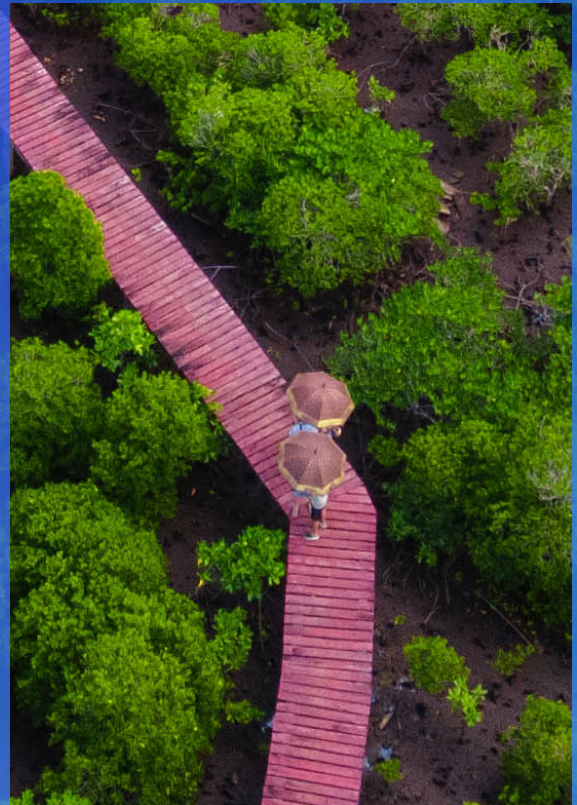




Sustainability standards and labels

Navigating the jungle

How to demonstrate purpose and create value by selecting the right sustainability standards and labels



A high-angle photograph of a man and a woman walking away from the camera on a wide, paved walkway. The man is on the right, wearing a white shirt and dark trousers, carrying a briefcase. The woman is on the left, wearing a white top and dark pants, carrying a red bag. The path is flanked by dense green foliage and trees. The scene is brightly lit, suggesting a sunny day.

Sustainability has become a powerful megatrend affecting businesses across sectors, driven by evolving regulation and behavioral changes in stakeholders such as investors, customers, and employees. Recent years have seen a proliferation of standards and labels that attribute specific properties along environmental, social, and governance (ESG) dimensions. We are aware of more than 300 of them worldwide, and counting.

This begs the question how companies should select the right standards and labels that create the most value for them in line with their sustainability strategy goals. In this paper, we share an overview of the jungle of sustainability standards and labels – and we set out an approach for companies to successfully navigate it.

Key insight 1

Embedding sustainability in corporate strategy has become more important than ever. Yet, as the ethical and commercial case for becoming more sustainable increases, so do concerns around greenwashing. In this context, there is a growing need for companies to be credible when they are "virtue signalling"; sustainability standards and labels are a powerful device to do so.

Key insight 2

But it's a jungle out there. There are over 300 sustainability labels with varying scopes. This makes it difficult for companies to select the right labels for them, and for consumers to understand what different labels represent.

Key insight 3

Label selection should be directly linked to a company's ESG strategy. Going through certification consumes time, money, and management resources. It is therefore important for firms to carefully choose labels and certificates. They should think about the standards and labels in the context of their overarching ESG strategy.

Key insight 4

We propose a six-dimensional framework to select the right label. The framework consists of (1) the audience being targeted, (2) the material areas the company wishes to address, (3) the scope of certification it wishes to obtain, (4) the desired rigor of verification, (5) potential sector specificity, and (6) the geographic region in which it would like the label to be recognized.

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The time is now – sustainability labels have never been more important

Sustainability has become a significant area of focus for businesses across sectors. Worldwide, many jurisdictions have implemented or further advanced draft legislation that will have profound implications on the adoption of more sustainable business practices. At the same time, key stakeholder groups place a greater emphasis on a business’s sustainability performance – from investors (Figure 1) to employees (see Figure 2) and consumers (see Figure 3).

