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The **business benefits** of using **sustainability standards**

SUMMARY



IN 2015, A SURVEY CONDUCTED BY ISEAL ALLIANCE WITH OVER A HUNDRED BUSINESS LEADERS, CLEARLY SHOWED THAT BUSINESSES PERCEIVE A RANGE OF BENEFITS FROM THE ADOPTION OF SUSTAINABILITY STANDARDS.



INTRODUCTION



WHY THIS RESEARCH?

Available data 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 of 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.

In 2015, a **survey** conducted by ISEAL Alliance with over a hundred business leaders, clearly showed that businesses perceive a range of benefits from the adoption of sustainability standards. But to what extent is there research evidence of these benefits materialising? What is the difference between benefits to upstream and downstream businesses? What factors determine the extent of business benefits from using standards?

To fill this evidence and knowledge gap, the ISEAL 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 existing and potential users of standards of the full range of 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. Finally, it also speaks to standards systems so they can position themselves better with businesses and demonstrate their added value.

APPROACH AND EVIDENCE SOURCES

This research is based on a meta-review of 40 purposively selected articles, reports and studies that formed the main evidence source for the findings. They were selected from over 140 initial results, based on relevance, scope and methodological robustness.

The 40 source documents use a variety of research methods including cost-benefit analyses, survey based studies, meta-reviews, literature reviews, key informant interviews and primary data collection. The analysis of the documents focused on evidence of reported benefits by businesses rather than potential benefits i.e. benefits reported by businesses after using standards (ex-post) rather than potential benefits expected by businesses before using a standard (ex-ante).

In addition to the 40 source documents, this study also considered grey literature (e.g. company reports) which were used to validate the findings as well as to provide some examples.

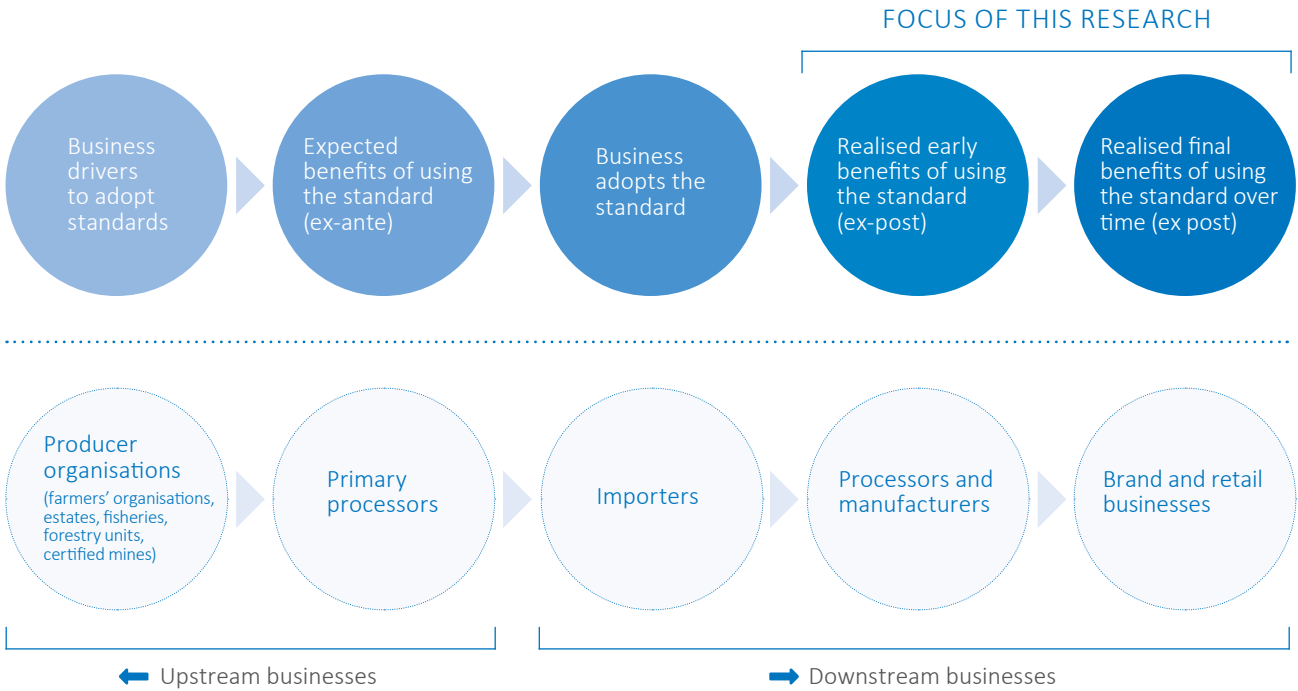
To emphasise causal relationships between benefits, the research distinguishes between early and final benefits. “Businesses” are defined as all business entities along the value chain from producer organisations at one end to retailers and brands at the other.

