



The sustainability reporting journey of Swiss luxury watchmakers

A close look at the Swiss luxury watch industry's sustainability scorecard and the role innovation plays in addressing related consumer expectations

The theme of sustainability has gained momentum in recent years as companies are pushed by regulatory pressure to step up their sustainability initiatives and transparency on all three pillars of ESG (environmental, social, and governance). In 2018, the WWF analyzed the maturity of the 15 biggest Swiss watch companies in relation to sustainable processes, governance, and initiatives. The results showed that most of the reviewed companies communicated very little about their ambition to become more sustainable or did not even communicate at all. In October 2022, KPMG watch and luxury experts reviewed the progress of sustainability initiatives, social media sentiment and news coverage related to the sustainability activities of the 15 brands from the 2018 WWF report. The review showed that most of the 15 brands have online content dedicated to sustainability on their brand websites, but not all the brands are sufficiently transparent on the environmental impact of their supply chain. Further, the social media sentiment analysis suggests that consumers' desire to purchase a luxury watch might not be triggered by the sustainability efforts of the brand. However, the consumer might forgo the purchase of the watch when the brand is perceived as not active in sustainability efforts.



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INTRODUCTION

In its 2018 report, *A precious transition – demanding more transparency and responsibility in the watch and jewelry sector*, WWF Switzerland ([Grunr18]) analyses the ecological and societal impacts of the 15 leading Swiss watch manufacturers and presents examples of how they could improve their environmental footprint. The results were categoric: the majority of corporations in the watch and jewelry industry were either non-transparent or didn't appear to have deep aspirations to improve their sustainability. For this industry to catch up, WWF Switzerland made the following recommendations for manufacturers and underlined the power that consumers have to initiate the change in this industry:

- Improve the value chain's transparency
- Source responsible raw materials
- Embrace sustainability in the company's practices
- Report on pertinent sustainability issues in public
- Work together with other players in the industry
- Innovate for circularity

Quantifying the actual benefits for companies that are committed to sustainability is in many cases not straightforward. Although the impact on brand value and consumer opinions can be immediate, the financial benefit might only come in the long term. Our watch and luxury industry experts assessed the progress of sustainability initiatives, social media sentiment and news coverage related to ESG (Economic, Social and Governance) activities of these brands. Further, the article highlights areas of focus that can enable the luxury watch brands to drive their sustainability agendas. We analyzed primary and secondary data for the purpose of this article.

WAS THERE ANY PROGRESS SINCE 2018?

In October 2022, the (international) websites of each of the 15 watch brands that were part of the original scope of the 2018 WWF Report (Figure 1) were visited and analyzed. The 15 brands in scope of the WWF report include:

- Richemont Group: Cartier, IWC, Piaget, Vacheron Constantin and Jaeger LeCoultre
- Swatch Group: Omega, Longines, Tissot, Swatch and Breguet
- LVMH Group: Tag Heuer
- Independent brands: Rolex, Audemars Piguet, Pathek Philippe and Chopard

The purpose of the online review was to learn of the progress made by these brands in the transparency of their supply chain, their use of responsible materials and the integration of sustainability into their business practices. This approach was designed to accommodate

the behavior of an environmentally conscious consumer whose decision to buy a watch from one of the 15 brands is influenced by whether the brand would meet good environmental standards. What we learned from the brands' websites shows mixed signals of improvement since 2018. Where some brands openly communicate the governance, policies and processes they have in place to reduce their climate impact and increase transparency on the sourcing of materials, others continue to lack transparency and appear to have little aspirations to improve their sustainability. Only 8 of the 15 brands we looked at have an established a specific sustainability page in their websites.

Communication

The websites of Richemont, Swatch and LVMH have a dedicated page for sustainability and the companies also publish a sustainability report, in accordance with the Global Reporting Initiative (GRI) standards. Most of the information in the groups' reports applies to the brands the groups own and is thorough and very informative. However, although the websites of the individual Richemont brands have dedicated pages for sustainability with comprehensive information, most of the relevant data is consolidated at group level with few sustainability use cases illustrated for the individual brands. IWC is the only brand we observed that has

published its own sustainability report, separate from, although in alignment with, the group (Richemont). Omega reports some information on the Responsible Jewelry Council and the Kimberley Process whereas Audemars Piguet's reports on its commitments to sustainability. Chopard also has a dedicated webpage concerning sustainability.

