Also, relevant meta-studies (which in many cases covered numerous specific case- and other studies) were included. However, the available studies differ widely in terms of their quality and information with respect to the businesses involved, linkages to standard systems and linkages to context factors. Therefore, in spite of the systematic approach and analytical framework, it was not possible to acquire sufficient data to draw robust conclusions. Despite these limitations, the findings are believed to provide a representative picture of the most common business benefits and also demonstrates some of the variation in findings. The second limitation is related to the fact that the review focused on the business benefits and the conditions under which these materialise, and not on the disadvantages or limitations of using standards. Therefore, the study does not provide a complete and decisive overview on the business case of using standards.

Given these two limitations, we believe that the main usefulness of this comprehensive overview of business benefits is that of providing ISEAL members and businesses with a systematic and

comprehensive overview of how their standard systems can add value to businesses. The emerging insights could encourage ISEAL members to improve their value proposition to businesses, and to communicate more clearly about the potential benefits (including those that can be realised early or late, directly or indirectly, internally or externally, etc.). It could also encourage businesses to extract more value out of the standards they are using, individually or within business platforms. Finally, it could inspire ISEAL members, the research community and businesses to further investigate the business benefits of using standards in a systematic way and thus strengthen the evidence base on the benefits of standard systems to businesses.

This report first presents the methodology. Chapter 2 presents the identified early and final benefits in a well-defined structure. Chapter 3 subsequently provides more detail on how different types of businesses report the identified benefits and how standards system characteristics and contextual factors influence whether benefits materialise or not. This report ends with some key insights and recommendations on how this topic could be taken forward.

# 1. Methodology

For this meta-review a structured approach and methodology was developed for the selection and analysis of the evidence base that was used for this study. The methodology focused on two aspects: (1) the selection of sources of information, and (2) the analytical framework of the business benefits of using standards, for different actors and in different contexts. Both will be explained in this section.

## **Source and data selection methodology**

The first step in selecting the sources used in this review was to compile a long-list of potential relevant sources. We distinguished between two types of sources:

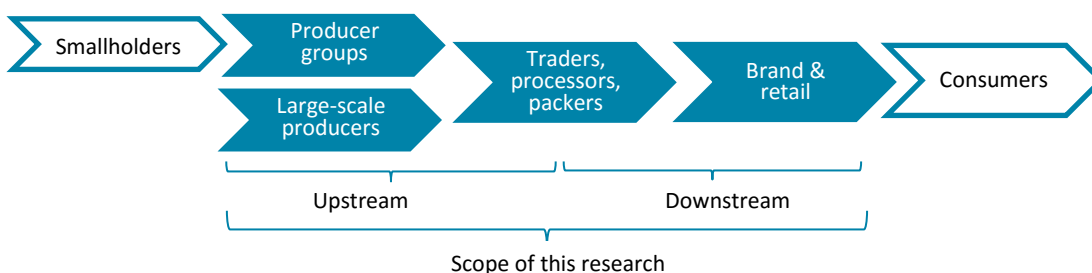
- Articles, reports and studies from academic institutes, research and consultancy organisations, ISEAL members or ISEAL itself.
- Company reports and company presentations (referred to as grey literature).

The initial long-list consisted of 140 source documents, excluding the grey literature, and was identified by searching in academic databases internet searches and the sources available at ISEAL and Aidenvironment.

The second step was to select those documents that would be included in the final review. The selection of the short-list was based upon the following criteria:

- **Relevance:** the aim was to select documents that show evidence of realised business benefits. Studies that were only on potential benefits, rather than realised benefits, were excluded. We also prioritized studies from 2010 onwards as we believe that certain business benefits have shifted over the years.
- **Coverage of business entities along the supply chain:** the range of businesses in the scope of this review included large-scale producer, smallholder producer groups and retailers (see Figure 1). In this report, a large-scale producer refers to a forestry, fishery, mining or agricultural company and a producer group refers to a group of small-scale producers). We make a distinction between upstream and downstream businesses. Upstream business are large-scale producers, smallholder producer groups and primary processors in the country of origin. Downstream businesses include importers, processors, manufacturers, brands and retailers in manufacturing / consumer countries.

*Figure 1: Scope of business entities included in this research*



- **Sector coverage:** the aim was to develop a balanced evidence base regarding sectors and supply chain actors. The sectors included were agriculture, forestry, fishery (wild catch and aquaculture) and mining. The spread of the sources over sectors and business entities is presented in Table 1.
- **Robustness:** the aim was to select documents that provide credible insights. To do so, we developed a practical scale of three different levels of credibility, as presented in Box 1. Only sources of class 2 and 3 were selected as source documents for basic analysis in this study.

*Box 1: Credibility rating of sources*

1. Low credibility, because:
  - One or very few businesses, or mix up of businesses with other actors, AND
  - Not any evidence of clear methods used or clearly anecdotal information
2. Medium credibility as supportive evidence, because:
  - One or few businesses AND good methods used (i.e. an in-depth case study, cost-benefit analysis), OR
  - At least 5 businesses involved, AND uncertain whether credible methods have been used
3. High credibility, because:
  - At least 5 businesses involved, not mixed up with other actors, AND
  - Structured methods used, or probably structured methods used by looking at the results, OR
  - Meta-study summarizing different studies / interviews

It was not always possible to apply the above criteria in a strict manner, as a result of lack of clarity of scope or methodology in many sources, limitations in available time and the ambition to strike a balance in scope. Therefore this study should not be considered as a full-fledged systematic review. It does however present a representative picture of realised benefits based upon existing evidence.

*Table 1: The distribution of source documents over sectors and upstream and downstream actors (n=40)*

		Upstream	Downstream
	n	<b>27</b>	<b>26</b>
Agriculture	<b>19</b>	16	10
Fishery	<b>14</b>	9	11
Forestry	<b>7</b>	5	5
Mining	<b>8</b>	3	7
Not specified	<b>4</b>	1	3

The above selection criteria guided the selection of 40 sources (referred to as source documents) in the short-list, which were all reviewed (see Appendix I for an overview of the source documents). The source documents present findings that are based on a variety of research methods. In total six of the 40 studies are based upon surveys, each with at least 80 respondents. These surveys were mainly conducted among businesses using standards, but not exclusively. If other actors were involved, the results are presented in aggregated form so that the specific benefits for businesses (and those using standards) could not be specified. All these studies ranked benefits in terms of frequency in responses or order of importance. Nine source documents include a financial cost-benefit analysis on the use of sustainability standards. Four source documents were meta-reviews or focussed on information from meta-reviews. The majority of the source documents used a combination of interviews with businesses (and possibly with other actors) and literature review. Some of them included in-depth case studies aimed at better understanding the business drivers and influencing factors. The nature of evidence in these sources often take the form of perceptions by staff in businesses using standards. Seven studies included at least some of counterfactual analysis to compare results between businesses using standards and businesses not using standards.

In the analysis of the source documents we have only used information on realised benefits. Information on potential benefits or benefits that were reported by other actors were ignored. In some cases, this distinction was not always easy to make, for example because responses from different types of stakeholders were aggregated (see above). Depending on the studies' methodology and relevance of findings we have included such data in the analysis.

The grey literature has not been used as basis of the content analysis and framework synthesis but to validate the findings from these exercises as well as to provide some examples. The grey literature consisted of company publications and websites as well as the policies of financial institutions.

**Benefit analysis methodology**

The source documents were reviewed with the aim to extract relevant information in line with the analytical framework. The analytical approach used was content analysis (how many sources reported a benefit) and a framework synthesis in which we configured and aggregated findings (in relation to actors, standard systems and contextual factors) using qualitative and quantitative evidence.<sup>1</sup>

Although we made a distinction between different levels of credibility (using only documents of levels 2 and 3), in the end we did not provide more weight to the priority (high credibility) documents. Thus, we considered all selected sources to have equal weight, despite having used different methods, including meta-reviews, survey based studies, interview based studies, comparative cases study analyses and cost-benefit analyses. For example, we made no distinction between a survey based study with 500 businesses and one in-depth study with five businesses. We acknowledge this to be a limitation to the overall findings, but we were not able to take into account the variation in credibility, given the large number of variables already being considered.

In this study, the use of standards refers to the use of the different instruments that standard systems offer, including the standard itself (e.g. the principles and criteria), assurance, traceability services, labelling options, capacity building and other services. With respect to the different types of benefits from the use of standards (thus standards systems), we gradually developed a benefit framework with classification of business benefits into five clusters: operations, procurement, sales and marketing, stakeholder engagement and sector-wide change. For each cluster we further categorized business benefits in two categories (early and final benefits). This classification was applicable to all sources that were analysed. The benefit framework is presented in the next chapter.

An important contribution of this paper is that it attempts to identify causal relations between different business benefits. For example, certification enables businesses to meet customer demands, which improves market access, which improves profitability. In the sources, the distinction between these different levels of causality is generally not made. Certain sources also tend to mix up the drivers of using standards (what made a business to start using standards), the expected benefit of using the standard and the realised benefits of using the standard. The causal chain of benefits adopted in this study is shown in Figure 2. It makes the distinction between underlying drivers, expected and realised benefits. For this research we focus on realised benefits.

*Figure 2: chain of causality between drivers of using standards and final benefits*



<sup>1</sup> For more information on these analytical methods, see: Birte Sniltveit, Sandy Oliver & Martina Vojtkova (2012) Narrative approaches to systematic review and synthesis of evidence for international development policy and practice, *Journal of Development Effectiveness*, 4:3, 409-429.

Although the chain of causality in benefits may have more than two levels, we have regrouped them in two categories of early and final benefits. We used the terminology of early and final benefits to emphasise the causal relationships. They are defined as follows:

- Early business benefits can generally be directly *attributed* to the use of standards. They refer to changes in capabilities, practices, processes, relationships, opportunities and other immediate results of using standards. They correspond with what is generally referred to as immediate and intermediate outcomes.
- Final business benefits generally take some more time to materialise and are generally more influenced by external factors than early benefits (beyond the influence of the standard system), thus we should speak of *contribution*. They correspond with what is generally referred to as final outcomes and impacts.

In most cases the classification of benefits into early and final ones was straightforward following the above definitions. In some cases it was more difficult to draw a line between early and final benefits and decisions were made based upon the consultants' expertise. Sources may also have used different terminology to refer to benefits.

The final set of early and final benefits is presented in Appendix II and will be subsequently used to discuss the different benefits in chapter 2. We expect the business benefit framework presented in the following chapter to be helpful to structure future discussions and research on the business benefits of standards.

#### ***Limitations of the approach taken***

In summary the following limitations need to be considered when reading this report:

- Number of sources included were limited. Therefore this study should not be considered as a full-fledged systematic and representative review. It does not allow us to determine the exact contribution of standards to the realised benefits. However, this study presents a representative picture of realised benefits based upon existing evidence.
- Although we made a distinction between different levels of credibility (using only documents of levels 2 and 3), in the end we did not provide more weight to the priority (high credibility) documents. All documents were equally weighted.