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.

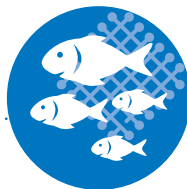


A REVIEW OF
40 STUDIES TO
UNDERSTAND THE
BENEFITS OF USING
SUSTAINABILITY
STANDARDS FOR
BUSINESSES ACROSS
4 SECTORS.

RESEARCH SCOPE AND ANALYSIS FRAMEWORK



AGRICULTURE



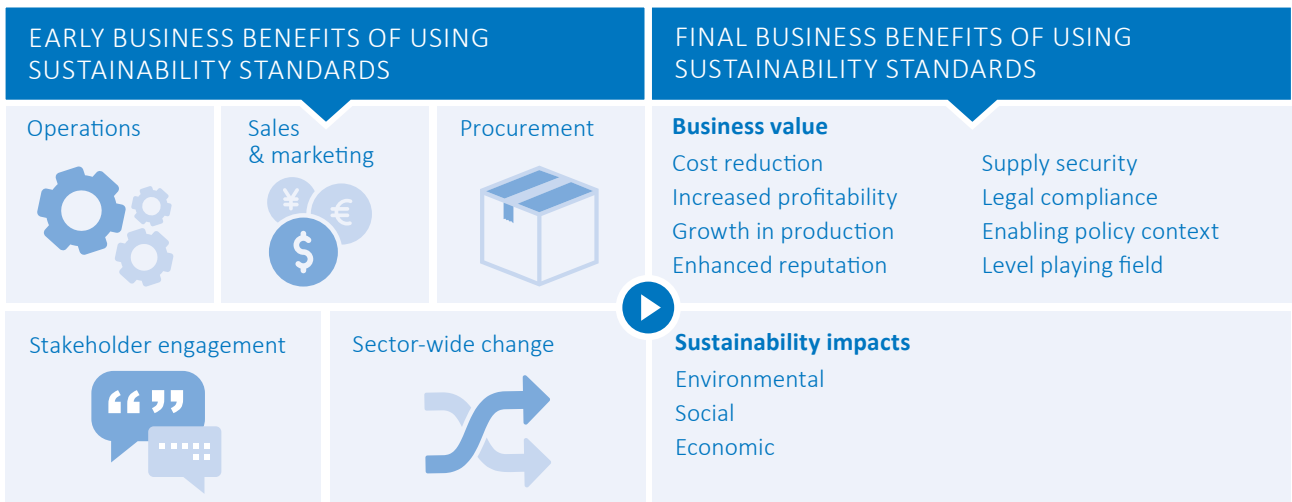
FISHERIES



MINING



FORESTRY



RESULTS



REALISED BUSINESS BENEFITS

Research identifies a range of short-term and long-term benefits that materialise from the adoption of sustainability standards for businesses along the supply chain. The range of benefits go well beyond those that we traditionally associate with standards.

EARLY BUSINESS BENEFITS OF USING SUSTAINABILITY STANDARDS

Early business benefits can generally be directly attributed to sustainability standards. They refer to changes in capabilities, practices, processes, relationships, opportunities and other immediate results of using standards for upstream and downstream business entities.

Five different clusters of early benefits of using sustainability standards were identified as in the figure on the next page.

- **Benefits related to 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 sales and marketing related benefits, 78% of the sources to operations related benefits and 70% to procurement related benefits.
- Benefits related to stakeholder engagement (50%) and sector-wide change (28%) were less frequently mentioned.