Business practices

Except for some of the 15 brands, sustainability governance, policies, clear roles and responsibility and a reporting line to the Board, are presented in the brands' websites or can be inferred from the groups' sustainability reports. Governance would typically include the establishment of a sustainability steering committee, or equivalent, the figure of a Chief Sustainability Office, or equivalent, as well as sustainability teams and officers at different levels of the organization. Governance and risk assessment frameworks are well-illustrated in the sustainability websites for Chopard, IWC and Audemars Piguet.

Further, two-thirds of the 15 brands are members of the Responsible Jewelry Council (RJC) and are certified by the Council's Code of Practices (CoP). Achieving certification on Code of Practices demonstrates a brand's commitment to responsible sourcing and promotes transparency and traceability in a brand's supply chain. These brands

Figure 1. WWF assessment of 15 leading Swiss luxury watch makers, 2018.

Company	Active Participation in Rating Process	Overall score environmental rating																
			Governance structure & policies	Due Diligence	Materiality analysis & target setting	Monitoring & reporting	GHG emissions (inventories, reduction targets, etc.)	Waste management and product packaging	Sustainable procurement	Traceability & emissions of transportation	Environmental impact of products	Transparency and certification of raw materials	Environmental certification and % coverage of certified raw materials	Sourcing & environmental projects for raw materials	Capacity building of suppliers	Engagement with employees	Customer awareness on sustainability impacts	Membership in business initiatives for sustainability
			visionary															
			frontrunner															
			ambitious															
			upper midfield															
			lower midfield															
			latecomers / non-transparent															
Audemars Piguet			non-transparent															
Breguet			non-transparent															
Cartier	X		upper midfield															
Chopard			lower midfield															
IWC	X		ambitious															
Jaeger-LeCoultre	X		upper midfield															
Longines			non-transparent															
Omega			non-transparent															
Patek Philippe			non-transparent															
Piaget	X		upper midfield															
Rolux			non-transparent															
Swatch			non-transparent															
TAG Heuer	X		lower midfield															
Tissot			non-transparent															
Vacheron Constantin	X		upper midfield															

have in fact established supply chain policies, sourcing policies in compliance with the OECD Due Diligence for Responsible Business Conduct for precious metals, as well as supplier codes of conduct to which their suppliers are required to adhere. The Richemont, Swatch and LVMH have also listed the Sustainable Development Goals (SDGs)¹ they have committed to and their associated timeline for implementation. They have also mentioned their performance of Life Cycle Assessments (see Box 1) in their sustainability reports.

Following the global RJC CoP certification, the next major milestone in the sustainability reporting journey of a watch or jewelry brand is the RJC Chain of Custody (CoC) certification. This certification provides assurance to consumers on how a brand's products and materials have been sourced, traced and processed through the supply chain. Adherence to CoC standards is ensured through ongoing independent audits. Across the 15 brands in scope, we found mentions of a CoC certification at IWC, Vacheron Constantin, Omega and Audemars Piguet.

Climate neutrality

Greenhouse Gas Emissions (GHG) measurement (Scope 1, 2 and Scope 3 of the establishment) and targets for carbon footprint reduction are comprehensively reported in the sustainability reports of Richemont, the Swatch Group and LVMH. The measurements reflect a varying degree of maturity from established emission targets for Scope 1 and 2, to targets still being defined

¹ The United Nations 2030 Agenda for sustainability (UN15) includes 17 SDGs, which form the international and universally applicable framework for sustainable development.

and implemented for Scope 3 emissions. Most of this information is reported on a consolidated basis and breakdowns for the individual brands are not available, except for some examples of initiatives and efforts at brand level. Richemont, Swatch Group and LVMH are also committed to the Science-based Target Initiative (SBTi), which provides target setting methods and guidance to companies to set science-based targets in line with the latest climate science (wri.org). Brands like Cartier, Piaget, Vacheron Constantin and IWC claim to reach carbon neutrality through the offsetting from the funding of environmental projects, other brands like Jaeger LeCoultre and Chopard have reported 40% reduction in their carbon footprint.