The methodology does not allow the aggregated findings in chapter 2 and 3 to be linked to specific source documents. This report is backed by detailed spreadsheets where each individual finding is classified according to the sources.

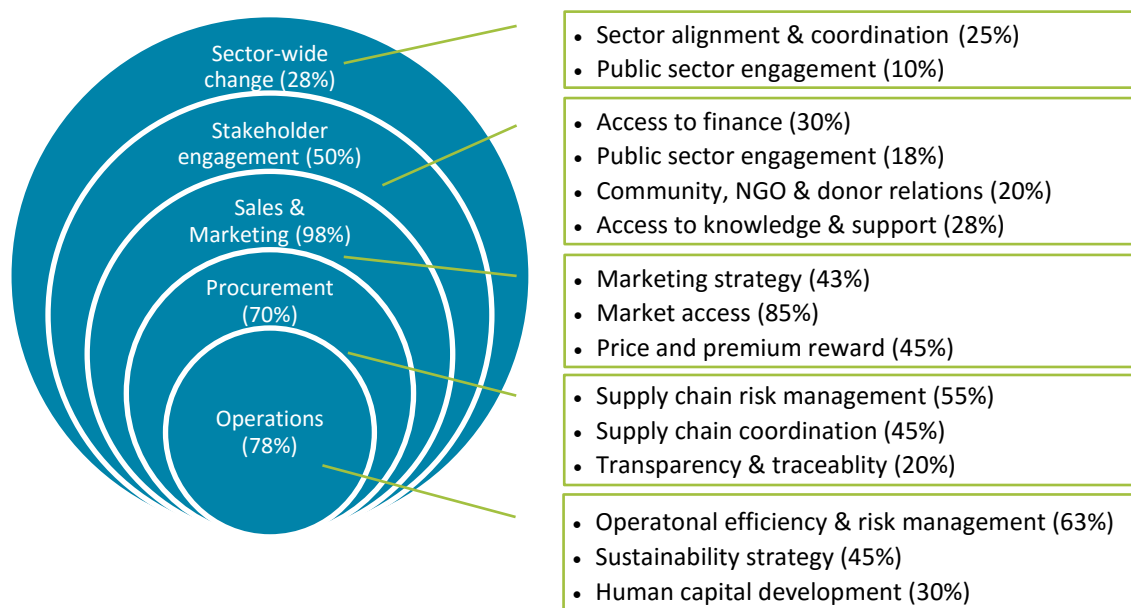
## 2. The business benefits of using sustainability standards

This chapter presents the business benefits of using sustainability standards. First, the early benefits will be presented, followed by the final benefits. The findings in this chapter are presented for the agriculture, forestry, fishery and mining sectors combined. The results did not differ greatly per sector. Appendix III includes an overview of the frequency tables of the benefits per sector.

### 2.1 Early business benefits

Five different clusters of early benefits realised from using standards were identified: **benefits on sales and marketing were most frequently mentioned, followed by benefits on operations, procurement, stakeholder engagement and sector-wide change.** Almost all sources (98%) referred to market related benefits, 78% of the sources to operations benefits and 70% to procurement related benefits. Benefits related to stakeholder engagement (50%) and sector-wide change (28%) were less frequently mentioned. Figure 3 shows the five clusters of early benefits and the early benefits that fall within each cluster. Note that all percentages refer to the proportion of sources that refer to the benefit, thus sub-categories may add up to more than the proportion mentioned for the higher tier level.

Figure 3: Early business benefits of using standards, with five clusters of early benefits, with proportion of sources referring to them



#### 2.1.1 Operations

Using sustainability standards can result in operational benefits. Businesses report most frequently to contributions to operational efficiencies and risk management, followed by value to sustainability strategies and human capital development.

The benefits on **operational efficiency & risk management** (63%) refer to more specific benefits in management systems and processes and innovation as well as improved governance and membership engagement, as follows:



- Management systems and processes (53%): increased knowledge within the organization, improved strategic and operational planning capacity, better management systems, fostering continuous improvement approaches and improved internal communication. Management can refer to organizational processes and production processes (e.g. forestry or mining practices).
- Operational risk management (23%): procedures and due diligence processes enabling the business to comply with local laws and avoiding chemical spills and other work related accidents.
- Governance and membership engagement (10%): transparent and democratic decision-making, leadership and improved service delivery towards members.
- Innovation (5%): this refers to new solutions to complex issues, where learning and partnerships around the use of standards spill-over into innovation in other areas.

The benefits regarding operational efficiency were mainly valid for producers (large-scale, small and medium enterprises (SMEs) and producer groups). Downstream businesses that used management system based standards (e.g. Union for Ethical Biotrade (UEBT), Responsible Jewellery Council (RJC)) also referred to improved operational efficiency. Improvements in governance and membership engagement were benefits exclusively mentioned by producer groups.

#### *Box 2: Operational benefits in the jewellery sector*

A study on the uptake, access and impact of RJC certification among SMEs in Switzerland, Germany, France and Italy show various examples of operational benefits for the businesses (Möllenhoff et al. (2014)). While the main driver of becoming certified was to live up to customer expectations, the realised benefits also encompassed positive changes in internal company structures and employee engagement. The certification process helped the organisation to better know itself and stimulated joint learning throughout the organisation. In some cases it was considered an excellent team building exercise and contributed to improved internal systems and reorganization of business models. It was also reported to result in positive changes in employment terms, mentality of employees and the perception of a more ethically sound working environment, which attracted more qualified employees.

**Sustainability strategy** (45%) refers to the benefit of using standards in developing, operationalizing and monitoring a business' sustainability strategy. More specifically, using standards are reported to contribute to the following benefits:

- Awareness on sustainability issues (5%): increased awareness throughout the supply chain, especially on environmental and/or social issues at producer level.
- Benchmark or roadmap toward operationalising sustainability (25%): standards as credible benchmark or baseline for sustainability, avoiding the need for the business to develop its own criteria. They enable businesses to operationalise sustainability, and facilitate communication on sustainability within and between businesses.
- Helps to achieve sustainability / business goals (23%): facilitates the positioning of sustainability at the core of the business and helps to deliver on sustainability commitments and business needs in responsible production or sourcing. It also facilitates communication about CSR strategy.
- Performance / impact monitoring (10%): increased knowledge on sustainability performance and impacts as well as systems to assess these impacts.

The benefits related to sustainability strategy are mainly realised by downstream actors.

### *Box 3: The need for a global reference on sustainability in the rice sector*

An important driver for some retailers, brands and traders to support the Sustainable Rice Platform (SRP) was their need for a globally recognized reference of sustainable rice cultivation. These businesses had the ambition to include rice in their sustainable production portfolios but lacked the guidelines, tools and references to start engaging with their supply chain on sustainability. The launch of the SRP Standard and performance indicators in 2015 allowed them to benchmark their suppliers and develop improvement programs. It also gave Mars Food, owner of a world leading brand Uncle Ben's, the confidence to make a commitment to source 100% of its rice sustainably by 2020 using the SRP standard.

Source: [www.mars.com](http://www.mars.com)

**Human capital development** (30%) refers to specific benefits related to improved working conditions and worker benefits and to employee satisfaction & retention within the business:

- Working conditions and worker benefits (15%): predominantly improved occupational health and safety, but also employee empowerment, workers' grievance procedures and improved contract terms.
- Employee satisfaction & retention (20%): increased employee motivation and trust of workers in the business, a stronger work ethic, team building and the opportunity to attract and retain employees.

Improved working conditions and worker benefits were almost exclusively experienced by producers. The benefits of employee satisfaction and retention were realised along the whole supply chain.

In survey-based studies, the highest rated benefits on operations relate to sustainability strategy and operational efficiencies. Employee engagement is mentioned less or not at all (and possibly not included in the survey design).

#### **2.1.2 Procurement**

**The most frequently mentioned benefits of using standards in the procurement sphere (70%) relate to their contribution to supply chain risk management, followed by supply chain coordination and supply chain transparency and traceability.** The reporting frequency and description of specific benefits falling within this cluster is as follows:

- Supply chain risk management (55%): Standards help to inform, motivate and enforce suppliers to improve due diligence and management of illegal and unsustainable practices in supply chains that are of concern to the business, its customers or external stakeholders..
- Supply chain coordination (45%), with sub-categories of:
  - Reliable supply (18%): improved supply in terms of qualities and volumes by accessing best performing suppliers, improving resilience, and becoming less dependent on volatile market developments.
  - Quality of trading relationships with suppliers (25%): improved supply chain management skills and communication, dialogue, coordination, exchange of information and transfer of technology within a supply chain. This can also entail reduced supply chain length and longer-term trading relationships.
- Transparency and traceability (20%): improved knowledge of where products come from, understanding of the actors in the supply chain and capacity to trace products back to origin.

In survey based studies, the most frequently mentioned or highest appreciated procurement related benefits were increased transparency and traceability and supply chain coordination. In contrast to the other type of studies, there is less reference to supply chain risk management benefits.

Supply chain risk management, transparency and traceability are benefits to all actors along the supply chain, except for producers. Supply chain coordination advantages are most frequently mentioned by downstream businesses, but they are also mentioned by exporters and even cooperatives who consider certification as a mean to build stronger supply relationships with their membership.

#### *Box 4: The value of improved trading relationships*

Standards are often used as a means to mitigate supply chain risks. However, various sources also emphasise the importance of supply chain coordination and improved trading relationships. This is valid from both the buyer and supplier perspective. Characteristics of good trading relationships include efficiency, flexibility, stability or resilience, transparency, responsibility and high trust levels. For example, one study found that the relationship-based buyer-seller interaction is more successful than the transaction-based interaction, in terms of technical upgrade and market visibility (ITC, 2011). Another study recognized that better trading relationships has some merit in itself and might outweigh direct and immediate monetary benefits (ITC, 2013). The use of standards can result in improved trading relationships. For example, Wilmar claims that RSPO certification resulted in longer-term contracts (ISEAL, 2015a). Another study identified that Fairtrade certification resulted in less unjustified quality claims, better payment terms and improved dialogue between buyers and suppliers (Molenaar et al., 2016).

Concerns also exist on the effects of more stable trading relationships. Since the cost of certification are usually borne by exporters, they in turn lock in those producers whose certification they invest in. On the one hand, tighter contractual relationships lead to dependency of producers on specific exporters. On the other hand, producers bound by contracts also benefit from better access to preferential markets, infrastructure and technical expertise (Molenaar et al., 2016, Marx et al., 2016).