Figure 1:
As an investor, how much would you be willing to pay more for a target company that demonstrates a high level of ESG maturity in line with your ESG priorities?¹

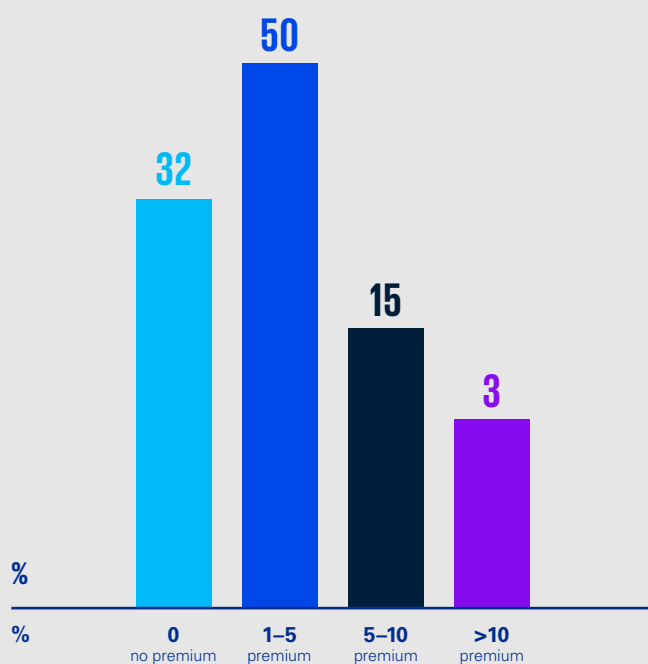
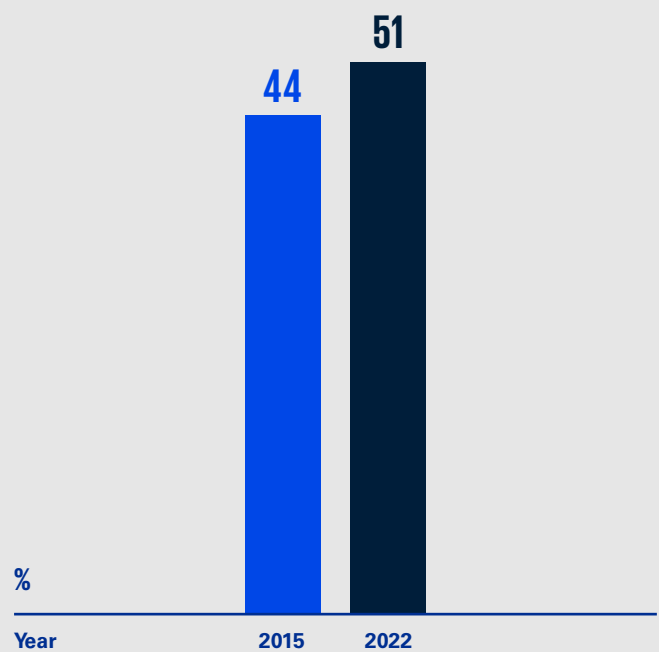


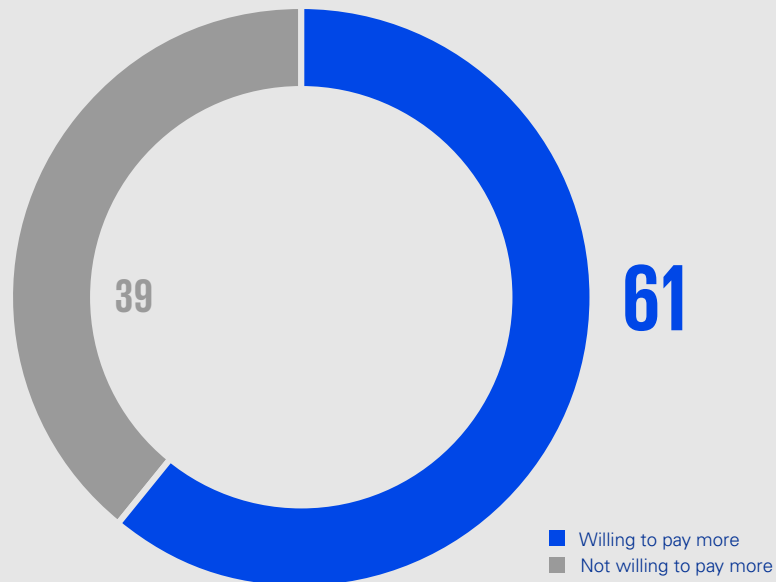
Figure 2:
Percentage of business school students willing to accept a lower salary to work for a company with better environmental practices²