The environment

Most of the brands are fairly vocal about their contribution to preserving the environment and promoting biodiversity. Efforts in this area are focused on the brands' headquarters, production sites and boutiques and vary with different degrees in the use of 100% renewable energy, the use of solar panels and circular water systems, chemical wastewater and scrap metals disposed by independent third parties, the elimination of single-use plastic bottles, the availability of sustainable transport for employees, boutiques with LED lights and with LEED status (Leadership in Energy and Environmental Design), a green building certification program used worldwide.

The majority of the brands have also changed or are in the process of changing their packaging to more sustainable materials. For example, packaging made of paper foam that is compostable and recyclable as well as packaging that is compliant with the Forestry Stewardship Council

Figure 2. The Audemars Piguet Manufacture des Forges building, which opened in Le Brassus in 2008, was the first Minergie-ECO® certified industrial site in Switzerland (source: Audemars Piguet).



Box 1. Life Cycle Assessment (LCA) ([Swat22])

Choosing a sustainable design strategy is an essential part of product development. Based on the results of life cycle assessment, a comparison can be made between the environmental impacts of different materials, products or processes that perform the same function and have the lowest environmental impact throughout their life cycle are selected. The LCA is also used to identify opportunities for improving the environmental performance of the company's products, including packaging, at different stages of their life cycle. This means that informed decisions can be made in new developments with regard to the procurement of raw materials, the selection of processes, end-of-life treatment, etc.

(FSC)² and the Programme for the Endorsement of Forest Certification (PEFC)³, or other sustainable packaging solutions which follow the OEKO-TEX Standard 100⁴.

Sourcing materials

For the Richemont brands, the Swatch Group, Tag Heuer and Chopard confirmed in their sustainability reports that the diamonds they purchase are compliant with the Kimberley Process Certification⁵, so brands communicate the commitment to the removal of conflict diamonds from their supply chains. For the Richemont brands and Chopard, we also found evidence of their adherence to the System of Warranties (SoW) from the World Diamond Council, which ensures that all diamonds traded are Kimberley Process compliant and have also been handled in accordance with universal principles of human rights, labor rights, anti-corruption and anti-money laundering. The SoW is applied each time the ownership of any natural diamond changes hands within the industry, both when exported or imported and when being sold in the same country.

As for the sourcing of gold, 99.6% of the gold purchased by the Richemont brands is CoC certified. Audemars Piguet reports 100% of the gold purchase as certified by an independent party and Chopard reports the use of 100% ethically produced gold (i.e. from RJC CoC certified suppliers and from artisanal mined gold produced in an responsible way).

With regard to the sourcing of materials for their watch straps, both Richemont and the Swatch Group communicated their adherence and that of their brands to the International Crocodilian Farmers' Association (ICFA) as well as to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), an

international agreement between governments, aiming to ensure that international trade in specimens of wild animals and plants does not threaten the survival of the species. Several brands are experimenting or are already offering straps made of vegan alternatives, recycled, recyclable, compostable, as well as bio-based materials.

How sustainability is driving innovation

Research ([Llor21]) shows innovation and sustainability are often two highly connected topics. Innovation can be a key enabler for companies to achieve their sustainability goals and this equally applies to the watch industry, where watch companies work to integrate sustainability in their business practice ([Yum21]).

In 2022, Swatch launched a new watch collection called the MoonSwatch, which combined the iconic Omega Speedmaster Moonwatch design elements with "Bioceramic", an innovative material. Bioceramic is made up of two-thirds ceramic and one-third castor oil extract, a vegetable oil pressed from castor seeds. The MoonSwatch is one example of the several innovative approaches that Swiss brands have come up with in recent years, to meet the demand for more sustainable products, from the younger generations of consumers. A trend which has led to some fascinating innovations (see Box 2 on the next page).

