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## Rethinking Luxury Brands and Sustainable Fashion Business Model in a Risk Society

### Abstract

This exploratory work investigates the burgeoning integration of ‘cradle to cradle’ practices into primary strategic activities of procurement, production and sales by ten London based fashion businesses, analysing how profits are derived from offsetting the high costs of sustainable inputs against savings from innovative strategic choices in the production value chain. This research was influenced by the background knowledge that in the global fashion industry, less than 1% of the recycled textiles are converted into new wearable materials, and even more of these textiles end up in landfills. However, this unsustainable tradition in the fashion industry may gradually give way to a mainstream circular economic best practice in the fashion industry, even as Mckinsey Report (2020) found that sustainability will be a significant factor for consumer purchasing mass market apparels by 2025.

Based on the semi-structured interview of the ten fashion business owners and the analyses of internal strategic policy documents including budgets, we adopted Garret Hardin’s “Tragedy of the Commons” (2008) and Ulrich Beck’s Risk Society (2006) as the lens view through which the qualitative data derived from these fashion businesses were discussed in order to bring out the illustrative extracts and sub-themes. Through the application of interpretive methodological approach, we were able to generate the themes suggesting the ‘*Becksian*’ reflexive modernisation and dis-embedding mechanisms in analysing the issue of trust in luxury fashion environment.

We were able to demonstrate the multidisciplinary and multifaceted nature of the use of modern technology in achieving a closed-loop circular economy in luxury fashion business(es) and its interconnectedness within the concentric layers of the value-chain, which is part of the economy, which is in turn a sub-set of the society and the environment. As businesses are expected to adapt their strategies to the changing environment, we argue that dematerialisation in fashion is still at its infancy, and some deliberate actions on the part of economic policymakers may be required in due course as this is connected to social sustainability amongst others.

This paper contributes new empirical data to the understanding of luxury fashion business in a circular economy, which is a departure from the linear economy with its attendant externalities. The adoption of a sustainable fashion business model may be pivotal to combating the inefficiency costs built into the fashion industry, and if successful, may be replicated in other jurisdictions in due course.

**Keywords:** Circular Economy, ESG, Luxury Brands, Risk Society, Sustainable Fashion, Tragedy of the Commons.

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## 1 Introduction

This paper aims to reassess the issue of sustainability in luxury fashion brands due to the perceived changes in technology and customer taste in the UK hospitality sector. Between 2012 and 2019, the luxury market witnessed consistent growth, and is now worth £820 billion annually with eighty-five percent of luxury sales value taking place in 10 countries (see figure 1). Although a temporary dip is expected in 2020 due to the covid-19 pandemic which has negatively impacted the hospitality industry, this market is expected to surge to £ 1.16 trillion by 2025 (see Li and Leonas, 2019; Statista, 2020; Achille and Zipser, 2020) with experiential luxury growing faster than personal luxury goods, strongly driven by millennials and prosperity growth in China<sup>1</sup>. This is a market which was not traditionally associated with Environmental, Social and Governance (ESG) issues (or simply put, sustainability concerns) because conventionally, luxury fashion is synonymous with high energy consumption, pollution and wastefulness of input resources (BOF and McKinsey, 2020). There is however some growing evidence of concerns for sustainability trends in the mainstream consumer product sector (Winston, 2016; Rahman and Yadlapalli, 2015; Donato *et al.*, 2019), although empirical data suggests that the gap is closing fast<sup>2</sup>. This noticeable positive change in attitude of luxury consumers and investors can be traced to some global developments since the year 2015 (see figure 3) that have influenced the increase in the awareness of the effects of sustainability on long-term investment, and the need to change production and consumption pattern from the traditional “cradle to grave” which is fraught with wastage of finite, irreplaceable and often costly resources to “cradle to cradle” technology-driven sustainable models (Braungart and McDonough, 2009:27).