### **2.1.3 Sales and Marketing**

**Within the cluster of sales and marketing (98%), most sources refer to improved market access as the main benefit of using standards, followed by improved price and premium reward and their use to support marketing strategy.** The reporting frequency and description of benefits is as follows:

- Marketing strategy (43%): favours communication about sustainability to customers or consumers, differentiation from its competitors, strengthening brand value or to improving customer/consumer trust.
- Market access (85%), with sub-categories of:
  - Market retention and expansion (73%): refers to businesses using standards to retain existing customers or to gain access to new customers, markets and consumers (e.g. geographies).
  - Quality of trading relationships with customers (25%): refers to improved relationships with customers in terms of higher volumes sold, more stability, increased transparency and higher trust levels.
- Price and premium reward (45%): receiving a higher price or cash premium. This could be linked to the supply of sustainable products or access to premium markets. Suppliers (e.g. traders) may also be compensated by their customers by organising the supply of sustainable products (e.g. for the service of capacity building of producers, managing certification and performance monitoring).

In survey based studies, the benefits in customer communication and maintaining or gaining market access are among the highest rated early benefits of using standards. Price and premium reward is less frequently mentioned in surveys than in the other type of studies.

The benefits of using standards in marketing strategy are realised mainly by downstream businesses. Improved market access in terms of maintaining clients or gaining new ones is felt across the whole supply chain. The improved trading relationships and the higher prices or premiums are only realised by producers and some exporters.

*Box 5: Lipton's brand revitalization by integrating social, economic and environmental considerations*

In 2005, Unilever's tea brand Lipton was not perceived as a shiny, vibrant brand and was suffering the consequences in the market. A brand imprint exercise concluded that sustainability could potentially be an excellent attribute to engage in a positive dialogue with consumers and to enhance brand value. The company realised that consumers would not necessarily hold Lipton's self-declared excellence in sustainability as credible. The brand imprint team saw the support and endorsement of third parties as the answer to the credibility issue. After careful analysis Unilever chose Rainforest Alliance. In 2007, Lipton made the commitment to source all the tea for Lipton tea bags from 100% Rainforest Alliance certified sources by the end of 2015. Some results of this commitment have been:

- The launch of Rainforest Alliance certified tea in the USA, Japan and Australia was followed by a 12% growth in sales.
- The Rainforest Alliance seal was instrumental in winning a contract to supply tea for McDonald's in several European countries. The market share increased in key European markets.

Sources: IMD, 2012 & [www.csreurope.org](http://www.csreurope.org)

#### 2.1.4 Stakeholder engagement

**The use of standards can result in different types of benefits concerning stakeholder engagement (50%), including improved relationships with the financial sector, public sector, NGOs, donors, and knowledge and service providers.** These benefits were less frequently mentioned than those related to operations, sales and marketing, and procurement, but still half of the sources reported at least one of the following benefits:

- Access to finance (30%): improved investor communication and access to finance or capital, as well as more favourable lending conditions. Financial institutions are increasingly requiring or encouraging standard compliance as a financing prerequisite.
- Public sector engagement (18%): improved relationships with the government as well as improved voice in policy making and public sector investments.
- Community, NGO and donor relationships (20%): improved engagement and collaboration with local communities and local NGOs, international NGOs and donors, as well as partnerships and funding around the implementation of certification programs. Improved relationships with local NGOs are more often mentioned than those with international NGOs.
- Access to knowledge & support (28%): access to (sector-wide) information and research and access to services (notably capacity building). Access can be provided by a standard system, supply chain actor, government or NGO/development agency.

In survey based studies, stakeholder engagement benefits focus on improved communication with local stakeholders and credibility with regulatory agencies.

The benefit of using standards for improved relationships with the public sector, NGOs and donors are mainly realised by producers (or other upstream actors). Improved access to finance, knowledge and support is mentioned by both upstream and downstream actors.

*Box 6: Financial sector including sustainability standards in their lending and finance criteria*

The ISEAL100 Survey (2010) showed that the finance sector had the highest level of trust in voluntary sustainability standards and is positive on how sustainability standards are meeting their business needs. Research shows that asset managers, banks, insurance companies, pension funds and private equity use sustainability standards as frameworks to identify or assess environmental and social risks (Sustainable Finance Advisory, 2013). As part of this study we also looked at the policies of different financial institutions and several of them refer to sustainability standards as minimum requirements and benchmark criteria on which continuous improvement is expected. Most explicit reference to standards are made for forestry, mining and palm oil. Examples of banks that require customers to be certified or have time-bound plans to become certified include ABN Amro, Citybank Group, Credit Suisse, Deutsche Bank, HSBC, Rabobank and UBS.

Most of the above policies in the financial sector are developed from an environmental, social and governance (ESG) risk management perspective. The findings elsewhere in paper show that the use of standards can make businesses financially more attractive to lend money to. The use of sustainability standards can result in increased operational efficiency and improved profitability. There is also emerging evidence that the use of standards can have a significant impact on the overall financial performance of a company. Whereas the financial value of reputation and market access are generally considered difficult to quantify, a recent example shows a clear relation between a company's performance in meeting its sustainability commitments and its equity value. In March 2016, the Roundtable on Sustainable Palm Oil (RSPO) suspended oil palm giant IOI Corporation, followed by the suspension of contracts by 26 customers (Thoumi and Levicharova, 2016). This resulted in lost revenues, depressed profit margins, increased liquidity risk and destabilized credit profile. In that same period IOI's equity price dropped 18%, underperforming the indices, while prior to its suspension, IOI was outperforming the indices. The RSPO announcement in August 2016 to lift IOI's suspension was immediately followed by a 5% increase in share prices ([www.chainreactionresearch.com](http://www.chainreactionresearch.com)). Volumes of IOI shares traded was three times higher than the 12-month average of 5.26 million shares traded daily after the news was announced as investors saw a potential upside to IOI returning to selling its palm oil into the higher-margin RSPO market.

These findings are in line with the results from other studies. For example, a meta-study of 200 academic studies and sources conclude that it is in the best economic interest for corporate managers and investors to incorporate sustainability considerations into decision-making processes (Clark et al., 2015). 88% of the studies show that solid ESG practices result in better operational performance of companies. 80% of the studies show that stock price performance of companies is positively influenced by good sustainability practices. Superior sustainability performance also improve corporations' access to capital and lowers the costs of capital significantly (in 90% of the studies). The research recommends investors to assign a higher portfolio weight to companies with improving ESG factors and to be active owners and exert their influence on the management of their invested companies to improve the management of sustainability parameters that are most relevant to operational and investment performance. It is also in the best interest of asset management companies to integrate sustainability parameters into the investment process to deliver competitive risk-adjusted performance over the medium to longer term and to fulfill their fiduciary duty towards their investors. While this research shows a clear relationship between sustainability performance and financial performance, it is less explicit about the contributions of using standards. Voluntary standards are referred to as one of the many instruments companies can adopt. It is recognized as an indicator for the level of importance sustainability issues represent to a company.

### 2.1.5 Sector-wide change

**Businesses also report benefits of using standards which do not directly related to their own business, but refer to raising standards across the industry (28%).** Although these kind of benefits are least frequently referred to, still one quarter of the sources mentioned one of the following benefits. The benefits and the frequency they were mentioned across sources are:

- Sector alignment & coordination (25%): a platform to engage, learn, share knowledge and ideas, define common strategies or orient future research to raise standards across the industry and improve sector governance. Common objectives include working together to better the industry as a whole or to encourage other businesses on the sustainability journey.
- Public policy influence (10%): standard systems informing policies in producing and consuming countries. It can also refer that the existence of voluntary standards that may pre-empt the industry from stricter regulation.

Survey based studies make no reference to sector-wide change related benefits.

Sector benefits are mainly mentioned by downstream businesses.

#### *Box 7: Standards as platform for networking and alignment*

Various sources refer to the value of standards and their platform functions. For example, de Beers considers the Responsible Jewellery Council as a unique platform where they can openly engage with different stakeholders and collaborate with members on the identification of emerging risks and strategies to deal with them (ISEAL, 2015a). An identified benefit of Forest Stewardship Council (FSC) is that it plays a key role in the emergence of multi-stakeholder platforms at national or local level and that it creates a forum for consensus formation between dominating policy formulating actors (Marx, 2016). Standards are also considered to be a place for networking and accessing information. Such benefits were realised in the garment, leather, palm oil and tourism industry. Companies in the fashion industry reported that joining a certification allowed them access to a member list of other similarly conscious businesses and suppliers, which serves as a practical tool to navigate the complex supply chains of the garment industry (MVO Nederland, 2015).

## 2.2 Final business benefits

In the previous section, we examined a wide range of early benefits of using sustainability standards. This section focusses on final benefits which result from these early benefits.

### 2.2.1 Understanding the causality between early and final benefits

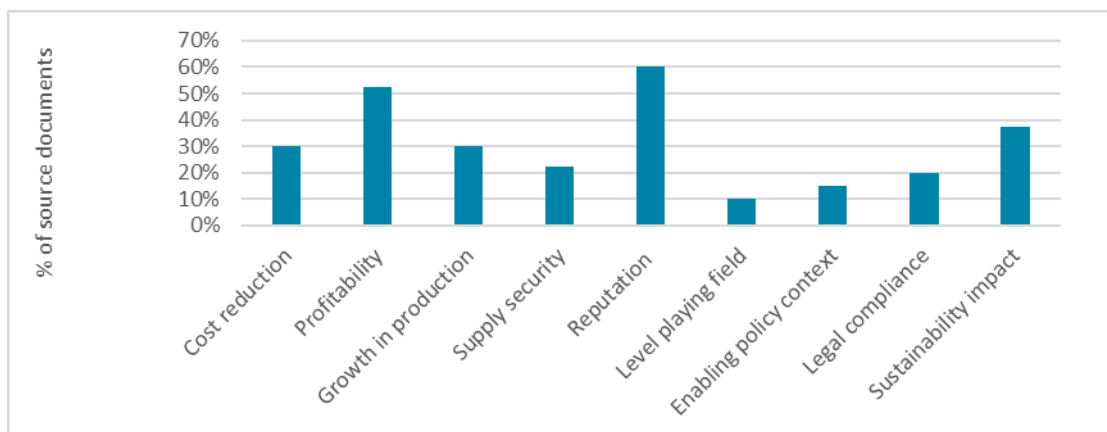
Realising early benefits from using standards can contribute to a range of final benefits. Final business benefits generally take some more time to materialise and are generally more influenced by external factors than early benefits. Some of the sources also explicitly refer to this (Gnych et al., 2015; WWF, 2015a). They refer to the fact that the final benefits of using standards materialise only after a few years of implementation. Adopting standards can be seen as a long-term asset in which the 'return-on-investment' only becomes visible after some time.

Within these final benefits, we distinguish between benefits supporting business value and benefits contributing to sustainability impact. The first category refers to final benefits that improve the financial return on investment of the business itself. It includes aspects of profit, productivity, growth and

reputation. The second category, sustainability impact, refers to the social return on investment of using standards in terms of social, environmental and economic impacts. Sustainability impact can materialise within the business entity itself (e.g. reduced GHG emissions), within the supply chain (e.g. improved worker conditions at suppliers) and also for other stakeholders (e.g. communities living close to a production site) as well as landscapes (e.g. reduced pollution).

