

Which eco-labels deliver what they promise?



With more than [450](#) eco-labels worldwide, consumers have greater access to information about which products offer superior environmental attributes. However, consumers often do not know the meaning behind a particular eco-label. For example, the European Union (EU) [Flower](#) is Europe's most widely recognised eco-label. Yet [40 per cent](#) of United Kingdom residents state that they do not know its meaning. Fewer consumers understand the "rules," or expectations that a product must meet in order to obtain this eco-label, let alone the rules required for lesser known ones, such as "[Global Green Tag Certified](#)" or "[Cradle to Cradle Certified](#)."

These issues are important. Some eco-labels offer more environmental benefits than others because of the way they are designed. For instance, some are designed with rules stating that a product must meet a specific environmental performance standard, whereas others do not have clear performance standards. Similarly, some eco-labels require specific monitoring and conformance procedures to ensure products meet the label's standards, while others do not. Products bearing eco-labels with stronger rules are more likely to improve the environment than eco-labels with weaker rules.

So how does a consumer decide which eco-labels are more likely to improve environmental outcomes?

In [a recent study](#), we find that an eco-label's sponsor can provide a useful cue for consumers looking to determine the strength of its rules. Since information about sponsors is more widely accessible to consumers than details about an eco-label's rule structure, sponsorship may help consumers determine which ones are more likely to deliver on their stated environmental benefits.

We focus on three types of eco-label sponsors: industry associations, government entities, and independent organisations (which include environmental nonprofits and standard setting organisations). We limit our study to the 352 eco-labels in [OECD countries](#). Of these, we use survey data and data from [Ecolabel Index](#) to assess the rules for 189 of them and analyse the extent to which the rules differ across the three sponsors.

Our analyses reveal that sponsors design their eco-labels differently, as shown in Figure 1:

Figure 1. Percentage of eco-labels containing specified rule by sponsor

		Industry	Independent	Government
Environmental Performance Standards	• Specific performance metrics or data	93%	79%	90%
	• Performance assessment requirement	46%	70%	71%
	• Performance improvement over time	44%	62%	61%
Monitoring Requirements	• Third party audit	49%	64%	68%
	• Third party certification	54%	68%	55%
Conformance Requirements	• Corrective action reports	68%	80%	65%
	• Public reporting	24%	38%	36%

1. *Independently sponsored eco-labels have the strongest rules*

Compared to industry sponsored eco-labels, independently sponsored ones more frequently require environmental performance assessments, environmental improvements over time, third-party audits, and third-party certification. Additionally, even compared to the government ones, independently sponsored eco-labels more frequently require third-party audits and corrective action reports. Possible explanations for this are that environmental nonprofits' missions are to improve the natural environment and their funding depends on achieving their missions. Similarly, standard setting organisations cannot survive if their labels lack credibility and so they have a strong incentive to protect the value of their brands.

2. *Industry sponsored eco-labels have the weakest rules*

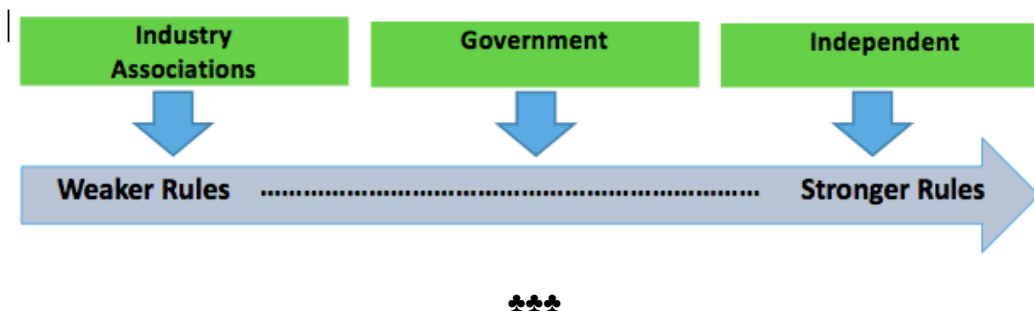
Industry sponsors tend to design their eco-labels with weaker rule structures. Compared to government and independent sponsored eco-labels, industry-sponsored ones less frequently require both environmental assessments and third-party audits. Industry-sponsored eco-labels further differ from independent sponsored ones in that they are less likely to require environmental performance improvements and third-party certification. While industry eco-labels are more likely to require the collection of environmental performance data, this is a weaker rule than requiring environmental improvements over time. These results are likely because industry sponsors have an incentive to create eco-labels that market their members' products without incurring the costs associated with environmental improvements.

3. *Government sponsored eco-labels have rules that lie somewhere in-between*

On one hand, government sponsors prefer to develop labels with strong rules to achieve significant environmental improvements. On the other, government eco-labels are judged based on the number of firms that use them on their products. This leads to a negotiated outcome when it comes to government sponsored eco-label rules. Compared to industry sponsors, government sponsors are more likely to incorporate stronger rules requiring environmental assessments of eco-labelled products and third-party audits. However, compared to independent sponsors, they tend to design their eco-labels with weaker monitoring and conformance rules in that they less frequently require external third-party certification and corrective action reports.

Figure 2 shows overall patterns of eco-label rules across different types of sponsors. Given these differences, consumers therefore may use sponsorship information as an important cue to determine which eco-label is more likely to promote improved environmental performance outcomes.

Figure 2. Differences among eco-label design rules by sponsor



Notes:

- This blog post is based on the authors' paper [Institutional design of ecolabels: Sponsorship signals rule strength](#), published in *Regulation & Governance*.
- The authors thank Ecolabel Index for providing data that contributed to this research.
- The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.
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