¹ Based on a KPMG study of 150 active dealmakers across Europe, the Middle East and Africa:
<https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/11/ema-esg-due-diligence-report.pdf>

² Based on a recent study by Yale University and the Global Network for Advanced Management of 2,000 business students globally:
https://cbey.yale.edu/sites/default/files/2022-02/Rising%20Leaders_2022%20_Final.pdf

Figure 3:

Percentage of consumers willing to pay more for sustainable products³

These developments have reinforced the priority of the topic for many business leaders, with those who choose to ignore the topic doing so at their own peril. Many businesses have made public pledges on environmental, social and governance (ESG)-related goals, developed an ESG strategy of how to reach these goals – and have started to communicate their claims of ESG-related achievements publicly.

In this environment of increasing stakeholder demand for sustainability, evolving regulation, and a general “ESG arms race” by businesses in response, it is not surprising that greenwashing has become a paramount concern. There are plenty of examples of companies that have overstated their ESG credentials, either purposefully or inadvertently. In early 2021, research by the European Commission and national consumer authorities into companies’ green claims on their websites found that “in 42% of cases the claims were exaggerated, false or deceptive.”⁴ Recent research has also shown that consumers are aware of this and punish greenwashing companies for their failures.⁵

Credible signaling of a business’s ESG virtues has never been more important, therefore. Sustainability standards, labels and certifications (sometimes also referred to as ecolabels or ESG labels and jointly referred to in this document as sustainability labels for ease of reading) are key tools to do so. They enable a company to quickly convey to relevant stakeholder groups that its products, services or processes meet certain sustainability standards. They are an increasingly valuable tool to differentiate a company or product in the market.

³ Based on a KPMG study of 30,000 consumers across 11 countries:
<https://home.kpmg/xx/en/home/insights/2022/08/me-my-life-and-my-wallet-sector-deepdive.html>

⁴ https://ec.europa.eu/commission/presscorner/detail/en/ip_21_269

⁵ <https://hbr.org/2022/07/how-greenwashing-affects-the-bottom-line>

Table 1

	Lever	Key questions to consider (examples)	Labelling implications
Financial model What to aim for and why?	1 Financial & strategic ambition	<ul style="list-style-type: none"> • What is your strategic ambition with regard to ESG? In particular, are you looking to just “be compliant” with changing regulation – or are you aiming for more, e.g. using ESG as a driver of competitive advantage, or even making it the main purpose of your company’s existence? • Are you planning to use ESG to drive financial and commercial value for your business? • Do your investors and lenders have a particular view on which sustainability labels will drive most value for them? Do they require specific certifications for any investment or lending facilities to comply with their policies? 	<ul style="list-style-type: none"> • Higher levels of ESG ambition may justify larger investments in obtaining more robust sustainability labels • Using ESG to drive financial value may require the selection of labels that are particularly relevant to the respective stakeholder groups • Investor needs may influence the label you choose to pursue
Business model Where to play?	2 Markets & competition	<ul style="list-style-type: none"> • Will ESG change the sectors or customer types you will serve? • Which sustainability labels and certifications are relevant in the markets in which you (aim to) operate? • What ESG strategy is your competition pursuing? Are there any signs of what sustainability labels they are pursuing as signalling devices? 	<ul style="list-style-type: none"> • Different sectors and customer types may require different sustainability labels to be effective • Understanding your competition will help you select a labelling strategy that is differentiated
	3 Propositions & brands	<ul style="list-style-type: none"> • Are you planning to use any ESG-related claims to differentiate your products/brands? • Are consumers willing to a premium for products/brands with such characteristics? 	<ul style="list-style-type: none"> • A need to differentiate a product to customers requiring a specific type of label • Consumer willingness to pay may indicate the level of labelling investment that is economical
	4 Customers & channels	<ul style="list-style-type: none"> • Will ESG-related developments impact your sales channels such as interactions with distributors? If so, what are their needs for ESG transparency towards them? • Will ESG change the customer segments you serve? What are your key customer segments’ ESG-related desires? 	<ul style="list-style-type: none"> • Specific desires from customers and sales channel partners may inform the choice of the appropriate ESG label