In the source documents, the benefits that we defined as ‘final benefits’ were less frequently mentioned than early benefits. Figure 4 indicates the proportion of studies reviewed that reference a final benefit. We see that there is strong reference to reputational gains for businesses from using standards and also strong reference to improved profitability of businesses.

Figure 4: Proportion of sources (n=40) referring to final benefits of using standards



The review also tried to see if the literature makes connections (causality) between the early benefits described in the previous section and the final benefits. This link was not always clear in many studies but still, the exercise is useful in highlighting a few points. Table 2 reports the results of this review where we try and connect the early benefits to the final benefits. For instance we see that many studies link early benefits related to the sales and marketing to two final benefits – business profitability and business reputation. Similarly, early operational benefits are linked to a full range of final benefits from cost reduction and profitability to reputation, legal compliance and sustainability impact.

Table 2: Proportion of sources (n=40) referring to a causal relationship between a final benefit and early benefits (aggregated per cluster)

Early benefit cluster	Operations	Procurement	Sales and Marketing	Stakeholder engagement	Sector-wide change	Not specified
<b>Final benefits</b>						
<b>Business value</b>						
-Cost reduction	15%	15%		10%	3%	
-Profitability	13%	5%	23%	3%		25%
-Growth in production	25%			8%		
-Supply security		23%			5%	
-Reputation	15%	18%	33%	8%	3%	20%
-Level playing field					10%	
-Enabling policy context			8%	8%		
-Legal compliance	10%	13%				
<b>Sustainability impact</b>	13%	13%		15%	8%	3%

## 2.2.2 Final benefits of using sustainability standards promoting business value

Sources refer most frequently to the benefits of improved reputation (60%), improved profitability (53%), cost reduction (30%) and growth in production (30%). Other benefits identified are improved supply security (23%), enabling policy context (15%) and level playing field (10%).

Cost reduction is mentioned in 30% of the sources and relates mostly to early benefits of improved operational efficiency and procurement. Cost reduction is mentioned by both upstream and downstream businesses and relates to early benefits of:

- Operations (15%): less fines and penalties linked to non-compliance with laws and regulation, reduced input use, reduced waste, fewer accidents (with workers and chemicals).
- Procurement (15%): lower transaction costs, reduced waste (because of higher quality), and reduced auditing costs (as in buying certified products is cheaper than controlling all suppliers by yourself).
- Stakeholder engagement (10%); discounts in finance and inputs, reduced tax rates and other compulsory payments to governments, less conflicts with local communities and access to donor funding which subsidize investments.

### *Box 8: Standards contributing to reduced costs in the supply chain - and can also increase costs*

As with most retailers, Marks and Spencers (M&S) has complex supply chains, with thousands of suppliers and raw materials. The use of standards enabled them to challenge some of the complexities. M&S refers to an example when they wanted to introduce a new sustainability certification for a particular raw material which covered multiple product categories (M&S, undated). They initially had to map out the number of suppliers and the range of product specifications they had. This sparked a debate about whether they really needed the sheer number of product variations and associated products. In many cases, where they identified consolidation opportunities, they achieved not only the desirable sustainability standard, but also reduced costs in the supply chain.

Many sources also refer to the costs of certification. Frequently mentioned costs relate to compliance costs, assurance costs, indirect costs and system costs. Compliance costs exist particularly at producer level. Examples are the requirements to conduct a social and environmental impact assessment, pay minimum wages, to set aside a part of the land or to buy certain equipment (e.g. fishing gear or personal protective equipment). An example of a compliance cost for supply chain actors is the obligation to pay a price premium to suppliers. Assurance costs exist along the value chain and include costs of maintaining an internal control system, chain of custody related costs or external audits. Indirect costs relate to the need to pay for training or hire additional staff needed to comply with the standards and system requirements. System costs relate to the payment of membership fees or other fees to the standard systems (KPMG, 2012a; KPMG, 2012b; WWF, 2012; WWF, 2015).



**Growth in production (30% of sources) relates to improved productivity and quality, access to production resources as well as an increased membership for producer groups.** This final benefit is exclusive to producers and producer groups and relates to early benefits of:

- Operations (25%): improvements in productivity, quality and resilience to changes as a result of improved management practices. Producer groups can also increase volumes by increased membership engagement.
- Stakeholder engagement (8%): increased production linked to better access to production resources such as land, forests and fisheries, for example as a result of improved public sector engagement or access to support.

Only one survey based study referred to growth in production in which the impact on product quality was reported to be higher than on productivity.

*Box 9: Mixed impacts on yields and quality*

Many studies exist on the impact of standards on yield and quality. ITC (2011) published a meta-review that showed that factors such as yield or quality were identified in almost half the studies as areas where private standards had an impact. However, there was not a uniform conclusion in terms of private standards being a positive or a negative influence. Of the 19 studies, five found evidence of positive impacts, while six others note a neutral, mixed or negative impact.

Some sources report (long-term) production growth as a consequence of the implementation of the prescribed practices in the standard (e.g. KPMG, 2012b). Production can also increase because certified producers have preferential access to production resources, such as growing areas of marine parks (Agknowledge (2015)). Adopting standards can also promote more standardized business practices, resulting in for example improved product quality (BSD Consulting, 2014). For producer cooperatives certification and related premiums can be important in creating a more loyal supply base. This allows them to capture increased volumes from their members and become a more reliable trading partner for their customers (Molenaar et al., 2016).

**Increased profitability (53% of sources) is linked to benefits in sales and marketing and operations or is reported without specific linkages to early benefits.** Increased profitability is mentioned by both upstream and downstream businesses and relates to early benefits of:

- Certification in general (25%) without further specification.
- Sales and marketing (23%): profitability increases because of improved market access, received premiums or higher prices and the ability to remain ahead of its competition.
- Operations (13%): profitability increases because of its relation to reduced risks, reduced costs, improved yield and more sustained yield (e.g. in relation to fisheries).

Improved profitability is featured more prominently in the non-survey based sources than in the survey based studies.

*Box 10: How standards can affect the financial performance of businesses and sectors*

Some of the source documents include cost-benefit analysis of using standards. For example, an analysis of the financial return of FSC certification on forest operators revealed on average a positive net present value (NPV) from the decision to pursue FSC of \$1,333,020, or \$9.04 per m3 of certified production (without opportunity costs). Price premiums emerged as the largest benefit, followed by improvements in operational efficiency. The greatest quantifiable financial benefits from FSC were achieved by small/medium businesses and producers in the tropics. Large producers also showed on average a positive NPV, although the amount was negligible on a per m3 basis. Temperate and boreal forest managers displayed on average a positive NPV overall, but a small negative NPV per m3 of certified production (WWF, 2015).

A study among certified and non-certified coffee farmers in Brazil detected no statistical difference in production costs and price of coffee between certified and non-certified farms. However, as a result of increased productivity, revenues and the parameters of profitability per area (profit/ha and margin/ha) were higher for certified farms. The researchers concluded that certification is economically justified regardless of market benefits (Bini et al. 2016).

Another study estimated the value of Marine Stewardship Council (MSC) certification to the South-African hake industry. The method compared the current economic worth of the fishery to the progressive loss of value following the loss of certification under four scenarios; the difference representing the net worth of MSC certification to the fishery. They conclude that the fishery's Net Present Value of combining these scenarios over a five year period corresponds to a 37.6% reduction vis-à-vis a non-certified status quo. They argue that the loss of MSC Certification will lead directly to exclusion from vital, sorely-won overseas outlets on which the present day industry is heavily dependent. The loss of valuable primary export markets will lead to an oversupply of hake on the domestic market (Lallemand, 2016).

A study on the impacts of RSPO certification on growers in Malaysia and Indonesia showed a strong correlation between the degree of RSPO certification and the selling price of fresh fruit bunches (FFB). RSPO certified companies had also higher FFB yields and crude palm oil (CPO) extraction rates. The study showed that companies having more than 40% of their plantations certified had a 45% higher revenue per hectare than companies with less than 20% of their plantations certified. The average RSPO certification leveraged revenue for an investment in sustainability is circa RM 150 based on the median costs of certifying a plantation. While profitability per hectare increases by RSPO certification, the study also concluded that overall company revenue and profit are more strongly influenced by other business activities than by their policies on sustainability (RSPO, 2015).

**Improved supply security (23% of sources) is realised a result of improved supply chain management as well as sector-wide change.** Improved supply security is mainly realised by downstream actors, although some upstream actors (e.g. producer groups and exporters) also refer to this. This final benefit relates to early benefits of:

- Procurement (23%): notably because of improved supply chain coordination, improved trading relationships and more capable and reliable suppliers.
- Sector-wide change (5%): improvements in the sector as a whole to ensure long-term supply. Improvement can relate to more sustainable resources use (e.g. forestry) or more viable production models (e.g. to avoid the supply base becomes too small).

Whereas some survey based studies included benefits such as supply chain risk management and supply chain coordination, none referred explicitly to improved supply security.

*Box 11: When your business depends on the performance of a sector as a whole*

Mars is committed to certify all of its cocoa as sustainably produced by 2020. They are fast on their way to becoming the world's largest buyer of certified cocoa. Because they can't have a direct relationship with every farmer, they use certification to reach further down the supply chain than they could on their own. They believe that working with certification not only helps their own supply but is a means of improving the industry as a whole. Certification offers an opportunity to scale across the industry and drive change beyond the Mars supply chain. This supports their commercial need to secure a long term supply of cocoa but at the same time leads to improved income and better quality of life for farmers, their families and their communities.

Sources: [www.mars.com](http://www.mars.com) and ISEAL (2015a)

**Enhanced reputation of the business (60% of sources) can relate to all levels of the early benefits.**

Reputation translates into improved credibility, increased brand value, a license to operate, and higher trust by customers and consumers in a business. Reputational benefits of using standards are realised by both upstream and downstream businesses, but more often by the latter. Reputational benefits relates to early benefits of:

- Operations (15%): improvements in the management systems prevent negative publicity by NGOs or other stakeholders, and the ability to show that businesses do something to address stakeholder concerns.
- Procurement (18%): reputational benefits of using standards as instruments in supply chain risk management and increased transparency in supply chains.
- Sales and marketing (33%): enhanced reputation by using standards (and labels) in the marketing strategy as well as by building more trustworthy trading relationships with customers.
- Stakeholder engagement (8%): enhanced credibility of businesses towards government and NGOs.
- Sector-wide change (3%): increased reputation of an industry as a whole.

In survey based studies, reputational benefits was considered to be the most important final benefit. Some businesses also report that the use of standards can increase reputational risks as it may just increase their public exposure and the potential for criticism (Gnych et al., 2015).