For example, nowadays, watch cases can be made with titanium produced from scrapped aircraft parts, recycled precious metals, or from recycling or upcycling plastic bottles collected from the ocean. There are also brands that offer watch movements assembled using restored

Figure 3. The MoonSwatch in the "Earth" variant (source: Swatch).



2 FSC certification ([FSC22]) ensures that products come from responsibly managed forests that provide environmental, social and economic benefits.

3 The PEFC ([PEFC22]) is a leading global alliance of national forest certification systems. As an international non-profit, non-governmental organization, we are dedicated to promoting sustainable forest management through independent third-party certification.

4 STANDARD 100 by OEKO-TEX® ([OEKO22]) certified products have been tested for harmful substances to protect your health. This label certifies that every component of the product, from the fabric to the thread and accessories, has been rigorously tested against a list of up to 350 toxic chemicals.

5 The Kimberley Process (KP) ([Kimbo2]) is a multilateral trade regime established in 2003 with the goal of preventing the flow of conflict diamonds. The core of this regime is the Kimberley Process Certification Scheme (KPCS) under which States implement safeguards on shipments of rough diamonds and certify them as "conflict free".

Figure 4. The Solar Oven in the French Pyrenees (source: Panatere SA).



Box 2. Production of sustainable raw materials by Panatere ([EPHJ21])

A Swiss company based in Saignelegier, Panatere is a pioneer in the production of sustainable raw materials. The company specializes in the production of 100% recycled and recyclable stainless steel, which is locally sourced from scrap steel from companies in the watchmaking or medical industry operating in the Swiss Jura region. The carbon footprint of Panatere's recycling process is 10 times smaller than the standard process for the production of stainless steel. The company is also working on setting up a local solar oven in the Jura region with the objective to increase its offer of recycled and recyclable stainless steel from 50 to 200 tons per year and produce solar materials leveraging a network of partners within a range of 50 km around the company. Panatere has been finalizing its process of the production of solar raw materials since 2021 using a solar oven in the French Pyrenees, right in the middle of the Swiss Watch Valley. The use of the solar oven would enable further reducing the carbon footprint of the production of stainless steel to 165 smaller than the standard production (e.g. achieving an almost neutral carbon footprint).

Swiss movements. And dials are being offered with transparent ceramic glass instead of sapphire crystals, which required a smaller carbon footprint to be produced.

Several brands propose watch straps made from recycled or upcycled fishing nets, plastic bottles, or mixing ceramic and bio-sourced plastic. Other companies have specialized in creating alternative leathers obtained by recycling leather scraps from the leather manufacturing production process, or vegan leather obtained from the bark of mulberry, cork and apple. In some cases, straps are entirely made of green waste and are fully compostable at the end of their lifecycle.

In 2021, IWC launched TimberTex straps (80% plant-based, responsibly sourced from European forests), produced in Italy. The straps are made primarily of paper from responsible sources, called TimberTex. Luxurious in look and feel, the TimberTex straps have a soft and supple texture. Unlike synthetic leathers, which are often petroleum-based plastic, the material used in TimberTex straps is composed of 80% natural plant fibers. The cellulose used comes from Forest Stewardship Council (FSC)-certified trees grown in the non-profit organizations and responsibly managed European forests. The material is then manufactured in Italy using traditional papermaking techniques and colored with natural plant-based dyes. In 2022, the maison launched the MiraTex straps (made of plants and minerals including FSC-certified natural rubber and fillers like cork powder and mineral colorants).

ESG SOCIAL MEDIA ANALYSIS

To provide deeper insights into the impact of the sustainable initiatives in luxury watchmaking, we have performed an ESG sentiment analysis and news coverage analysis for each of the 15 brands that were in scope of the WWF report in 2018. Although the WWF report focuses largely on the Environment dimension, we have taken all three ESG dimensions into account to obtain a holistic view for each of the brands.