Table 1 continued

	Lever	Key questions to consider (examples)	Labelling implications
Operating model How to win?	5 Core business processes	<ul style="list-style-type: none"> Which of your core business processes are most critical in relation to your ESG performance, both from your point of view and that of your key stakeholders? 	<ul style="list-style-type: none"> Certain processes may deserve process-specific certification
	6 Technological & operational infrastructure	<ul style="list-style-type: none"> Which of your infrastructure assets are most critical in relation to your ESG performance, both from your point of view as well as from that of your key stakeholders? 	<ul style="list-style-type: none"> Certain assets may deserve specific asset-level certification
	7 Structure, governance & risk controls	<ul style="list-style-type: none"> What are the key governance risks you face in your company? Overall, how important is the G aspect within your overarching ESG strategy? Is your sustainability label focus towards showing good governance externally – or do you wish to use labels as a preventive measure to unearth and control certain governance-related aspects? 	<ul style="list-style-type: none"> If certain governance aspects are considered material as part of your ESG strategy, this may suggest specific labels or certificates
	8 People & culture	<ul style="list-style-type: none"> Is ESG relevant to attract and retain talents (e.g. equal pay, diversity and inclusion)? Will your ESG ambition require recruiting new types of talent that may have a different view on ESG than the existing workforce? 	<ul style="list-style-type: none"> If (future) employees place emphasis on ESG matters, this may suggest a specific list of labels or certificates
	9 Measures & incentives	<ul style="list-style-type: none"> What are the key ESG-related KPIs in your ESG strategy? How are you incentivizing your organization to achieve them? Can sustainability labels play a role in driving the achievement of these outcomes? 	<ul style="list-style-type: none"> The successful pursuit of certain labels and certifications may drive progress on your key ESG priorities

Working through questions such as the ones in Table 1 will help companies identify and prioritize the key characteristics a label will need to fulfil to make sense in light of the company's overall ESG strategy and investment appetite.

In the following chapter, we elaborate further on how these insights can then be used to identify the best specific sustainability labels.

We propose a six-dimensional framework to select the right label

Sustainability labels have been created for different intents and purposes. Depending on the state, needs and ambitions of the business, some are more suitable than others. If a company's ESG ambition is to "just be compliant with emerging regulation," minimum requirements might just be enough for the moment. However, if the committed ambition is to embark on a true ESG transformation and there is a desire to make this visible to credibly differentiate the company in the market, more rigorous sustainability labels may be appropriate.

In this section, we present a framework to select the right label(s), making use of the information derived from consulting the ESG strategy as per the previous chapter. In particular, we propose a six-dimensional framework to select the suitable sustainability label(s), taking into account:

- 1 The **stakeholder audience** being targeted
- 2 The **material areas** the company wishes to address with the label
- 3 The **scope of certification** it wishes to obtain
- 4 The **rigor of verification** of (and effort required to obtain) the label
- 5 Whether the company is looking for **sector specificity** in the label
- 6 The **regional recognition** of the sustainability label



1

Stakeholder audience

It is important to consider the target stakeholder audience that you expect to recognize and value the label. ESG labels are used in both B2B and B2C environments, and you should opt for the ones which achieve the most impact with the stakeholder groups you are targeting.



Key question

To which stakeholder group are we attempting virtue signalling?

B2C

- Consumers
- Employees

B2C

- Customers
- Suppliers
- Investors
- Government & Regulators
- NGOs

2

Material areas

Different sustainability labels are created to address different material issues and risks.

It is important to be clear on which material area you are trying to demonstrate good performance in – considering the target stakeholder audience and their key concerns you are trying to alleviate through the label.



Key questions

Which material area(s) are you trying to address? Is this the area of key concern for your target stakeholders?