*Box 12: Standards raising the reputation of the diamond industry as a whole*

In an ISEAL publication (2015a) diamond company De Beers emphasises the importance of standards. "While consumer knowledge of jewellery-related standards tends to be weak, there is widespread concern that negative media coverage or an international campaign comparable to the one surrounding conflict diamonds could damage the industry and its major brands. Diamonds aren't really that branded, so if there is any reputational damage caused by a rogue entity concerning diamonds, the entire supply chain will feel a disproportionate impact. It is thus important to raise the industry standards, the whole pipeline: the miners, the manufacturers, the retailers, the small, large and medium sized companies. We all have the same risks."

**Legal compliance (20%) refers to standards ensuring businesses comply with laws and regulation.**

These benefits are realised by upstream and downstream actors.

- Operations (10%): following standards allow businesses to comply with national regulations. Most emphasis is given to land tenure and social and environmental regulations.
- Procurement (13%): buying certified products allow businesses to comply with regulation in the importing country. This is particularly valid for timber products where EU and USA regulation requires proof of legality.

Two survey based studies referred to legal compliance where it was reported to be a low to medium benefit compared to other benefits.

**Enabling policy context (15% of sources) refers to an improved policy context for individual businesses as well as sectors.** These benefits are mainly realised by producers, and relate to early benefits of:

- Stakeholder engagement (8%): public sector engagement resulting in benefits for businesses in terms of regulatory relief, tax benefits, subsidies, and preferential treatment in public good provision (e.g. infrastructure) and the allocation of resource access rights (e.g. growing areas of marine parks).
- Sector-wide change (8%): changes in the policies in producing and consuming countries and as such also contribute to a level playing field.

There was almost no mention of enabling policy context in survey based studies.

*Box 13: Government support for certified businesses in the fishery and forestry sector*

A qualitative meta-synthesis of the benefits of eco-labeling in developing countries in the fishery and forestry sectors found in 70% of the 20 included case studies evidence for some form of government support for certified firms (Carlson and Palmer, 2016). Government support of certified firms tended to take the form of regulatory relief, tax benefits, public good provision, and preferential treatment in the allocation of resource access rights. For example, the increased transparency and greater documentation required by the certification process entitled FSC certified forestry firms in Bolivia to an exemption from government audits as well as taxes. In the Mexican Baja California red rock lobster fishery, government support for certification was provided through increased funding for the fishing community's development projects, such as the provision of electricity, increased road access, and infrastructural improvements to fish processing plants. The most prominent way in which governments have supported certification is by facilitating resource access rights. In 65% of the case studies, certification assisted producers in securing land or fishery use concessions, allocation of catch quotas, or legal recognition of customary rights. For example in Guatemala, producers were able to obtain 25-year land-use concessions after certification, something they had struggled to achieve in the ten years prior to certification.

**Level playing field (10% of sources) refers to changes at sector level.** This benefit is mainly realised by downstream actors, and relates to early benefits of:

- Sector-wide change (10%): a level playing field created through improved sector alignment and coordination and public policy influence (see previous point).

The benefit of a level playing field or other sector wide changes was not mentioned in survey based studies.

### 2.2.3 Sustainability impact

**Sustainability impact is referred to by 38% of sources as business benefits.** Businesses value the sustainability outcomes and impacts of using standards as important values in themselves, but also because they generate other business benefits. Examples of sustainability impacts mentioned in the previous sections that have possible links to the business case of using sustainability standards are:

- Improved working conditions with positive impacts on worker's health and livelihood as well as improved attention to sustainability in the supply chain can contribute to improved employee satisfaction and commitment as well as reduced reputational risks.
- Reduced conflicts with local communities, contributing to reduced costs and reputational risks

- Improved performance of (small-scale) producers, contributing to improved short and long-term supply security and enhanced reputation.
- Enhanced sustainable forest and fishery management, contributing to the preservation of the resource and thus long-term supply security.

Two out of six survey based studies referred to sustainability impacts as business benefit. In both studies it was valued relatively high compared to other benefits.

Sustainability impact does not only contribute to business benefits, they often are a condition for other business benefits to materialise. For example, when standards do not result in a sustainability impact, it undermines the potential reputational benefits of using standards.

Sustainability impact was identified at business level (e.g. production growth), supply chain level (e.g. performance of suppliers) as well as sector level (e.g. preservation of global fishery stocks).

*Box 14: The value of monetising social and environmental externalities*

External costs are costs caused by economic activities which are not reflected in the prices charged for the goods being provided. External costs can be classified as environmental costs if they have a direct effect on the environment and as social costs if they have a direct effect on the well-being of people. True Price is a social enterprise which calculates such external costs and translates them into a true price of a product. The true price of a product reflects the visible as well as the hidden costs of its production. It is defined as the sum of the retail price and the unpaid environmental and social costs. For example, including the external costs of coffee cultivation by Vietnamese smallholders would increase the farm-gate price by 93%. Of the total external costs of cultivation, 95% are environmental costs, 28% of which are caused by scarce water use from over-irrigation. The other largest external cost drivers are water pollution, energy use, air pollution and land use. The cultivation phase accounts for 63% of the total external costs of the coffee supply chain (True Price, 2016a).

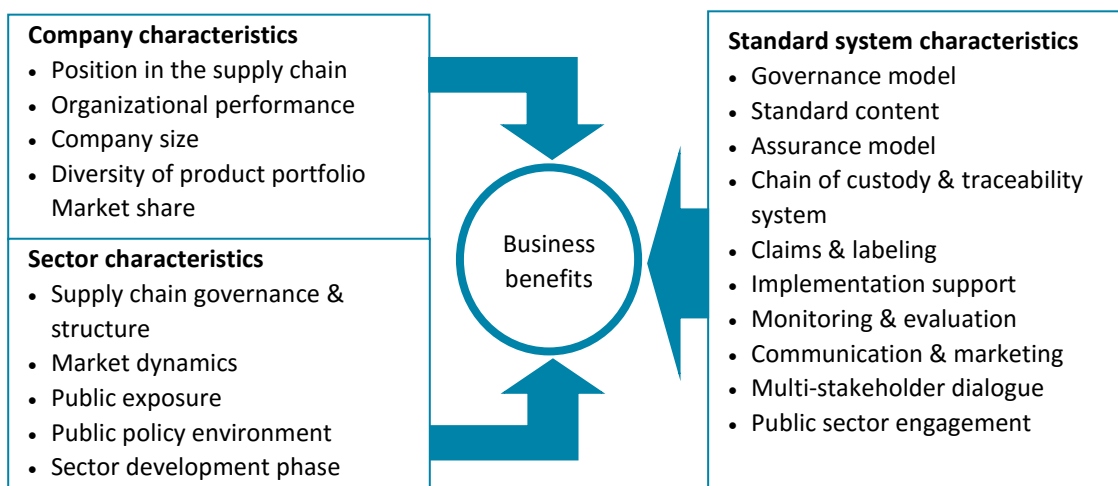
True Price has also calculated what the effect using standards has on the true price. Certified coffee has 20% lower external costs of cultivation than conventional coffee. 84% of this change is caused by lower water usage, 15% by higher productivity of certified farms and 1% by better social conditions (True Price, 2016b). In cocoa, certification results in 16% lower external costs and in cotton this number is 35% (True Price, 2016c).

Using information on external costs can help businesses to improve the social and environmental impacts of their own operations and their supply chain. This can result in benefits on risk management, cost reduction, innovation and branding.

### 3. Influencing factors

Almost all business benefits are to some extent influenced by context factors (see Figure 5). This chapter aims to provide a better understanding of these context factors, and under what conditions certain benefits materialise or not. We look subsequently at context factors in terms of company characteristics (3.1), sector characteristics (3.2), and standard related characteristics (3.3).

Figure 5: Factors that influence whether business benefits of using standards materialise



#### 3.1 Company characteristics

Benefits may vary by businesses being upstream or downstream businesses (see Table 3).

**Some early and final benefits are realised by both upstream and downstream actors.** Early benefits realised by businesses along the supply chain are market access and access to finance, knowledge and services. Final benefits on cost reduction, profitability and reputation are also widely realised.

**Upstream businesses (notably producers) more frequently experience early benefits on operational efficiency, working conditions & worker benefits, price and premium reward and stakeholder engagement.** Producers particularly refer to stakeholder engagement benefits in the context of production processes. Upstream businesses also refer more often to the final benefits of production growth and enabling policy context. Improvement in trading relationships with customers is a benefit to producers and exporters.

**Downstream businesses more frequently experience early benefits related to sustainability strategy, employee engagement, procurement, marketing strategy and sector-wide change.** They also refer more often to the final benefits of supply security (at supply chain level and sector perspective) and a level playing field.

Table 3: Overview of benefits realised mainly by upstream or downstream businesses or by both

Early-benefit	Business	Final benefits	Business
<b>Operations</b>		<b>Business value</b>	
Operational efficiency & risk management	Upstream	Cost reduction	Both
Sustainability strategy	Downstream	Increased profitability	Both
Human Capital Development	Both	Growth in production	Upstream
<b>Procurement</b>		Enhanced reputation	Both
Supply chain risk management	Downstream	Supply security	Downstream
Supply chain coordination	Downstream	Legal compliance	Upstream
Transparency & traceability	Downstream	Enabling policy context	Upstream
<b>Sales &amp; Marketing</b>		Level playing field	Downstream
Marketing strategy	Downstream	<b>Sustainability impact</b>	
Market access	Both	Social, environmental and economic impact	Both
Price and premium reward	Upstream	<ul style="list-style-type: none"> <li>• Upstream businesses include large-scale producers, smallholder producer groups, primary processors in the country of origin</li> <li>• Downstream businesses include importers, processors, manufacturers, brands and retailers in manufacturing / consumer countries</li> </ul>	
<b>Stakeholder engagement</b>			
Access to finance	Both		
Public Sector Engagement	Upstream		
NGO & donor relationships	Upstream		
Access to knowledge and support	Both		
<b>Sector-wide change</b>			
Sector alignment & coordination	Downstream		
Public policy influence	Both		

Some sources also refer to certain company characteristics that favour certain benefits. Most mentioned characteristics are organizational performance, company size, diversity of product portfolio and market share. These are discussed below.

**Smaller businesses may have high entry barriers to adopt standards which may negatively influence benefits.** Smaller businesses may have bigger barriers to entry; certification can be a long path, which involves financial investments, considerable human resource allocation, participation and preparation of annual reviews and audits. These overall costs and efforts (including resource allocation) can be daunting to small businesses, who have to juggle everyday activities with a limited number of employees (MVO Nederland, 2015). Such high entry costs, may reduce the potential financial benefits of using standards. One study (WWF, 2012) refers to large oil palm estates and businesses being able to achieve economies of scale in their RSPO implementation costs, and thus experiencing lower barriers to entry than smaller businesses.