First, our research identified the “ESG Share of Voice” that is the number of times a brand is mentioned on social media in general versus how many occurrences are related to ESG. Next, we classified both categories of social media mentions as either positive, neutral or negative. This approach allowed us to assess both the relevance of ESG for each brand and whether ESG creates or supports the positive perception. Further, we conducted an analysis of spikes in ESG mentions to estimate the difference between overall ESG consumer sentiment and reaction of social media considering specific world events or particular business actions.

Overall insights

Regardless of the different brands and their ESG sentiments, we can summarize our research in three key observations:

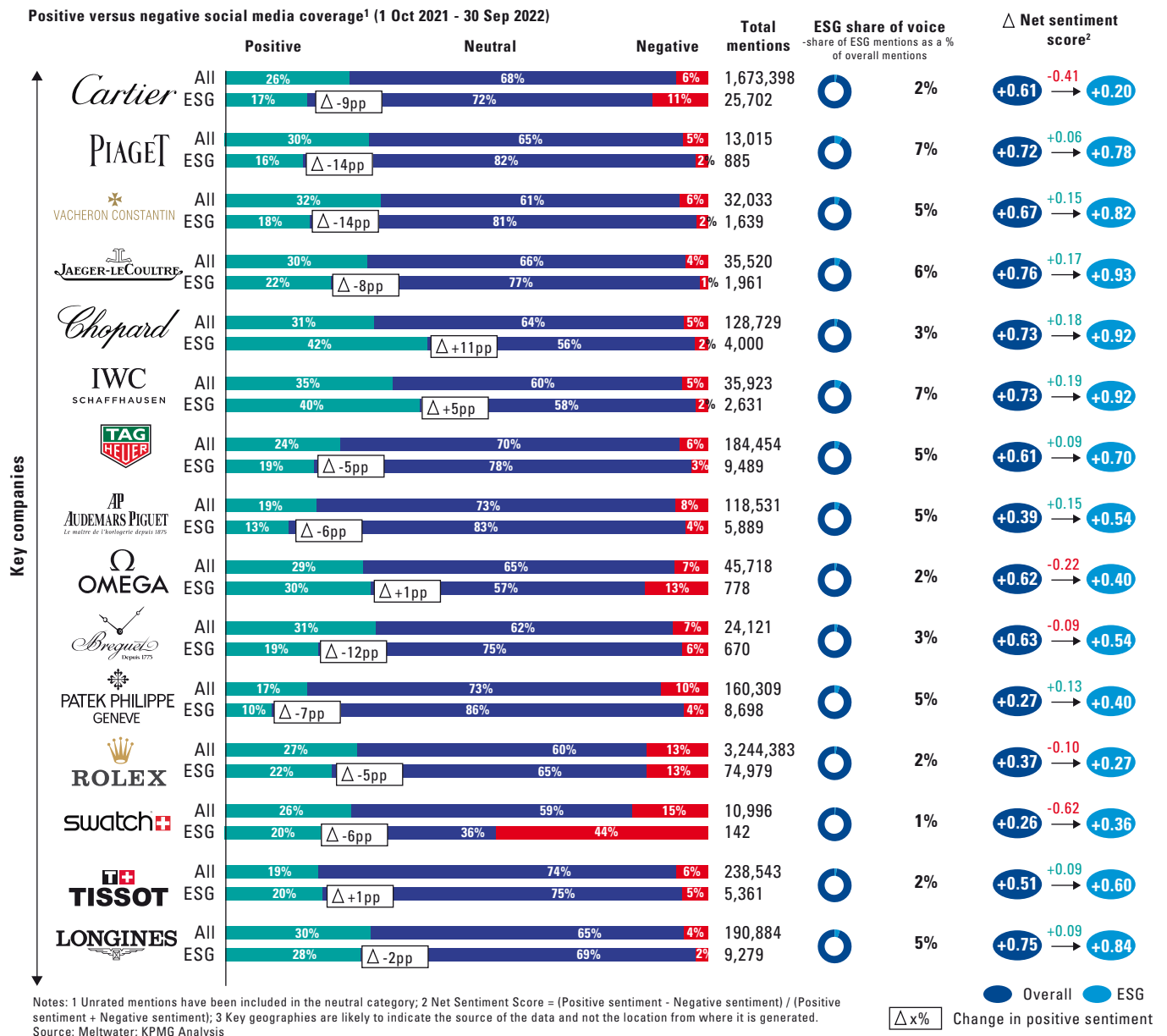
- The ESG Share of Voice is relatively low, ranging between 1% and 7%. This may suggest that customers show interest in sustainability, but that it is not a prevailing topic
- There are eleven of the 15 brands where consumers have a more positive sentiment on the brand as a whole than their perception of the brand related to ESG