Secondly, the covid-19 pandemic which has significantly curtailed economic activities in the hospitality sector for which luxury business is a sub-set, has increased environmental awareness and its connectedness with long-term business survival, thereby reinforcing the need for responsible businesses and sustainable consumption (Severo *et al.*, 2020). It is expected therefore, that health and safety measures such as social distancing, working in isolation, reduced travel etc., which are contradistinctions from the usual everyday life may influence societal rethinking about the production and consumption of luxury products. According to Sarkis *et al.*, (2020:1), “the actual effect of the covid-19 pandemic on sustainability is yet unknown, however, sweeping changes in our consumption pattern and the social environment are inevitable”. Thirdly, pressure continues to mount on the executives of luxury businesses to continually grow the brands value evidenced through growing sales, net profit and the annual return on investments (ROI) despite the diversity in clients’ expectations<sup>3</sup>. In a business environment typified by rapidly changing technologies and customer taste, continuous innovative practices that guarantee the production of high-quality output which is difficult to replicate elsewhere is a sure justification for the adoption of premium pricing policy on luxury products (Jackson, 2004; Gutsatz and Heine, 2018). This pressure is partly traceable to the changing ownership structure of luxury businesses which was hitherto largely family-owned brands and entities, to institutional investors like private equity, hedge funds and investment funds that are known for their *short-termist* focus on returns and their impatience with directors who are unable to meet financial KPIs (see Katz, 2009; Stowell, 2017). It will be

knowledge-enriching therefore, if the innovative and sustainable practices applied in sourcing inputs and managing operating costs in the UK luxury fashion business' value chain are explored.

The rationale for carrying out this research can be justified from both theoretical and contextual perspectives. The theory of Risk Society has been variously applied in the sociological analysis of the 'manufactured risks' which society face as a consequence of the postmodern era (*see* Beck, 2002, 2013; Giddens and Pierson, 1998). Although the term was coined in the early 1980s, and is associated with the works of Ulrich Beck, it has gained more popularity become popular due to the environmental risks pervading the luxury fashion business (*see* table 5). According to Giddens and Pierson (1998:210),

“manufactured risks are created by the very progression of human development, especially by the progression of science and technology. These are new environmental risks for which history provides us with very little previous experience. We often don't really know what the risks are, let alone how to calculate them accurately in terms of probability tables.”.

Consequences of manufactured risks include the emergence of “organised irresponsibility” arising from social entities wilfully damaging the environment without commensurate penalties and taxes (Beck *et al.*, 1994:29), non-interrogation of manufactured risks that “pushes the chances of finding solutions further into the remote future” (Giddens, 1998:8), proliferation of “debates on the upside and downsides of manufactured risks” (Bernstein, 1996:120) which influences the differentiation of ethical and non-ethical products and services in the marketplace. However, lack of trust in the authenticity of the differentiation due to the proliferation of knowledge causes trust in products and services to diminish. This explains the negative relationship between proliferation of knowledge and trust in a risk society (*see* Sztompka, 1999; Lash, 2000, Ekberg, 2007). In order to restore trust in a risk society, Giddens (1990:79) recommended the creation of symbolic tokens known as “re-embedding mechanisms” in social relations (for instance in this case, between luxury fashion businesses and their clients), such as labelling brands with CO<sub>2</sub> content, product carbon rating, sustainability reporting, sustainability exhibitions etc.

The theory of 'the tragedy of the commons' on the other hand helps to explain the negative externalities arising from the overuse of finite environmental resources applied as input by luxury businesses, and how joint stakeholder efforts can help in addressing the problem (Hardin, 1968). This theory explains the externalities arising from the uncontrolled exploitation of common resources like grazing land, fishing areas, clean air, etc. that pitch short-term self-interests of businesses against the common good, resulting in the over-exploitation of limited resources like over-grazing, overfishing and air pollution and other social and environmental problems, “which always end badly and bring ruin to all stakeholders” (p.1248). Scholars have recommended tackling of these problems using emission fees” or taxation which “induces firms to exactly produce the social optimum” (Espinola-Arredondo, 2019:7), imposing penalties, (Vollan and Ostrom, 2010), “mutual monitoring and punishment” (Elster, 1989:40), collaboration by stakeholders to “rationally appropriate resources in complex and uncertain situations” (Ostrom 2015:33). According to Laerhoven and Ostrom, (2007:8), the rising

incidence of “biodiversity loss, climate change and other resources held in common” and their perceived effect on the long-term survival of businesses has “extended their importance into several newer fields of scholarly interest”, which includes the sustainability of luxury fashion business model.

Themes arising from the semi-structured interview with luxury fashion business owners (*see the data analyses pages*) justified the application of these theories from an inductive research perspective. Previous writers in the field of luxury fashion focusing on postmodern fashion have applied theories such as “Ideological Genesis” which is a discourse of four logics underpinning consumption of luxury brands (Baudrillard, 2007), “Fetishism” (Freud, 2007), “Fashion Statement” (Gill, 2007), “Sustainable Fashion” (Busch, 2015) “Spirituality and Ethics” (Thomas, 2015) in providing analytical spectrum in luxury fashion business which is continually changing, reflecting a wide range of influences and response to the dynamic business environment. By applying the Risk Society and the Tragedy of the Common theories, this work will be enriching the body of knowledge in the field of luxury fashion business.