**Larger and more successful businesses tend to have more market related benefits, specifically market access.** The market related benefits tend to be higher for the more prospective and competitive suppliers, because they have already privileged access to buyers (ITC, 2016). In one study, market access benefits linked to MSC certification was experienced as a benefit to a greater extent in industrial fisheries than in small-scale fisheries. Due to their size, industrial firms are likely better positioned to fulfil the demands of international fish markets and are more likely to establish buyers agreements with large corporations (Carlson and Palmer, 2016). An RSPO related study also found larger businesses having more market related benefits than small or medium-sized businesses (see Figure 6) (WWF, 2012).

Figure 6: Summary of benefits of RSPO certification for different-sized oil palm producing companies

Benefits	Smallholders	Mid-Sized Estates	Large Estates
Market Premiums			
Market Defense			
Market Access			
Corporate Reputation			
Increased Productivity			
Reduced Inputs (pesticide, herbicide, fertilizer)			
Employee Motivation/Morale			

Symbols are indicative of the relative benefits to businesses depending upon their size.

Source: WWF, 2012

**Businesses with a lower initial organizational performance have more potential to obtain operational benefits** (RJC, 2016). For example, several case studies of businesses and Responsible Jewellery Council (RJC) show that some businesses view the certification as an opportunity to build a well-structured business according to an internationally recognised standard; notably SMEs used the RJC standard as a guide and tool to ensure that they had the required formal structures in place (Möllenhoff et al., 2014). Larger businesses can also have larger gains in terms of improved operational performance due to improvements in uniformity, timeliness and overall optimization (Carlson and Palmer, 2016).

Other company characteristics that seem to influence potential benefits in a positive way are the level of mainstreaming sustainability within a business and the available capacities to implement sustainability practices (Gnych, et al., 2015). Top-down management structures also seem to favour the implementation of standards compared to businesses with a high level of decentralization and long communication lines (Gnych, et al., 2015; Carlson and Palmer, 2016).

**The diversity of product portfolio and market share may influence procurement and market related benefits of downstream businesses.** Procurement and market related benefits of using standards can be relevant to businesses (both small and large-scale) that source many products, from many origins and from complex supply chains. The costs of using standards in such situations can be much lower than of businesses setting up their own sustainability and assurance programs for all these supply chains. A tendency is however that larger businesses develop their own programs for strategic commodities, in which certification can, but does not have to be a part. A business's market share within a commodity may also influence the benefit of certification. Businesses with a large market share may benefit when standards are mainstream as this reduces dependency on specific suppliers and allows for flexibility in sustainable sourcing. The flip-side is that when supply of certified products is less widespread, this will increase dependency on certified suppliers.

### 3.2 Sector characteristics

**Most business benefits of using standards exist in the agricultural, forestry, fishery and mining sector.** The realised benefits cut across many sectors and the relative number of sources referring to them is also comparable across sectors (see Appendix III for a more detailed overview of the frequencies per sector). There are a few exceptions. Price and premium reward are less frequently mentioned among fishery and mining related studies compared to agriculture and forestry ones. Operational benefits are relatively less frequently mentioned in the fishery sector than in other sectors. Access to finance and



stakeholder engagement are not mentioned in mining related sources and the agriculture and forestry sector did not refer to public sector engagement benefits.

The variation between sectors on the final benefits is larger (partly because the number of source documents that refer to final benefits is smaller). For example, benefits in terms of improved reputation are more frequently mentioned in mining related studies than in agriculture related studies. Compared to other sectors, relatively less sources on the mining sector refer to profitability, growth in production and supply security. Legal compliance is particularly referred to in the forestry sector.

**A lot of variation exists within sectors, partly influenced by supply chain governance and structure, market dynamics, public exposure, public policy environment, and sector development phase.**

Business benefits may vary considerably per specific product (e.g. a crop, fish type, wood type or mineral), country of origin, end product, destination market and type of supply chain. The review has been able to identify some sector characteristics that explain part of this variation. (see Table 4). They will be explained below.

*Table 4: Sector characteristics that favour business benefits of using standards*

Favourable sector characteristics		Cluster of benefits
<b>Supply chain governance and structure</b>	<ul style="list-style-type: none"> <li>• Shorter and less complex supply chains</li> <li>• Direct and stable trading relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement, sales and marketing</li> </ul>
<b>Market dynamics</b>	<ul style="list-style-type: none"> <li>• Demand for sustainable products</li> <li>• High degree of competition</li> <li>• Insecurity of supply</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement, sales and marketing</li> </ul>
<b>Public exposure</b>	<ul style="list-style-type: none"> <li>• High public exposure or media scrutiny</li> <li>• Consumer consciousness</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement, sales and marketing, reputation</li> </ul>
<b>Public policy environment</b>	<ul style="list-style-type: none"> <li>• Law enforcement in producing countries</li> <li>• Public sector investments</li> <li>• Norms in consumption countries</li> </ul>	<ul style="list-style-type: none"> <li>• Operations</li> <li>• Sector-wide change</li> <li>• Procurement</li> </ul>
<b>Sector development phase</b>	<ul style="list-style-type: none"> <li>• Early mover advantage</li> </ul>	<ul style="list-style-type: none"> <li>• Sales and marketing</li> </ul>

**Shorter and more stable supply chain relationships are more conducive to the implementation of standards and therefore also the realisation of market and procurement benefits.** Various sources consider the adoption of standards to generate more benefits where supply chains are shorter and less fragmented and trading relationships are more stable (UNFSS, 2012; ITC, 2012; Gnych et al., 2015; FAO and UNEP, 2013; Molenaar et al., 2016). This facilitates supply chain coordination and the quality of trading relationships. It also creates more incentives for suppliers to invest in the implementation of standards and of downstream businesses to support such investments (Molenaar et al., 2016). Arms-length, short-term relationships inhibit the implementation of standards because businesses have fewer incentives to influence suppliers to take them seriously (ITC, 2012). Transaction costs (e.g. organization and verification) are particularly high in low-value commodities with a large, unorganized and fragmented production base, making it difficult to realise potential benefits (FAO and UNEP, 2013). On the other hand, standards can be useful as a risk management tool for more complex supply chains. They can also be a driver to develop more transparent, direct and long-term trading relationships. High industry requirements in terms of traceability, quality and safety promote such trading relationships

including the use of standards (Gnych et al., 2016; Molenaar et al., 2016). However, the ability to blend products from different suppliers and origins may reduce this (MVO Nederland, 2015; Molenaar et al., 2016).

**Existing demand for sustainable products, a high degree of competition and concerns over supply security appear to favour procurement, market and reputational benefits.** The demand for sustainable products is an important determinant for realising market related benefits of using standards. The demand by retailers and brands is important. Demand can be further promoted by endorsement of a particular standard in multi-stakeholder or industry platform (e.g. palm oil in European countries) or by public procurement requirements. While demand predominantly exists in Western European and North American markets, this is growing and expected to grow in emerging markets (ITC, 2016).

Another influential market dynamic is the degree of competition between businesses and standards in a sector. More intense competition can increase the value of using standards to distinguish oneself from competing firms (Möllenhoff et al., 2014). This is applicable to the business to consumer relations (B2C) as well as business to business relations (B2B). The relative benefits between B2C and B2B differs per sector (MVO Nederland, 2015). The proliferation of standards in a commodity can influence this negatively and positively; it can confuse the consumer, but also allows businesses to differentiate label use according to the highest marketing value within a specific market.

Industry concerns over future security of supply of renewable but potentially finite resources (e.g. in forestry and fishery) as well as certain agricultural sectors such as cocoa, may lead to using standards with the aim to enhance production growth, supply chain coordination and sector-wide change (WWF, 2016; Molenaar et al., 2016). The adoption of a standard to improve attractiveness to employees is particular relevant in industries where there is a need for workforce (e.g. diamond sector) (Dalberg, 2014).

**The degree of public exposure of a business or sector has an important influence on reputational benefits of using standards.** The pressure businesses have from civil society and consumers are an important factor influencing the benefit of standards. This is valid for businesses along the supply chain, but its effect seem to be strongest in the public facing businesses or well-known brands. The attempts of these businesses to avoid negative publicity are an important driver for the demand for certified products and related market benefits of suppliers. Public exposure also influences awareness and reputational risks of the finance industry. Consequently, shareholders and investors are showing increasing interest in businesses' attitudes towards environmental sustainability (CSR, 2016; WWF, 2016).

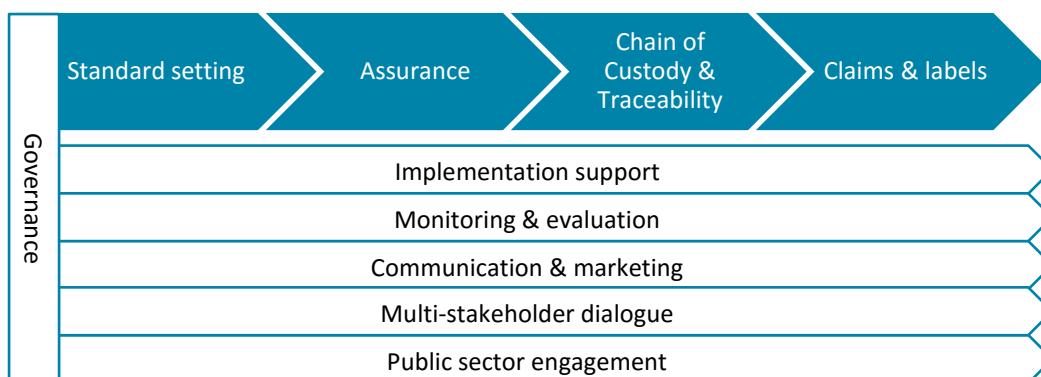
**Public policy can either support or jeopardize the benefits of using standards.** Some sources stress that effective regulation in producing countries is needed to materialise the intended benefits of standards for producers (Gnych et al., 2015; ITC, 2012, Carlson and Palmer, 2016; UNFSS, 2016). For example, the lack of clear and enforced land tenure rights and corruption may be a barrier to adopt standards and negatively influence risk management or reputational benefits. On the other hand, in absence of clear policies, the potential added value of using standards becomes larger. For example, one study on the impact of Fairtrade in the banana sector found Fairtrade to make a big difference in improving working conditions in a country with poor legislation and enforcement compared to a country with strong trade unions and collective bargaining agreements (Molenaar et al., 2016). Governments have different instruments to promote benefits: the previous chapter gave examples of policy incentives for certified businesses, including service delivery, tax relief and preferential access to natural resources. Regulation in consumption countries can also influence the benefits of standards; regulation in the EU and USA requiring proof of legality of timber markets offer important benefits for the industry to source certified timber.