Environment

- Climate
- Biodiversity
- Deforestation
- Water
- Hazardous materials
- Energy efficiency

Social

- Fair wages
- Child labor
- Conflict minerals
- Data Security
- Employee Health & Safety
- Diversity & inclusion
- Responsible AI
- Equal opportunity

Governance

- Bribery & corruption
- Tax transparency
- Lobbying & political contributions
- Whistleblowing
- Executive pay

3

Scope of certification

Sustainability labels differ in scope – for example, they can apply to the product level (e.g. Fairtrade, Rainforest Alliance, etc.), process level (e.g. certain ISO standards), asset level/site level (e.g. LEED, BREEAM, etc.) or company level (e.g. B-Corp, Ecovadis, etc.).



Key question

Which certification scope is relevant to our target stakeholder group?

- Product level^a
- Process level
- Asset/site level
- Company level

^a Product-level labeling can focus on the entire life cycle of a product or on only specific life cycle phases

4

Rigor of verification

Sustainability labels can be awarded by a range of bodies, depending on the standard's requirements. This can range from self-assessment to 3rd party certification. A 2nd party verification refers to assurance awarded by a group to which the organization belongs or the standard setter, but where there is no 3rd party involved. A 3rd party certification refers to certification by an independent, accredited certification body aligned with rules developed by the standard owner, or incorporated into regulatory frameworks.

Your company will need to meet the requirements set out by the standard as well as the verification requirements such as documentation and an annual audit. These audits are normally in cycles: a full audit, two years of surveillance, then another full audit.

The type of certification body you are aiming for will have a double-edged impact: generally, 3rd party-assured labels tend to be more rigorous than self-assessed ones, implying higher credibility and potential differentiation on the one hand, but also increased effort and resource needs to obtain certification on the other hand. In particular in light of increasing greenwashing concerns, an increasing share of companies are beginning to see the value of more rigorous 3rd party verification.



Key questions

Do my target stakeholders require 3rd party certification to trust our claim? If so, which company can provide such certification? What are the cost and effort implications? For how long will their certificate be valid and what are the requirements for maintaining the certificate?

-
- Self-assessment
 - 2nd party certification
 - 3rd party certification

5

Sector specificity

Sustainability labels differ in their sector specificity. Some labels attest to ESG areas that are particular to a specific sector, while others are sector-agnostic.



Key question

To have the desired impact on my target stakeholders, does my label need to be sector specific – or is a sector-agnostic, potentially more widely known label more impactful?

-
- Sector specific
 - Sector agnostic

6

Regional recognition

It is important to be aware of the regional recognition of sustainability labels. Depending on the region, certain sustainability labels may be more widely accepted and have more recognition than others. Understanding the regional recognition and acceptance of sustainability labels can help you make the best decision for your business when selecting and promoting the right label for your products and services.









Key question

What are the most widely recognized and accepted sustainability labels in my region?

-
- Country A
 - Country B

Table 2 presents illustrative examples of how KPMG’s framework can be applied to assess the applicability of a number of well-known sustainability labels.¹⁰

Table 2

Example use case	Audience	Material area	Scope	Verification	Sector	Potentially suitable label
“Demonstrate the appropriateness of our company’s environmental management system (EMS).”	Customers (B2B) & Suppliers (B2B)	Environmental & Governance	Company level or process level	3 rd party	Sector agnostic	ISO 14001/ EMAS 
“Demonstrate to consumers that our product is fair, end to end, all the way to the origins of it in developing countries.”	Consumers (B2C)	Social (e.g. fair wages & child labor) & Environmental	Product level	3 rd party	Sector agnostic	Fairtrade 
“Demonstrate to consumers that our products and offerings are produced in an environment that ensures environmental protection, worker well-being, and responsible business practices.”	Consumers (B2C)	Environmental (e.g. biodiversity, natural landscape) & Social (equitable working conditions, support for local communities)	Product level	3 rd party	Sector agnostic	Rainforest Alliance 
“Demonstrate to our investors that our climate commitments are credible.”	Investors	Environmental (climate / greenhouse gas emissions)	Company level	Self-assessment with verification	Sector agnostic	Science-based targets 
“Demonstrate to our investors that sustainability topics are reported transparently.”	Investors	Environmental (e.g. climate change, forests and water security)	Company level	Self-assessment with verification	Sector agnostic	CDP A-List 
“Demonstrate to office tenants that a real estate project meets high environmental sustainability standards.”	Tenants (B2B customers)	Environmental (climate)	Asset level	3 rd party	Sector specific (Real Estate)	LEED/ BREEAM 

¹⁰ Important: This table is neither complete nor constitutes a recommendation for any particular label or certifying institution. Rather, it illustrates how the framework we propose for evaluating a suitable label can result in a specific selection of internationally well-known labels.