This research is based on the UK context due to the importance of luxury fashion to the UK economy and the quantum of research which is being carried out on luxury fashion which makes the UK the largest incubator of luxury fashion research globally (Moore and Birtwistle, 2004; Liu *et al.*, 2019). For instance, the British luxury sector currently sustains 156,000 jobs, and the sector grew by 38% from 113,000 jobs in 2013(source?). The sector is worth £48 billion in annual sales and grows by average 9.6% annually<sup>4</sup>.

In view of the background and research rationale stated above, this paper is interested in answering the following questions as it related to the case study of luxury fashion brands operating in the UK:

- a. How are circular economy principles infused into luxury fashion brands and the luxury fashion value chain?
- b. How do luxury fashion brands embed sustainability KPIs into their corporate planning and control?

## **2a. Cradle to Cradle in the Luxury Fashion Supply Chain**

The planetary boundaries concept (Rockström, 2009) was an eye-opener on the extent of the safe operating space that we have as a human race in terms of consumption of natural resources. This scientific framework which concluded that the environmental damage witnessed since the industrial revolution is traceable to human actions, builds on the Brundtland Report (WCED, 1987) which laid the foundation for sustainability practice and the minimum requirement for business organisations on consumption of input resources (1987:347). Rockström (2009) listed nine planetary boundaries which, if crossed, will trigger instability in the ecosystem. Unfortunately, at least three of these boundaries namely atmospheric CO<sub>2</sub> concentration (climate change), loss of flora and fauna (biodiversity loss) and anthropogenic nitrogen removed from the atmosphere (biogeochemical), have been crossed (*see IPCC, 2019; Keppner et al., 2020; Butler and Montzka, 2019*). Sadly however, production techniques and the consumption of luxury goods directly impacts the remaining six planetary

boundaries that are yet to be crossed (i.e., ocean acidification, land use, freshwater ozone depletion atmospheric aerosols and chemical pollution). If the current trend continues unabated, then the life on earth may be threatened, including the ‘going concern’ assumption underlying many luxury fashion businesses. Meanwhile, extant literature has shown that fashion generates high environmental impact due to the production system that involves tinting, drying, finishing, use of chemical inputs and natural resources (see De Brito *et al.*, 2008; Caniato, 2012; Bick *et al.*, 2018) in agreement with Chapman’s (2010) conclusion that the environmental footprint attributable to clothing is high relative to other fashion products. There is however a case for a shift to a sustainable production system in the fashion value chain based on recent research findings. For instance, Macchion *et al.* (2017) found that environmental sustainability practice has a positive and significant impact on the improvement of innovation performance. Also, recycling, which provides opportunity to elongate the lives of fashion products and minimising waste, is becoming popular amongst fashion designers due to consumer demand, the need to offer choices and long-term cost implications (RSA, 2016).

The scenarios above and the various technological improvements in production that makes it easier to deconstruct and recycle have influenced the development of new business models, which makes it possible to reuse input resources in the forms of the six capitals<sup>5</sup>. This circular economy, or the cradle-to-cradle model allows the six capital resources to be used and reused in a cyclical form, unlike the linear industrial economy model whereby finite input resources are used up but not recycled. The adoption of circular economy is particularly challenging in luxury fashion because of the issue of pricing. For instance, for an item to command premium pricing, they ought to be excellently crafted, tailor-made and difficult to replicate elsewhere (Becker *et al.*, 2018, Jackson, 2004). At the same time the perception of the luxury consumers in terms of value perception of input materials differ due to purchasing power and social orientation (Wiedmann *et al.*, (2009). This perhaps explains why some scholars have proposed diverse conceptual framework for luxury products based on social and psychological influences (Lee *et al.*, 2015), economic power and perceived consumption pattern (Wang, 2011); universal benefits generated, and the added value yielded to consumers (Sung *et al.*, 2015; Jackson, 2004:167). In other words, it may be akin to herding the cats for all luxury fashion consumers to view sustainable inputs as meeting their definition of premium quality, thereby making the acceptability of sustainability inputs problematic, except there is a general change in social perception and consumer taste.

The sustainability challenge with the luxury fashion industry's supply chain is its global reach, diffuseness, and the complexity of its supply chain (Sen, 2008). For instance, raw agricultural products are harvested in one jurisdiction, processed in another country, exported to the third country and ultimately make its way to the fourth country where luxury fabrication starts, thereby creating environmental risks (see table 8).