**Some benefits of using standards tend to decline when sustainability becomes more mainstreamed in a sector.** First, when a standard is introduced in a sector that does not have a long history of sustainable production and trade, it will offer a competitive advantage for the early adopters. This competitive advantage will reduce as more competitors adopt the standard(s), until it becomes a license to operate or condition to enter certain markets (which is happening in timber, cocoa and palm oil). Second, in the early phases of this sector development process, businesses often use standards as the main instrument with benefits for their responsible sourcing strategy. In such cases there is a risk that certification becomes a goal in itself (MVO Nederland, 2015). In sectors such as cocoa and coffee this has changed over time; in these sectors there is a tendency for standards to become part of a wider set of solutions needed to create business value and sustainability impact of responsible production and trade (MVO Nederland, 2015; ISEAL, 2015b; Molenaar et al., 2016). Other solutions and benefits that are increasingly expected from standards include corporate sustainability programs and pre-competitive investments in producer support and community development, landscape programs and performance monitoring.

### 3.3 Standard system characteristics

**Standards can promote business benefits through different instruments and strategies.** The core value proposition of most standards systems consists of standard setting and approaches for assurance, chain of custody and traceability, sustainable claims and label use (see Figure 7). The exact approaches generally differ per standard (e.g. the content of the standard or assurance protocols). Some standards systems also offer implementation support to actors along the supply chain through guidance, tools, training and funding or the facilitation of market linkages. In recent years, standard systems became heavily engaged in impact evaluation and some start to offer services in the collection, aggregation and dissemination of performance data at production level. Some systems also invest in the marketing of their scheme and label. Certain systems facilitate sector platforms as a place for networking, sector alignment and coordination. Some systems also engage with the public sector to influence policy making and promote public-private investments.

Figure 7: How standard systems can add value



**Most sources relate operational business benefits to the scope and content of the standard.** The standard itself is often considered as a benchmark or tool to operationalize sustainability. Most standards focus on production practices. Many sources link the criteria in these standards to operational efficiencies and resulting cost efficiencies, reduced social conflicts or improved productivity and quality. Fairtrade also emphasises governance aspects of producer groups and studies on Fairtrade refer to benefits on this topic (KPMG, 2012; Ostertag, 2014; BSD Consulting, 2014). Fairtrade also has a standard on requirements for trading relationships (i.e. influencing market access benefits). A recent study shows that this can improve trading relationships, notably for producers and exporters. Improved trading

relationships can also lead to other benefits such as working conditions. For example, the requirement of annual buying commitments in the banana sector allowed large-scale producers to provide their workers with annual employment instead of temporary employment (Molenaar et al, 2016). Standard systems that require supply chain actors to implement management systems (e.g. UEBT, RJC) seem to promote benefits on operational efficiency for these businesses (Möllenhoff, 2014; RJC, 2016; UEBT, 2016). The sources suggest a positive relation between the scope of the standard and the related business benefits. However, the sources also show that improvements in trading relationships and management systems can emerge from other standards that do not explicitly address these aspects (such as done by Fairtrade, UEBT and RJC).

**Several sources refer to capacity building and funding contributing to improved operational efficiency.**

Capacity building or funding of, for example, producer support programs can be provided by the standard system itself or by development partners (Kessler et al., 2015; WWF, 2015a; UEBT, 2016). Although most capacity building is geared towards producers, some is also destined to supply chain actors, enhancing benefits of operational efficiency mainly.

**Some standards require the payment of premiums, which can support benefits of supply chain coordination, operational efficiencies or sustainability impact.** Although considered an important cost by downstream businesses, paying premiums (and minimum prices) can contribute to stronger and more stable trading relationships with suppliers (Molenaar et al., 2016). They can also be used by producers to invest in management systems, productivity and quality management, environmental stewardship, worker benefits, community investments or to support smallholder incomes. The requirement to pre-finance suppliers can have similar benefits.

**Credibility of the standard is a key success factor to various business benefits, especially sales and marketing, access to finance and reputation, and associated with the content of the standard, the quality of the assurance model and the buy-in of multiple stakeholders.** Standards are credible when they meet the concerns of the most important stakeholders, are set through a multi-stakeholder process, and when they are science-based (ISEAL, 2010; ISEAL, 2015a). Credible, independent verification and/or certification is critical to benefits on operational and supply chain risk management, sales and marketing and stakeholder engagement. Credible assurance includes accreditation (ISEAL, 2010). The buy-in of influential NGOs or by governments is also important to improve the legitimacy of standards (UNFSS, 2013; FAO and UNEP, 2013). This can be because such stakeholders are part of the governance model of the standard system or they have publicly endorsed the systems.

**The standard system's capability to monitor impacts and performance is also supporting the credibility of the standards system and business benefits around sales and marketing, procurement, operational efficiency and investor communication.** Monitoring and impact information helps to justify the use of standards to businesses (ISEAL, 2015b). Different purposes may require different information. For example, marketing departments may want to demonstrate impact on producers' livelihoods and build the case for why buying their product makes a difference. Business leadership may want to obtain the information which allows to determine the financial and social return on investment, including impacts on supply chain transparency, productivity and supply security. Public facing businesses may favour information on legal compliance and risk management benefits. Monitoring and evaluation is also becoming increasingly important to respond to the demands of the financial sector for sustainability information and metrics (ISEAL, 2016).

**Chain of custody and traceability systems contribute to benefits of improved supply chain transparency and corporate reputation.** Using standards may save some of the necessary investments in setting-up physical traceable supply chains. An alternative supply chain model is book and claim. This administrative model can offer cost efficiencies (e.g. reduced supply chain related costs) and promote inclusiveness (e.g. of remote smallholder groups). However, they do not deliver supply chain

transparency and allow for unsustainable products in labelled products. Certain stakeholders find such system less credible.

**On-pack labels and marketing by standard systems promote benefits of marketing towards consumers, but their marketing value seems to decline once they become more mainstream.** When different standards exist in a commodity sector, the choice for a label is often made by marketing departments. This shows they have marketing value (Molenaar et al., 2016). This value is however intangible and we found no attempts to calculate this. As the previous section described, the importance of the label is becoming less important as standards become more mainstream. There is also a tendency that brands try to make sustainability intrinsic to their brand. While these brands may continue to use standards to legitimate sustainability claims, they may decide not to show the labels on-pack. In business to business relations the value of labels is limited.

**Standards can contribute to benefits of stakeholder engagement and sector-wide change by setting up multi-stakeholder platforms.** Such platforms are appreciated for the opportunities they offer for networking and accessing knowledge (MVO Nederland, 2015). They are also considered to be important helping to move a sector towards mainstreaming sustainability and building an aligned pathway (ISEAL, 2015b), as well as joint efforts to influence policies and create a more enabling policy environment (see next point).

**Some standard systems also promote specific actions to realise benefits of a more enabling policy environment.** For example, Fairtrade invests in bringing together the Fairtrade certified gold miners and support them in their lobby activities for better policies (Kessler et al., 2015). RSPO engages with governments to promote the inclusion of RSPO in legislation and to set-up jurisdictional approaches in which the public sector, businesses and non-profit organizations work on long-term solutions for sustainable palm oil production, creating a level playing field in that jurisdiction.

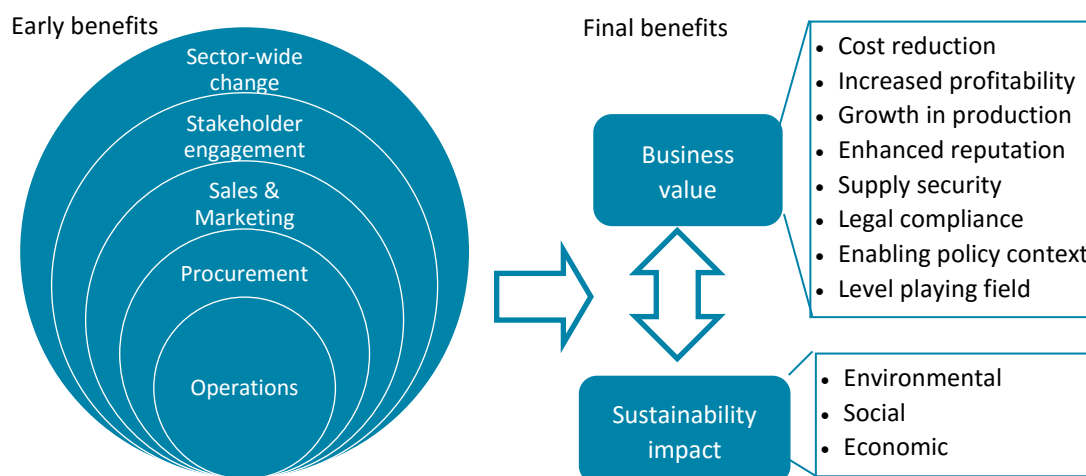
## 4. Conclusions and recommendations

This meta-review on the business benefits of using sustainability standards offers some key insights.

**Sustainability standards offer a wide range of early benefits to businesses along the supply chain which can materialise at business, supply chain and sector level.** The literature talks of businesses reporting that the use of standards can result in improvements on a business' operations, procurement, sales and marketing, and stakeholder engagement. Benefits related to sales and marketing and operations were most frequently mentioned in the sources. Some businesses also report the standards' contributing to sector-wide change and consider this a benefit to their business.

**The early benefits strengthen the business value and sustainability impacts.** The early benefits realised by standards can significantly contribute to a range of final benefits, being both business related and societal impacts. Final benefits supporting the business value of using standards consist particularly of improved reputation, increased profitability and cost reduction. Other final benefits identified are growth in production, improved supply security, enabling policy context and level playing field. Sustainability impact refers to social, environmental and economic benefits, at producer, community, landscape and sector level. These impacts can support the business case of businesses along the supply chain. Sustainability impact can also be a condition for the business benefits to materialise; when standards do not realize the expected impact at producer level, this will undermine many of the business benefits experienced along the value chain.

Figure 8: The business benefits framework of using standards



**The realised benefits cut across many sectors and it is not possible to look into sector-specific benefits yet based on the available evidence. They seem to depend more on the type of business, contextual factors and the standard system.** The identified benefits do not vary much for different sectors: agriculture, forestry, fishery and mining. However, within each sector important variations existed per product, business type (e.g. place in the supply chain, size) and contextual factors (e.g. supply chain governance and structure, market dynamics, policy environment and public exposure). The specific services that standards offer also influence whether certain benefits materialise or not.

**It should be acknowledged that the adoption of sustainability standards whilst delivering benefits, also adds to cost and as such the business case is often not clearly positive.** Although not the focus of this study, standards are also associated with several limitations. Benefits such as improved market

access, premiums and profitability do not always materialise, although businesses might expect standards to deliver such benefits consistently. Using standards can also introduce new limitations such as high compliance costs, too much need for administration and record-keeping, supply-side challenges, and increased public exposure. These limitations should not be underestimated. Many studies investigating the business case of using standards come with inconclusive outcomes on the identified benefits, which are often difficult to quantify and highly context dependent.