- Social media spikes are strongly connected to specific ESG related events or company activities. The spikes are outliers in the dataset of social media mentions and impact the average ESG sentiment values

Category 1: High performers

Chopard, IWC and Omega have the highest share of positive ESG mentions. Those brands also demonstrate a positive delta when comparing the ESG sentiments to the overall brand perception. For example, out of the total social media mentions for Chopard, 31% is positive. When we filter the total number of social media mentions to only include those related to ESG, this number increased to 42%.

Figure 5. The results of the social media data analysis (KPMG analysis, 2022).



For those brands with a positive ESG performance, the impact of their performance is not always equally high. Continuing with Chopard as an example, their ESG share of voice is only 3% which means the largest part of their social media coverage is not related to ESG. Comparing this to IWC, for which 40% of all ESG mentions are positive, we can assume the impact of sustainability influences brand perception more as their ESG share of voice sits at 7%.

Although, there are many parameters that contribute to a successful ESG brand perception, the ESG sentiment high performers Chopard and IWC are also high performers in communication of dedicated ESG reports as mentioned earlier in this report. As such, it is likely that more transparency and communication have a direct and positive effect on ESG sentiment.

Category 2: Underperformers

The twelve remaining watch brands of the list have a lower performance on ESG sentiments. As mentioned earlier, eleven of these low performers have a less positive consumer sentiment regarding ESG as compared to the overall brand sentiment.

Within this group, brands such as Piaget and Vacheron Constantin score a relatively high ESG Share of Voice, which means that the impact of their relatively low positive consumer sentiment of ESG is greater than for the other brands.

Swatch appears to have a relatively high amount of negative ESG mentions. For Swatch, there has been a significant number of negative mentions related to sustainability and the buying process of MoonSwatch.