As a result of the diverse understanding of what constitutes luxury fashion within the context of sustainable inputs, this research is interested in answering the research question (1) with a view to deepening the body of knowledge in this area as according to WEF (2020:1), “there is no future of business as usual” as the unsustainable business model may lead “to a collapse of

civilisation as we know it.” It is perceived therefore, that how luxury fashion brands integrate sustainability KPIs into their strategic planning and control system-although this is partly influenced by their perception of the concept of luxury- can help in gauging the readiness of businesses to transform to a sustainable economy. This will be addressed in answering the research question (2).

## **2b. Tragedy of the Commons and Risk Society issues in Luxury Fashion.**

The tragedy of the commons concept illustrates self-interest scenario arising from the use or consumption of common resources whose rate of replenishment is not as fast as the consumption rate. Certain resources held in the commons are used in production of luxury goods, such as clean water used in the production of fabrics or the environmental degradation from the fossil fuel used in powering the production and assembling machine. The over-exploitation of these resources in such a manner that is unsustainable “is akin to freedom to bring ruin to all” (Hardin, 1968:1244). This conclusion, which is the guiding principle in field environmental studies, explains the climate change and biodiversity loss illustrated by Rockström (2009). Some environmental economists have recommended the taxation of consumption of rare species like hides and skins (Villani and Viscolo, 2020; Espinola-Arredondo, 2019) and some have recommended an outright ban of these items as their uses are unsustainable (Edwards and Steins, 1998). There is an outright legal ban on the use of certain products, especially animal products used in luxury fashion, although these are still seen as luxurious products elsewhere, especially outside of the EU. This theory has influenced the development of recyclable inputs and other sustainable practices in the luxury fashion value chain. In addressing the research questions (1) and (2), an attempt will be made to examine the awareness of common resources by the luxury fashion business owners as this helps in explaining the extent of sustainability infused into the brand DNA. Based on the transcribed interview data, the analyses of the transcriptions illustrate commonality with the themes in Risk Society and the Tragedy of the Commons. These theories have therefore been applied in the critical discussion and analyses of the responses generated from the respondents.

On the other hand, the risk society theory illustrates the risks associated with life in the postmodern era (i.e., ‘manufactured risk’) and how the issue of risk is addressed especially given the environmental concerns. In risk society, business forms continue to change in response to the discovery of new risks (e.g., moving from the linear industrial economy to the circular economy), and the development of a new business model itself is replete with risks which are yet to be fully understood, meaning that in the process of solving a risk problem, more risks are created (see Beck *et al.*, 1994). Risk society is dominated by risk distribution and less of wealth distribution (Beck, 2000). Beck (1992) however carefully distinguished between risk and hazards as they are not the same. Risk is fear of future negative occurrence, whereas hazards are uncontrollable acts, some of which could be insured. Three themes emanated from the interview data which require the application of Risk Society theory: these are the issue of manufactured risks, the issue of Trust, and the dis-embedding mechanisms. For instance, ‘manufactured’ risks are unquantifiable with no precedence to leverage on, and the more a society develops new technologies or processes, the more the new risks created (Giddens,

1999). Secondly, the issue of Trust in Risk Society between the producers of luxury products and the consumers were analysed. According to Beck (1992), the more the prevalence of sustainability knowledge and skills, the less the trust that exists, thereby justifying the need to give a “face” (Giddens, 1994:89) to luxury branded fashion products as assurance.

## 2c. Trends in UK Sustainable Luxury Fashion and Performance Measurement

Fashion sector accounts for up to 35% of microplastic sea pollutions and the carbon footprints outweighs those of international flights and shopping activities added together<sup>6</sup>. The sector also accounts for 2.1 billion MT of CO<sub>2</sub> emissions in 2019, which is roughly 6% of global total, (equivalent of the total emissions by UK, France and Germany combined), 20% of pesticide usage and up to 20% of industrial water pollution due to dyes usage<sup>7</sup>. In order to limit global warming to the maximum of 1.5°C above pre-industrial levels, the industry must cut its GHG emissions by a massive 52% by 2030 (The Global Fashion Agenda, 2020). These staggering statistics might have influenced the call for the cancellation of the 2020 London Fashion Week<sup>8</sup> by the Extinction Rebellion (XR) movement, whose spokesperson said amongst other things:

“London is home to the cutting edge of sustainable and ethical design and yet, London Fashion Week lags behind. And despite having an active political programme, you have done almost nothing to lobby for environment policies, without which a transition with the urgency we need is simply impossible. We have all failed, but now radical leadership is required. We need you, the British Fashion Council, as appointed industry administrators, to find the power and courage to centre a visionary process and protocol, without delay.”<sup>9</sup>.