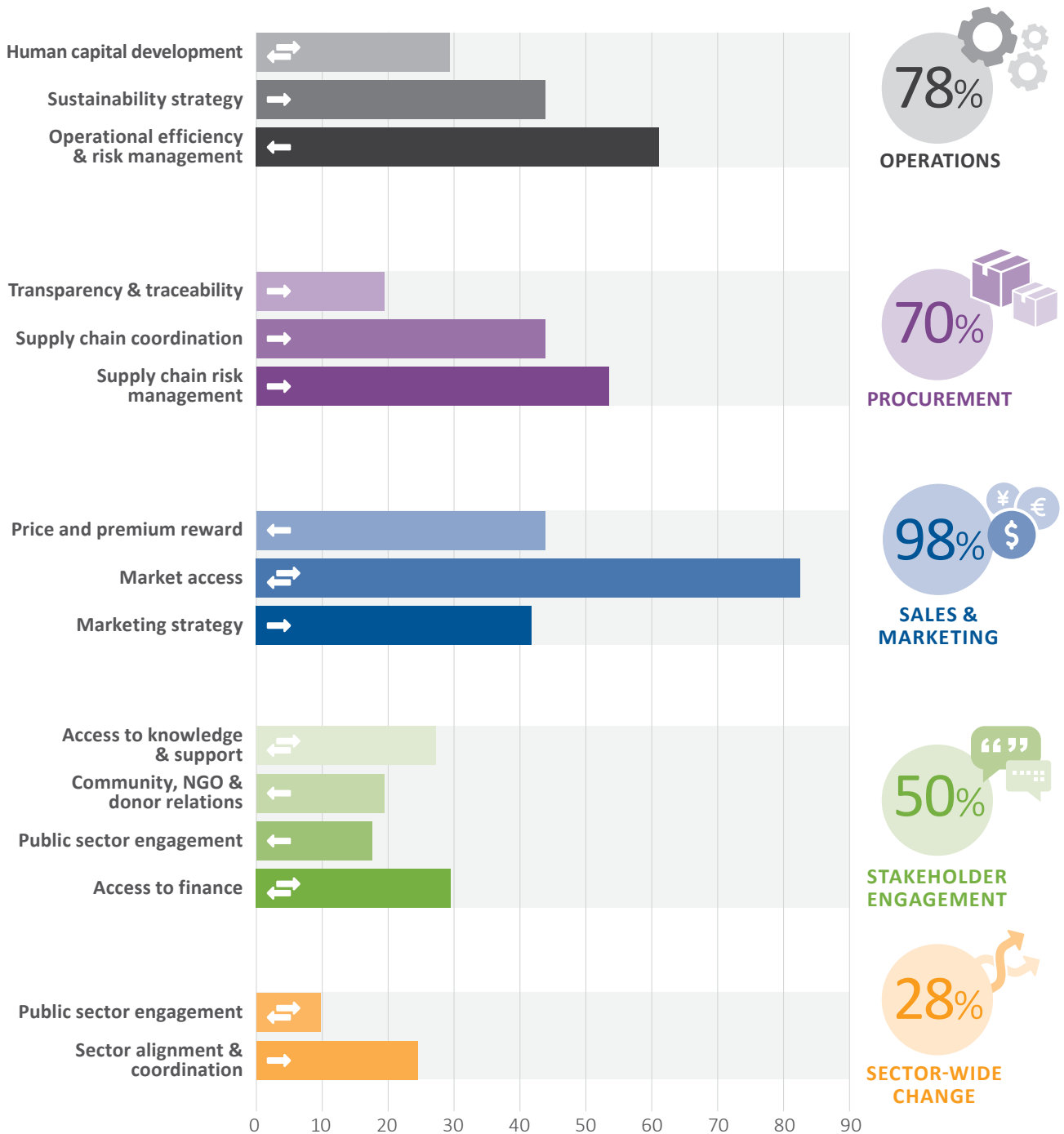
Early benefits of using standards to improve the **operations** of a business relate mostly to its contribution to operational efficiencies and risk management, followed by its use for sustainability strategies and human capital development.

The most frequently mentioned early benefits of using standards in the procurement sphere relate to their value to supply chain risk management, followed by supply chain coordination, 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 standards' use as part of a business' 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 perceive 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). Studies also refer to improved sector dialogue and coordination, as well as public policy influence.



PROPORTION OF STUDIES REPORTING EARLY BUSINESS BENEFITS OF USING SUSTAINABILITY STANDARDS



← Upstream businesses
 → Downstream businesses

FINAL BUSINESS BENEFITS OF USING SUSTAINABILITY STANDARDS

The early business benefits of using standards, when realised, can contribute to a range of final benefits.

Final business benefits generally take some more time to materialise and are more influenced by external factors than by the standards themselves. In this regard, final benefits are less directly attributable to the standards themselves and are more a result of key influencing factors (explored in the next section).

We distinguish between two kinds of final business benefits - the creation of **business value** and the creation of social value through **sustainability impacts**. 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 that standards contribute towards. Sustainability impact refers to the social return on investment in terms of social, environmental and economic impacts that standards contribute towards.

These benefits can materialise at a company 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.