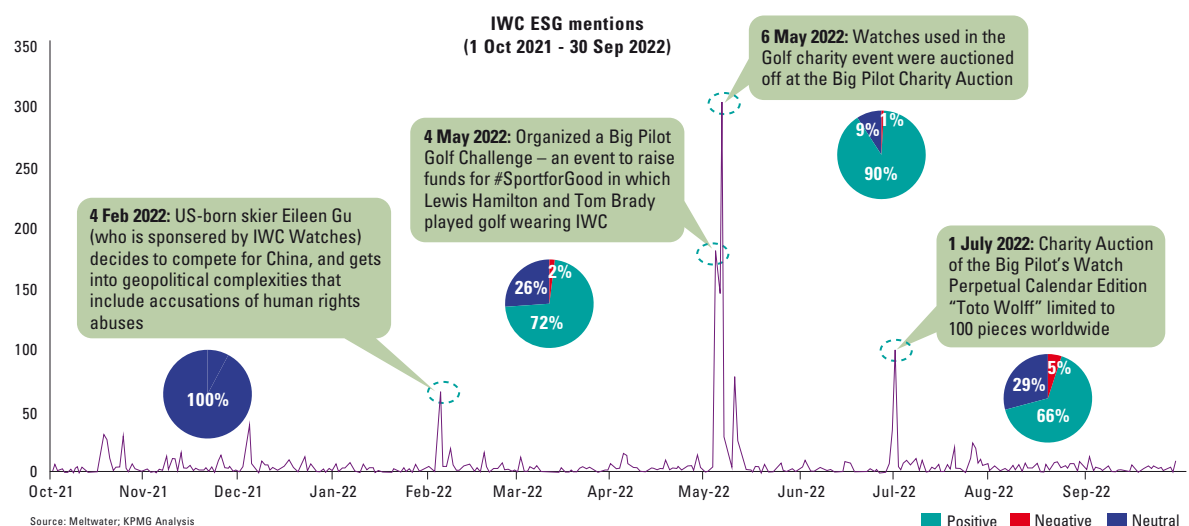
Impact of spikes in ESG mentions

When performing an analysis of ESG mentions across time, we see that the average number of ESG mentions per month is low. However, we also observe clear spikes in social media coverage when specific ESG related events or business updates occur. This suggests that the overall ESG sentiment of consumers is largely determined by these events, rather than by a continuous sustainability effort. From the sample in this analysis, social media spikes occur every three to four months and the duration of their impact typically lasts between three and five days.

Third parties can also influence ESG brand perception through social media. In some cases, potentially without knowledge of the watch company, watches are part of an ESG-related activity such as charitable giveaways. In these cases, the impact on ESG sentiment can be significant as these third parties often have a large social reach.

For IWC, the average ESG mentions lies between zero and 25 per month. However, IWC organized two charity events in May 2022 causing significant social media spikes. IWC auctioned off watches that were worn by celebrities in a previous charity event on during the Big Pilot Charity Auction on May 6th. This event caused a social media spike with over 300 mentions on a single

Figure 6. Example of ESG spike analysis (Meltwater and KPMG analysis, 2022).



day, out of which 90% are classified as positive. As such, it is likely that IWC's high performance on ESG sentiment as described earlier, is largely thanks to these events.

The effects of third parties on ESG sentiment can be illustrated by for example Rolex. Similar as shown earlier, the average social media mentions are relatively low and stable. In this case however, the spikes are caused by social media activity from third parties such as celebrities or other companies.

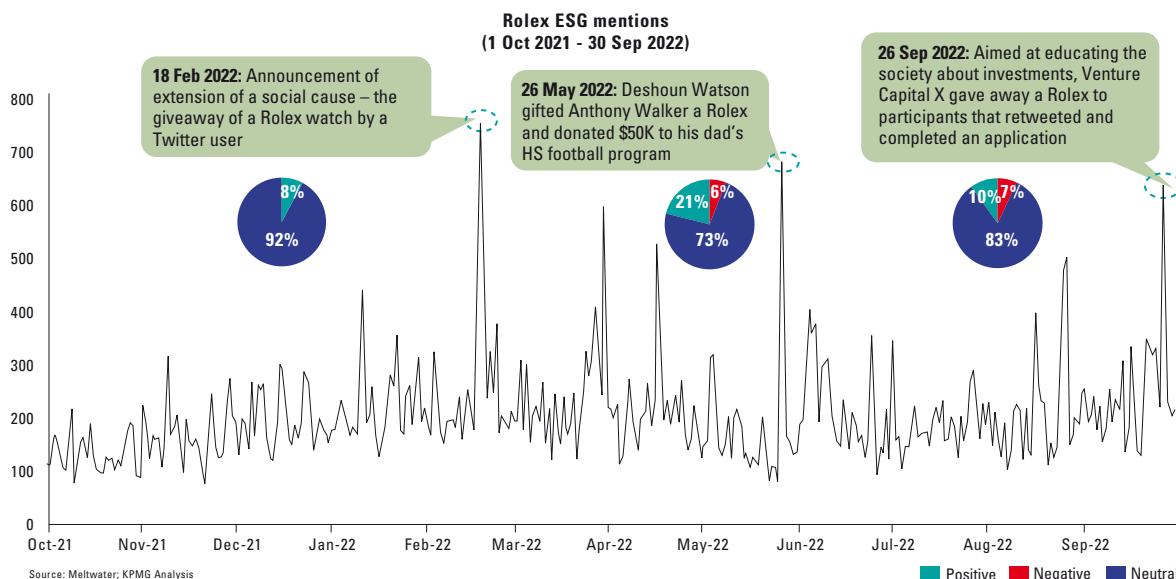
SUSTAINABILITY, DO CUSTOMERS OF LUXURY WATCHMAKING CARE?