Although Millennials and Generation Z represent 4% of the larger luxury fashion market (see table 1) and almost 50% of the true-luxury consumers purchasing ‘collaborators’ and ‘special editions’ (see table 2), they have been identified by major reports on “attitude towards sustainability”<sup>10</sup> as the major pressure point in the demand for sustainable luxury fashion products and a campaign to reform the luxury fashion value chain.

### **Figure 1:** List of signatories to the “Fashion Pact”

• ADIDAS • AIGLE • ALDO GROUP • AUCHAN RETAIL • BALLY • BESTSELLER • BONAVERI • BURBERRY • CALZEDONIA GROUP • CAPRI HOLDINGS LIMITED • CARREFOUR • CELIO • CHANEL • DAMARTEX GROUP • DCM JENNYFER • DECATHLON • DIESEL • EL CORTE INGLES • ERALDA • ERMENEGILDO ZEGNA • ETAM GROUP • EVERYBODY & EVERYONE • FARFETCH • FASHIONCUBE • FIGARET • FUNG GROUP • GANT • GAP INC. • GEOX • GRUPPO ARMANI • GROUPE BEAUMANOIR • GROUPE GALERIES LAFAYETTE • GROUPE ERAM • GROUPE IDKIDS (OKAIDI & JACADI) • GROUPE ROSSIGNOL • H&M GROUP • HERMES • HERNO • HOUSE OF BAUKJEN • INDITEX • KARL LAGERFELD • KERING • KIABI • MANGO • MATCHESFASHION.COM • MONCLER • MONOPRIX • NIKE, INC. • NOABRANDS • NORDSTROM • PAUL & JOE • PRADA S.P.A. • PROMOD • PUMA • PVH CORP. • RALPH LAUREN • RUYI • SALVATORE FERRAGAMO • SELFRIDGES GROUP • STELLA MCCARTNEY • TAPESTRY • TENDAM

**Source:** [www.thefashionpact.org/?lang=en](http://www.thefashionpact.org/?lang=en)

This informed the G7 summit’s call to action and the initiation of The Fashion Pact by world’s leading fashion companies on August 26, 2019 in France – which is a commitment to mitigating fashion’s impact on threatening the planetary boundaries that trigger instability in the

ecosystem. This is a significant development because the 63 companies (*see figure 1*) representing over 200 major global brands and about one-third of the industry have signed the pact. The “Fashion Pact” identified 3 action items (*see table 5*). It was noted however, that LVMH group which is present in all the five major sectors of the luxury market, and a major market player in the luxury fashion market with a market capitalisation of \$283.49 billion as at November 2020 is not a signatory to the Fashion Pact. This is surprising as the group of companies have recorded many strides in sustainability (*see table 6*). In an interview with Antoine Arnault, the head of Image and Environment at LVMH, the role being played by the group in promoting sustainability was explained thus:

“A group like ours that's leader of its sector and so dependent on nature's raw materials needs to set the example in that field and lead the way. I do want to say though that we certainly did not wait until the covert crisis to address the climate issue. LVMH has in fact been a pioneer when it comes to the environment....in 2016 we announced a formal commitment to reduce carbon emissions from our production sites and stores and we have achieved our targets....by taking initiatives in areas such as responsible lighting management our stores make our climate engagement very visible and we know that this is an issue that more and more of our customers consider to be a priority”.

LVMH's justification for not signing the Fashion Pact is yet unclear. Nevertheless, the corporation's reported achievements in the area of sustainability covers the whole group, and a separate environmental report on the luxury fashion brands' business arm is unavailable. Could it be that this is due to the inability of the production and supply chain of the fashion brands to support sustainability at this time? Could it also be that the requirements of Fashion Pact which seeks to measure against a set of verifiable metrics, and demands a higher level of scrutiny and transparency may be putting the LVMH group under unwarranted pressures? Since LVMH is one of the leaders in the industry, there is concern that other SMEs in the luxury fashion value chain may see the LVMH example as a justification to delay infusing sustainability into their respective value systems which will impact tens of thousands of suppliers as well as customers.