- **On the business value, sources refer most frequently to the final benefits of 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%).
- **Sustainability impacts are referred to in 38% of sources as a business benefit in their own right.**

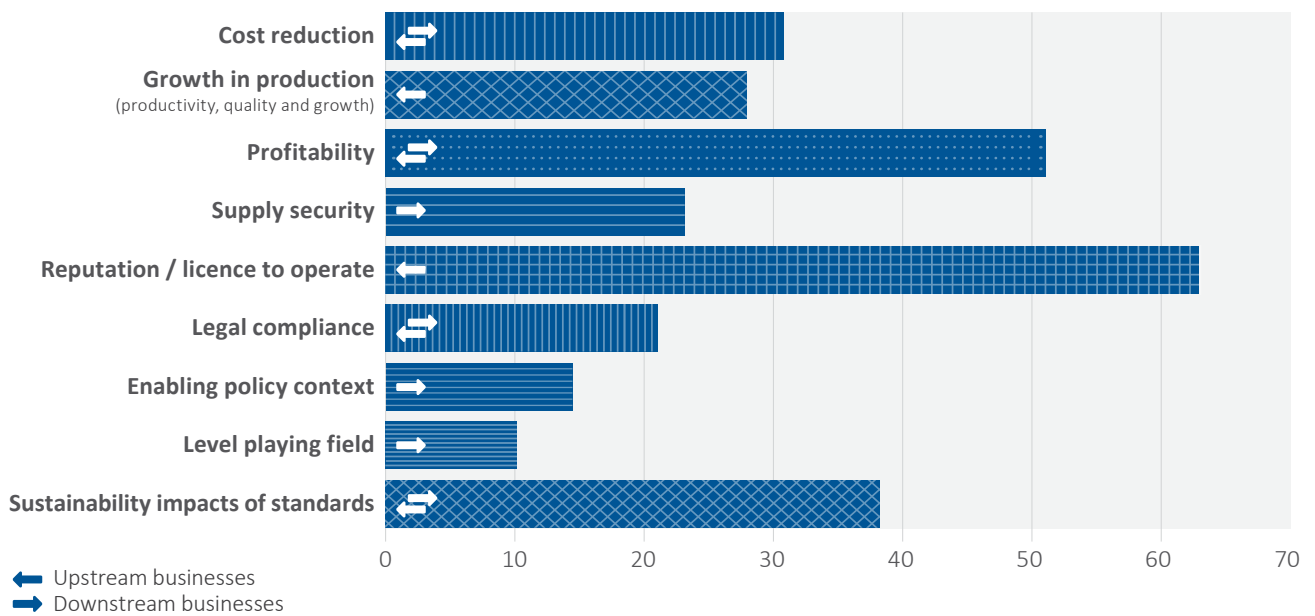
In several source documents a causal relationship between different types of benefits is identified (see matrix on next page). **They report final benefits in reputation, cost reduction and profitability to be the result of early benefits from at least four clusters.** Growth in production is primarily 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 create a more level playing field and enabling policy context.

Businesses also value the sustainability outcomes and impacts resulting from using standards as important benefits 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 are:

- Improved working conditions with positive impacts on worker's health and livelihood as well as 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 deliver sustainability impact, it undermines the potential reputational benefits for businesses that use that specific standard.

PROPORTION OF STUDIES REPORTING FINAL BUSINESS BENEFITS OF USING SUSTAINABILITY STANDARDS



Upstream businesses include large-scale producers, smallholder producer groups, primary processors in the country of origin. **Downstream businesses** include importers, processors, manufacturers, brands and retail in manufacturing / consumer countries.

PROPORTION OF SOURCES INDICATING A CAUSAL RELATIONSHIP BETWEEN A FINAL BENEFIT AND EARLY BENEFIT CLUSTERS

FINAL BENEFITS	EARLY BENEFIT CLUSTER					
	OPERATIONS	PROCUREMENT	SALES AND MARKETING	STAKEHOLDER ENGAGEMENT	SECTOR-WIDE CHANGE	NOT SPECIFIED
BUSINESS VALUE						
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%				
SUSTAINABILITY IMPACT	13%	13%		15%	8%	3%

THE BUSINESS BENEFITS OF USING SUSTAINABILITY STANDARDS

INFLUENCING FACTORS



INFLUENCING FACTORS

The review also looked at conditions under which business benefits from the adoption of sustainability standards materialise. The most important factors 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 and downstream businesses. Upstream businesses more frequently experience early benefits of 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 standards creating an enabling policy context.

Downstream businesses more frequently reported 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 the creation of a level playing field. Early benefits reported by businesses along the length of the supply chain (both upstream and downstream) include market access and access to finance, knowledge and services. Final benefits on cost reduction, profitability and reputation are also widely reported.