Our analysis suggests that there is a noticeable shift in consumer behavior and sustainability is becoming increasingly important in decision making of the consumer. However, there is mixed evidence regarding consumer demand for timepieces made in a sustainable manner. Some groups consider sustainability an absolute must, considering a luxury watches a necessity and therefore the production process should place a great emphasis on sustainability. Other groups remain more skeptical about the true impact of sustainably created watches, given the quantities are mostly very low and the watches are often inherited from generation to generation making them sustainable by nature.

The quest for quality, durability and high-quality accessible service appears to be equally important to consumers as sustainability of the product. The study suggests

There is a noticeable shift in consumer behavior and sustainability is becoming increasingly important in decision making of the consumer

Figure 7. Example of ESG spikes caused by third parties.



increased traction for secondary watch market, renting, co-owning and sharing of luxury watches. However, while these findings might indicate a shift of consumer preferences to sustainability, the recent shifts in demand and scarcity of the product availability might dilute the causation.

However, sustainability is becoming a part of the consumer journey. According to research, the consumer seems to consider sustainability during the information search and right at the purchase decision making point. Even though sustainability is being taken into account during the purchase process, the efforts of a brand to become more sustainable appear to still be a hygiene factor. The observation of the sentiment analysis suggests that the desire to purchase might not be triggered by sustainability efforts of the brand, although the consumer might change their mind if the brand isn't active in pursuing sustainability goals. Furthermore, recent years of the pandemic seem to make the consumer more conscious of the environment as well as social impacts, such as child labor, gender equality, etc.

Sustainability plays a bigger role when the purchase is emotion driven and the consumer wants to feel good about their new product. However, the consumer is also looking for a high-quality product that sustains value for a longer period of time and if this consideration prevails over the emotional reasoning, the importance of sustainability of the product decreases.

The news coverage of luxury watches is generally positive. Neutral and negative mentions were related to the geopolitical unrest in Ukraine, this topic accounted for less than 6% of all the mentions however. The main

topic driving 45 percent of the news coverage is the “new collections”. The second strongest driver of the news coverage, with a significant offset of 33 percentage points, is the topic “watchmaking exhibition”. “Sustainability” related topics are account for 9% of the mentions in the news.

CONCLUSION

The theme of sustainability has gained momentum in recent years. The rise of regulatory pressure urges companies to strengthen their sustainability efforts as well as reporting on its results. Among the stakeholders driving the change are not only the regulators but also activist investors and consumers themselves. This report reviews the efforts and communication of 15 biggest Swiss watch companies that were primarily assessed by the WWF in 2018. The WWF maturity analysis flagged that the majority of brands either had very little or no active communication about their desire to become more sustainable. We reviewed the progress of sustainability initiatives for the 15 companies in 2022 and combined the findings with social media and news coverage analysis.

Most brands have website with pages that are dedicated to sustainability and some of them are very active in ESG initiatives and communication. Some brands report on ESG according to international standards and are part of international sustainability initiatives, while others are not sufficiently transparent on how their supply chain affects the environment. The social media

Figure 8. Overview of news coverage for luxury watches (KPMG analysis, 2022).

Theme	Sentiment	Share of results
New collections	97%	45%
Watchmakers exhibition	98%	12%
Safety, sustainability, and watch value	61%	9%
Brand developments	89%	8%
Watch innovation and evolution	93%	7%
Sustainability initiatives	100%	7%
Swiss watch industry developments	48%	6%
Brand anniversary	100%	3%
Special edition offerings	89%	2%
Tag Heuer's tech enabled offerings	100%	1%

analysis shows that the ESG Share of Voice is relatively low. Although not necessarily correlated, it is likely that active ESG communication and transparency positively influences consumers' ESG perception. Furthermore, a brand's environmental initiatives may not be what prompts customers to buy a premium watch. Nevertheless, if the brand is perceived to be inactive in sustainability, the consumer may hold back with the purchase.

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