**Table 6:** LVMH's major strategic sustainability attainments

Year	Details
1992	Sets up the Environment Department which is a pioneer body in the Luxury Business Sector. In the same year, Hennessy launches the first analysis of a product's lifecycle.
1995	The <i>Maisons</i> in the Perfumes & Cosmetics business sector set up an ethno-botany department. The aim of this department is to protect plant species that are of interest for cosmetics.
1998	Hennessy was the first wines and spirits company in the world to obtain ISO 14001 certification, which has been renewed every three years since that date.
2002	While ADEME (French Environment and Energy Management Agency) is still reviewing the carbon report method, most of the LVMH <i>Maisons</i> are already trialling this new tool, which enables them to measure their CO <sub>2</sub> emissions.
2003	LVMH joins the Global Compact, a UN initiative that aims to encourage companies to adopt socially responsible attitude.
2004	Two tools are created to help the Group's <i>Maisons</i> eco-design outstanding products: “an environmental trend handbook”, and an online “materials library” that lists environmentally friendly components and materials.

2005	At the Aichi World Expo in Japan, Louis Vuitton highlights the subject of the environment and the reduction of greenhouse gas by creating a Maison built entirely of salt, a natural and high-quality material. This temporary building was dismantled after the event, and the salt thrown back in the sea.
2006	Louis Vuitton inaugurates Eole in Pontoise, the first warehouse in France built according to the High Environmental Quality (HEQ) method.
2008	LVMH draws up a Code of Conduct for its suppliers in order to extend the commitments made in its Environmental Charter. The following year, this Code is supplemented by a Code of Conduct intended for its employees.
2009	In Pithiviers, CEDRE (Environmental Centre for Environmentally Friendly Packaging Elimination and Recycling) begins to treat metric tons of waste generated by the Group's Maisons.
2012	LVMH commits to the French National Strategy for Biodiversity. The Group gives an internal boost to its environmental policy by launching the LIFE (LVMH Initiatives For the Environment) programme.
2015	LVMH sets up an internal carbon fund, a pioneer initiative in the luxury goods industry to mark COP21 in Paris. The aim of this fund is to finance projects launched by its Maisons to help combat climate change.
2016	The Group launches the "LVMH LIFE in Stores" Programme to encourage and support environmentally friendly best practices in its sales areas.
2017	LVMH celebrates the 25 <sup>th</sup> anniversary of its Environment Department at an evening event called Future LIFE, and then presents its LIFE 2020 environmental objectives that will enable the Group to pursue its historical commitment to its environment.
2018	LVMH doubles its internal carbon fund which provides the resources to devote €1.3 million to finance 112 projects launched by 28 houses to reduce their greenhouse gas emissions.
2020	The first edition of the Climate Week online event for all the LVMH Group employees worldwide took place from December 8 – 11, 2020. It was also reported that each year, LVMH Maisons increase the number of square metres fitted with LED lightings in their stores, supported by the Group's internal carbon fund. This has reduced energy consumption within the group by 30%.

**Source:** LVMH Group's Environmental Reports (2017 - 2020).

In terms of measuring performance of luxury brands on the extent of circular economy in their brands and how they measure sustainability KPIs, although Fashion Pact is a fairly new development, many luxury brands have been creating awareness about sustainability unique value propositions (UVPs) in their products in recent times. This influenced the exploration of how these are operationalised and whether there are collaboration efforts worthy of imitation by other sector operators. To this end, we investigated how these luxury fashion brands measure their balanced scorecard based on the observed ESG issues affecting luxury fashion businesses (see table 3).

### 3. Methodology

In an attempt to answer the two research questions listed in chapter 1, the researchers adopted the interpretive multiple methods approach so that the response from one method will supplement the other, thereby enriching the body of knowledge, and the exploration of the topic to a full extent. The two methods adopted for the collection of data analysed in the report are (1) semi-structured interview and (2) interpretive qualitative case study. Case study was chosen for the conduct of this research for two reasons. Firstly, the plan is to carry out an

exploratory research involving the investigation of how the principles of circular economy is infused into luxury brands and its value chain, and how the luxury brands measure sustainability KPI. These exploratory questions go beyond mere gathering of data via semi-structured questions. Rather it involves analysing internal documents such as budgets, performance reports and the analysis of historical documents such as their internal communication and website content. This enabled the research to understand the business thereby providing insights on the data analysis and discussion section. Secondly, since this work took a bottom-up approach because there are no underlying theories to assert or refute, a case study orientation provided the opportunity to analyse the data and then look for the theories which best explain the phenomena that were revealed. In total, 18 companies were contacted but 11 responded within the limited time frame available, and only 10 of them were surveyed. The following criteria were applied in selecting the case companies:

1. The case company operates in the UK although the country of parental origin may differ.
2. The case company must be in existence for at least three years. This provided the opportunity for full exploration of their historical background, especially how they measure sustainability performance.
3. The case company's principal director or owner must be available for a semi-structured interview. This enabled us to cross-check the data collected from archival sources with the semi-structured interview for accuracy.