Other company characteristics that influence benefits are organisational performance, company size, diversity of product portfolio and market share. Smaller businesses may have high entry barriers (e.g. capacity or costs) to adopt standards which may negatively influence the business case. Larger and more successful businesses tend to have more market related benefits because they have already privileged access to the buyers and are better positioned to fulfil the demands of international markets. Businesses starting off from 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 mainstreamed as this reduces dependency on specific suppliers and allows for flexibility in sustainable sourcing.

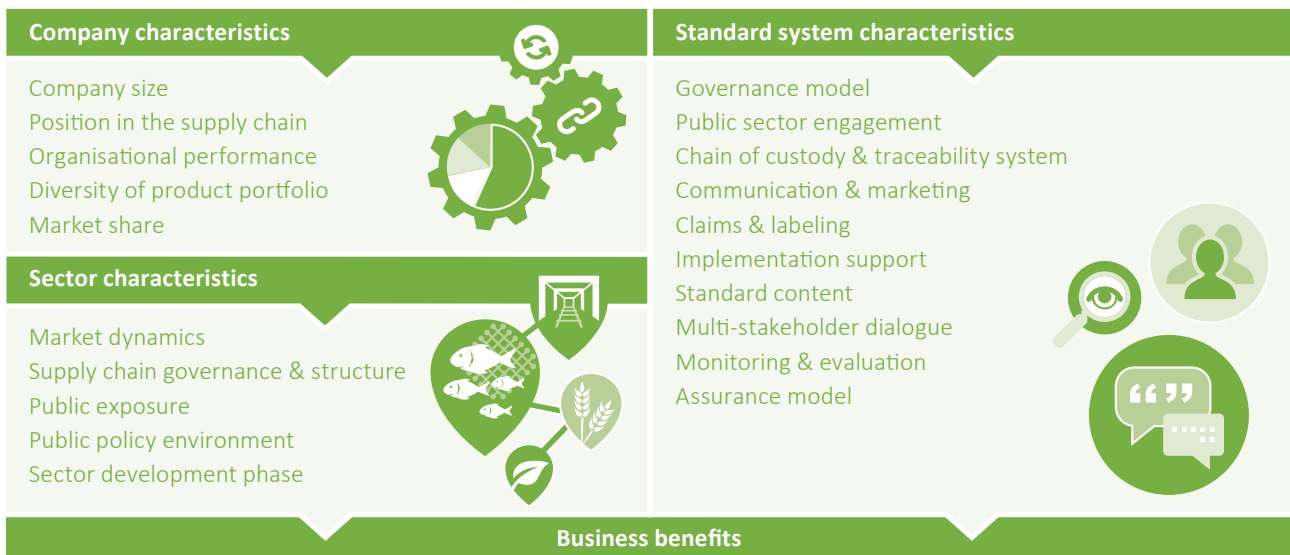


Figure II: Factors that influence whether business benefits materialise

SECTOR CHARACTERISTICS

The business benefits reported here span the agricultural, forestry, fishery and mining sectors, but within sectors there is a lot of variation.

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 jeopardise 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, the absence of clear public policies can make the added value of using standards seem even greater.

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.

STANDARDS SYSTEM CHARACTERISTICS

There is a direct relationship between the services and scope of a standards system and business benefits from using it.

Capacity building and funding provided by the standards system (or partners) can also contribute to improved operational efficiency reported 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 of sales and marketing, access to finance and reputation are closely linked to the credibility of 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 standards systems to promote marketing benefits.

Finally, systems that position themselves as multi-stakeholder platforms (such as a 'roundtable' constitution) and engage with the public sector can enhance benefits in terms of stakeholder engagement and sector-wide change.

CONCLUSION



CONCLUDING THOUGHTS

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 use of these standards can result in improvements to a business' operations, procurement, sales and marketing, stakeholder engagement and to sector-wide change as well. The early benefits of using standards can significantly strengthen its business value and sustainability impacts. Sustainability impact can support the business case 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 although businesses might expect standards to deliver such benefits consistently. Using standards can also introduce new limitations such as high compliance costs, greater 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 are highly context dependent.

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 reported benefits suggests that businesses can approach the choice of adopting standards more strategically. 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 operations, procurement, sales and marketing, stakeholder engagement and promoting sector-wide change.

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

STANDARDS 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 these standards experience 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. We recommend therefore that standards systems, or other research organisations, 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 benefits framework presented in this study. Standards could also include business benefits as a topic in their monitoring and evaluation systems.



A RESEARCH REPORT
BY AIDEN ENVIRONMENT
AND COMMISSIONED
BY THE ISEAL ALLIANCE

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