Table 2 continued

Example use case	Audience	Material area	Scope	Verification	Sector	Potentially suitable label
“Demonstrate that seafood is sourced with sustainable fishing practices.”	Consumers (B2C)	Environmental (e.g. biodiversity, prevents overfishing, ecosystem conservation)	Product level	3 rd party	Sector specific (Seafood)	Marine Stewardship Council 
“Demonstrate compliance with EU legislation on organic products.”	Consumers (B2C)	Environmental (e.g. absence of use of chemical and synthetic products)	Product level	3 rd party	Sector specific (Agricultural products)	EU Organic 
“Demonstrate that the product was made from responsibly-harvested trees.”	Consumers (B2C)	Environmental & Social (e.g. zero deforestation, fair wage and work environment, conservation and community rights)	Product level	3 rd party	Sector specific (Forestry)	Forest Stewardship Council 
“Obtain a wide-ranging, general sustainability label to help buyers, suppliers, employees and other stakeholders get a holistic view about the depth of our sustainability impact, with clear and legally-binding and management commitments.”	Consumers (B2C)	Environmental, Social, and Governance (broad across categories)	Company level	3 rd party	Sector agnostic	Certified B Corporation 
“Obtain a wide-ranging, general sustainability label to help buyers and other companies get a quick and holistic view of whether we are a sustainable company.”	Customers (B2B)	Environmental, Social and Governance (e.g. fair wages and labor rights)	Company level	2 nd party ¹¹	Sector agnostic	Ecovadis 

¹¹ 2nd party certification refers to certification by an association to which the individual or organization being certified belongs.

How KPMG can help

In sum, we believe the key to making the right choice of a sustainability label actionable lies in deriving it directly from your ESG strategy. To facilitate this, we proposed a six-dimensional framework. KPMG firms can support your organization along the entire journey of picking your most appropriate sustainability labels. Ultimately, every company is unique and has its own sustainability goals. For this reason, our advice will always be tailored to your individual case. In general, however, KPMG practitioners can help your ESG labelling process by:

- 1. Assisting you in developing or refining your corporate ESG strategy,** in case no sharp ESG strategy is in place at the corporate level to guide your label selection. This may include assisting you in developing an overall ESG ambition, identifying material areas, understanding the current state in each of these areas, articulating a desired future state, and deriving the key initiatives required to get there (including sustainability labels).
- 2. Assisting you in identifying the role of sustainability labels within an existing ESG strategy framework.** This may include researching the changing needs and expectations of your key stakeholder groups (e.g. investors, customers, suppliers, etc.), identifying opportunities to create commercial value through labeling, or benchmarking your organization against how your competitors apply sustainability labels and certificates.
- 3. Assisting you in selecting the right labels** for your specific purpose, by applying the framework presented in this paper as well as our extensive experience in working with these labels across different countries and sectors.
- 4. Guiding you through the certification process,** for example by translating the respective label's generic standards into practical documentation needs based on our experience of working with other organizations to successfully pursue the respective label or by assisting you in collecting the necessary information that the certification requires.
- 5. Assisting you in incorporating sustainability labels into your brand positioning:** Once you have obtained the desired label, you will need to position it in your brand (internally and/or externally) in order to maximize the anticipated benefits of being allowed to carry the label. This may mean the design of the proposition portfolio, targeted communications releases upon getting certified, changes to your product packaging or sales materials, and more. KPMG can assist you in devising a customized brand positioning plan.
- 6. Assuring disclosures in the annual report:** If you choose to report publicly on certification or certification of suppliers and/or volumes purchased under a specific label, KPMG can provide 3rd party assurance on such disclosures.

How can KPMG help your organization in your unique situation?
To find out, please contact your local KPMG firm or any of the authors listed at the back of this publication.

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