All the ten case companies were interviewed, and the respondents were either the owners or the Managing Director. This enabled us to obtain enriched data on the companies' strategy especially with regards to measuring sustainability performance. The respondents were guaranteed anonymity in order for them to express their minds without inhibitions. Recorded interview data were transcribed and then transferred into the NVivo application software for coding. This helped in visualising, organising and analysing the data via coding. This is in line with the coding framework developed by Braun and Clark (2006) which starts with familiarisation with the dataset, before moving to codes generation, and then finally extracting and reviewing the themes. We used thematic coding in the labelling and analysing data based on the observed patterns noted in line with the recommendations of Guest *et al.*, (2012). It was after the data were analysed that the observed pattern indicated the two theories chosen as the lens through which this work is being critically discussed.

**Table 4:** List of case companies and interview details.

<b>Company Code</b>	<b>Interviewee</b>	<b>Experience (years)</b>	<b>Luxury Fashion Business Type</b>	<b>Location</b>	<b>Country of parent origin</b>	<b>Interview duration (minutes)</b>
LB1	Managing Director	12	Heritage Brand, Fashion and accessories	London	France	28
LB2	Owner and MD	12	Accessories extended into luxury fashion	London	British	38
LB3	Managing Director	15	Fashion oriented brands	London	Italy	50
LB4	Managing Director	3	Fashion designing and accessories	London	British	20
LB5	Managing Director	21	Tailor, fashion designer & heritage brand	London	Italy	54
LB6	Owner and MD	5	Fashion designing and accessories	London	Nigerian/Ghanaian	35
LB7	Owner and MD	16	Fashion designing and accessories	London	Japan	22
LB8	Owner and MD	8	Heritage Brand, Fashion and accessories	London	British	40
LB9	Owner and MD	21	Fashion designing and tailoring	London	British/South African	40
LB10	Managing Director	8	Fashion designing and tailoring	London	British	22

**Table 5:** The Fashion Pact action items

	<b>Climate Change</b>	<b>Biodiversity</b>	<b>Oceans</b>
<b>1</b>	Alignment with the UN Fashion Charter on Climate Change, setting the stage for corporate actions that are consistent with achieving NetZero emissions by 2050 through the implementation of science-based targets and also reducing emissions by 30%	Commitment to specific individual biodiversity targets on the conservation of key species of flora and fauna by 2020 and the protection and restoration of critical natural ecosystems.	Signatories are expected to eliminate the problem of unnecessary packaging in Business-to-Consumer (B <sub>2</sub> C) by 2030.
<b>2</b>	Achieving 25% sourcing of low-impact raw-materials by 2025	Supporting the achievement of zero deforestation and sustainable forest management by 2025.	Achievement of 100% recycling of plastics in B <sub>2</sub> C by 2025, and 100% recycling of plastics in B <sub>2</sub> B by 2030.
<b>3</b>	Achieving a 50% use of renewable energy by 2025 across all operations and scaling this up to 100% by 2030.	Organising series of training workshops and seminars in conjunction with Conservationists on “Nature of Fashion”	Working with RE(SET), a circular economy innovation company, to use the collaboration skills in developing new innovative solutions.

**Source:** Bolton Consulting Group (2020).

#### 4. Data Analyses

##### 4.1 Sustainability awareness and collaboration in the luxury value chain

Responses received suggest a high level of awareness of sustainability in the luxury fashion value chain, although the level of implementation is dispersed. Interviewees were also able to enumerate the environmental, wider economic and social benefits of ‘greening the value chain’. For instance:

The question of sustainability and climate change is a question of survival whether it is luxury or fast fashion. This subject is an important issue and probably the most important issue of the century. It has many consequences for our food, biodiversity, water planet and for mankind. The disappearance of certain species like bees surely will have consequences for natural resources which are becoming rare more and more. How would we be able to work in our production sites when the earth's temperature increases by say 3 degrees? The challenge is for every one of us in this business to get on board. This is not an issue for only experts and environmentalists. I firmly believe that to start acting, first need to understand what it means, how it will affect us and then join forces and collaborate with others in the industry. (LB4, #1).