Considering all potential benefits, some recommendations can be made to standard systems and the businesses using them.

**Businesses adopting sustainability standards should be aware of the full range of benefits that can accrue when standards are used strategically.** The benefits of using standards can go well beyond the commonly expected benefits of premiums, market access or supply chain risk management. The wide range of potential benefits suggests that businesses can approach the choice of adopting standards more strategically and long-term. Using standards can contribute to many early and final benefits. Benefits may depend on the context and the value proposition of a particular standard system. It also depends on how businesses use standards, how they embed them in their strategies, systems and procedures, and what sector they are involved in. Rather than using them as a stand-alone tool, businesses should use standards as part of more medium and long term integrated strategies on improved management, procurement, sales and marketing, stakeholder engagement and promoting sector-wide change.

**Sustainability standards systems should use the improved insights on the business case of using standards to better promote the value of standards to upstream and downstream businesses.** More detailed insights on the business benefits (as well as limitations) of using standards can help standard systems to communicate more clearly about the potential value to its users. This can promote uptake but also increase the value that users extract from using standards. Sharing best practices on the use of standards can be an effective means to do this.

**Standard systems should use improved insights on the business case of using standards to improve their value proposition.** Standards systems can improve the business case for businesses by developing services for specific benefits and specific types of businesses, taking into account critical contextual factors. This may result in a more comprehensive value proposition (e.g. one-stop shop for sustainable production and trade), or in a more focussed value proposition (e.g. stakeholder alignment and performance monitoring). A few examples of how value could be improved are:

- When businesses appreciate the benefit of standards on operations, standard systems could consider developing additional guidance, tools, or capacity building to further enhance such benefits or to make such resources available to more businesses.
- When businesses experience standards helping them in becoming more attractive for customers, consumers or the financial sector, standards could consider how their monitoring and evaluation systems could generate the data that supports this value.
- When businesses see standards as potential instruments in networking and promoting sector alignment or an enabling policy environment, standards could consider investing in multi-stakeholder platforms or public sector engagement.

Changes in the value proposition do not necessarily need to be implemented by the standard systems themselves, but could also be developed in partnership with specialized service providers.

**Standard systems are encouraged to do more research and regular monitoring and evaluation of their business benefits, and do so in a more consistent way.** In our long-list of available sources, we observed a bias of looking at benefits of standards at production level rather than business benefits of

using standards for businesses along the supply chain. This is unfortunate as being market driven instruments the uptake of standards depends primarily on the value that end users of products perceive and the extent by which different tiers of suppliers are willing and able to implement them. This calls for more evidence on the return on investment of using standards (including financial costs and benefits) and how they materialise for different supply chain actors and in different policy and sector related contexts. This study shows that the added value of standards of businesses along the supply chain may be more than expected (apart from the limitations). Many researchers tend to focus on the benefits that can be directly linked to the scope of the standard. For example, improved governance of producer groups is typically a topic which is included in Fairtrade related studies but not necessarily in studies for UTZ or Rainforest Alliance. This does not necessarily mean that UTZ or Rainforest Alliance certified producer groups do not experience such benefits. We recommend therefore that standards systems, or other research organizations, take a wide perspective when investigating the business case of using standards. We also strongly recommend to do so in a more consistent way, for example by adopting the benefit framework presented in this study (see Figure 8 and Appendix II). Standards could also include business benefits as topic in their monitoring and evaluation systems. With a more explicit Theory of Change on the business benefits of using standards, they may become more effective in supporting transformational change within businesses, supply chains and sectors.



## Appendices



## Appendix I: References

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## Appendix II: Benefit frameworks

### Overview of realised early benefits of using standards

Cluster	Early-benefit	Specific benefits
Operations	<i>Operational efficiency &amp; risk management</i>	<ul style="list-style-type: none"> <li>Improved management systems and processes</li> <li>Improved operational risk management</li> <li>Improved governance &amp; membership engagement</li> <li>Innovation</li> </ul>
	<i>Sustainability strategy</i>	<ul style="list-style-type: none"> <li>Increases awareness on sustainability issues</li> <li>Benchmark or roadmap to operationalise sustainability</li> <li>Helps achieve sustainability / business objectives</li> <li>Improved performance / impact monitoring</li> </ul>
	<i>Human Capital Development</i>	<ul style="list-style-type: none"> <li>Improved working conditions &amp; worker benefits</li> <li>Employee satisfaction &amp; retention</li> </ul>
Procurement	<i>Supply chain risk management</i>	<ul style="list-style-type: none"> <li>Improved management and mitigation of risks in supply chains</li> </ul>
	<i>Supply chain coordination</i>	<ul style="list-style-type: none"> <li>More reliable suppliers</li> <li>Improved quality of trading relationships with suppliers (e.g. stability, volumes, payment terms)</li> </ul>
	<i>Transparency &amp; traceability</i>	<ul style="list-style-type: none"> <li>Increased product traceability and transparency</li> </ul>
Sales and marketing	<i>Marketing strategy</i>	<ul style="list-style-type: none"> <li>Facilitates customer communication (e.g. claims)</li> <li>Enables to differentiate from other brands or businesses</li> </ul>
	<i>Market access</i>	<ul style="list-style-type: none"> <li>Client retention access to new customers and markets (e.g. geographies)</li> <li>Improved quality of trading relationships with customers (e.g. stability, volumes, payment terms)</li> </ul>
	<i>Price and premium reward</i>	<ul style="list-style-type: none"> <li>Additional cash premium or higher prices</li> </ul>
Stakeholder engagement	<i>Access to finance</i>	<ul style="list-style-type: none"> <li>Improved investor communications</li> <li>Improved access to finance and more favourable finance conditions</li> </ul>
	<i>Public Sector Engagement</i>	<ul style="list-style-type: none"> <li>Improved relationships with the government</li> <li>Improved voice in policy making and public sector investments.</li> </ul>
	<i>NGO &amp; donor relationships</i>	<ul style="list-style-type: none"> <li>Improved civil society communication and dialogue</li> <li>Opportunities in partnership building, program development and access to donor funding</li> </ul>
	<i>Access to knowledge and support</i>	<ul style="list-style-type: none"> <li>Improved access to information</li> <li>Improved access to capacity building</li> <li>Improved access to inputs</li> </ul>
Sector-wide change	<i>Sector alignment &amp; coordination</i>	<ul style="list-style-type: none"> <li>Networking, learning and dialogue</li> <li>Improved sector-wide alignment on sustainability</li> </ul>
	<i>Public policy influence</i>	<ul style="list-style-type: none"> <li>Improved policy dialogue,</li> <li>More effective lobby and advocacy</li> </ul>

### Overview of realised final benefits of using standards

Main cluster	Final benefits
Business value	<ul style="list-style-type: none"> <li>• Cost reduction</li> <li>• Increased profitability</li> <li>• Growth in production</li> <li>• Enhanced reputation</li> <li>• Supply security (volume, quality)</li> <li>• Legal compliance</li> <li>• Enabling policy context</li> <li>• Level playing field</li> </ul>
Sustainability impact	<ul style="list-style-type: none"> <li>• Improved social sustainability, e.g. child labour, health &amp; safety, reduced conflicts with local communities</li> <li>• Improved environmental sustainability, e.g. reduced carbon emission, no deforestation, sustained availability of natural resources</li> <li>• Improved economic sustainability of producers or supply chain actors, e.g. fair wages, incomes</li> </ul>

## Appendix III: Benefits figures per sector

### Distribution of source documents over sector and actors

		Upstream	Downstream
	n	<b>27</b>	<b>26</b>
Agriculture	<b>19</b>	16	10
Fisheries	<b>14</b>	9	11
Forestry	<b>7</b>	5	5
Mining	<b>8</b>	3	7
Not specified	<b>4</b>	1	3

Given the variable number of studies reviewed per sector, it is not possible in this review to provide robust disaggregated results at sector level. But, for the sake of completeness, we provide the table below which details the proportion to which studies in each sector references each of the early and final benefits. The figures in the below tables refer to the number of sector specific sources that refer to an early benefit. For example, 95% of the sources which included businesses from the agricultural sector mentioned benefits on operations, and 79% mentioned benefits in terms of operational efficiency & risk management.

### Proportion of sources referring to early benefits divided per sector

	All	Agriculture	Forestry	Fisheries	Mining	Various
<b>OPERATIONS</b>	<b>78%</b>	<b>95%</b>	<b>86%</b>	<b>57%</b>	<b>88%</b>	<b>75%</b>
Operational efficiency & risk management	63%	79%	64%	43%	50%	50%
Sustainability strategy	45%	37%	57%	43%	75%	50%
Human capital development	30%	32%	36%	14%	38%	0%
<b>PROCUREMENT</b>	<b>70%</b>	<b>63%</b>	<b>79%</b>	<b>86%</b>	<b>100%</b>	<b>125%</b>
Supply chain risk management	55%	42%	71%	71%	88%	100%
Transparency & traceability	20%	26%	29%	43%	25%	0%
Supply chain coordination	45%	42%	57%	43%	25%	75%
<b>SALES AND MARKETING</b>	<b>98%</b>	<b>95%</b>	<b>100%</b>	<b>100%</b>	<b>88%</b>	<b>100%</b>
Marketing strategy	43%	37%	57%	57%	63%	50%
Market access	85%	79%	93%	86%	75%	100%
Price and premium reward	45%	53%	64%	14%	25%	0%
<b>STAKEHOLDER ENGAGEMENT</b>	<b>50%</b>	<b>53%</b>	<b>57%</b>	<b>57%</b>	<b>38%</b>	<b>50%</b>
Access to finance	30%	42%	21%	29%	0%	50%
Public sector engagement	18%	16%	21%	29%	0%	0%
Community, NGO & donor relations	20%	21%	29%	29%	25%	0%
Access to knowledge & support	28%	32%	21%	29%	13%	25%
<b>SECTOR-WIDE CHANGE</b>	<b>28%</b>	<b>21%</b>	<b>14%</b>	<b>14%</b>	<b>25%</b>	<b>100%</b>
Sector alignment & coordination	25%	21%	14%	14%	13%	100%
Public policy influence	10%	0%	0%	14%	13%	50%

**Proportion of sources referring to final benefits divided per sector**

	All	Agriculture	Forestry	Fishery	Mining	Various
Cost reduction	30%	32%	43%	43%	25%	75%
Profitability	53%	68%	57%	57%	25%	25%
Growth in production	30%	47%	14%	29%	0%	0%
Supply security	23%	32%	29%	14%	0%	0%
Reputation	60%	63%	79%	86%	100%	100%
Level playing field	10%	11%	0%	0%	13%	25%
Enabling policy context	15%	0%	14%	29%	13%	25%
Legal compliance	20%	11%	43%	0%	0%	0%
Impact	38%	26%	36%	29%	13%	25%