“We cannot have healthy people on an unhealthy planet, and the relationship between climate change, biodiversity, human health and economic prosperity are now increasingly clear. Even after covid-19, I doubt whether anyone wants to go back to the unsustainable lifestyle where we came from – which led to the lockdown in the first instance. I want to see other CEOs create a greener eco-friendly and more sustainable environment. The reality is that CEOs themselves and their companies can only do so much, but collectively, we can do much more.” (LB2, #1)

The Fashion Pact is a collection of courageous CEOs that have come together along the value chain, to work on areas to create tipping points beyond existing initiatives. Together they become courageous on the areas of biodiversity, climate and of oceans. This coalition of over 60 companies, 80% have made commitments on biodiversity, 40% is already working on science-based targets, in the case of plastics, everybody has accelerated their commitments between 2019 and 2020. These coalitions keep us more ambitious and driving forward at a scale and speed that is needed. (LB3, #1)

The issues of biodiversity and climate change mentioned here, and the need to change or adapt business models and consumption patterns to sustainable ones is clear to all interviewees. When probed further, it became clear that many are simply following what their contemporaries are doing, and not because of their awareness of Rockström's (2009) planetary boundaries or the IPCC (2019) report. However, the need to manage likely disruptions to business model so that *force majeure* risks similar to covid-19 do not limit them in the future is the chief reason for taking climate change seriously. Many interviewees complained about the prohibitive costs involved in meeting the requirements of the Fashion Pact through a direct changeover which would have put them at a short-term cost disadvantage if they were competing with the big and well-established luxury brands. However, all the interviewees demonstrated the need to produce tailor made services that suits the needs of their clients at a premium price and at a profit because according to Jackson (2004:167), luxury fashion consumers look for “prestigious label” that is not easy to replicate elsewhere in agreement with Becker *et al.*, (2018).

The issue of the need for collaboration, especially the need to share costs of meeting sustainability requirement in the upstream sector of the luxury fashion business is the main rationale for the justification of collaboration in the industry as the respondents are all SMEs that cannot compete with the big brands. They all agree that collaboration on procurement and haulage is important because these are specialised areas that is expensive for individual brands to monitor:

“For us to achieve the requirements of the Fashion Pact, or any sustainable goal in the luxury fashion value chain for that matter, we need to work with others to achieve economies of scale in sourcing our inputs. Many of the sustainability issues in procurement are actually out of our hands. Take cotton for instance, which isn’t grown here.” (LB10, #2)

“I can certify our process here. We adhere to the Fashion Pact requirements, just like many of our colleagues who I know. It is cheaper for us to source our inputs from overseas and that is where the problem is. I think the cheaper the inputs are, the higher the likelihood that the raw materials are not sourced from sustainable sources. We need to survive, don’t we? ..... Yes, we can work together in this industry. What if luxury fashion is not the only service that you offer? How would you break even? Are the customers ready to pay? Maybe, maybe not. (LB4, #2).

The statement above brought out some of the issues plaguing collaboration in the luxury fashion value chain, which includes the likelihood to consider whether or not to collaborate on sustainability issues based on cost and free-riding considerations. According to Ostrom (2015), the problem of credible commitment in the use of common pool resources is an important puzzle that must be solved for resources to be allocated predictably and efficiently to avoid conflicts and ensure adherence to agreed rules (p.43). Nevertheless, this ought to be accompanied with monitoring which may also have cost implications for the luxury fashion businesses. The tragedy of the Common in this case is that the operators’ attempt to balance the cost of sourcing sustainably against unproven and non-apparent benefits will always make a collaborative attempt to solve the problem improbable.

There are nonetheless minority owners or CEOs who are of the opinion that sustainability is demand driven, and that they may fade in due course.

We are producers. We simply design and sell whatever is demanded by the consumers. I don’t have control over the materials produced in uninsured factories in Bangladesh or the child labourers engaged in Cambodia. I know for sure that Gap Inc. the Prada’s or Adidas or Nikes of this world are insulated from these issues because they have the benefit of economies of scale and scope. I think it is unfair to expect us to compete with the big corporations on their own turf. They are capable of offering sustainable products and still charge premium price. But can we do the same? (LB8, #2)

Some interviewees demonstrated neutrality on the adoption of new sustainable business models that are capable of reducing environmental costs and increasing consumer satisfaction, whilst others are in the advanced stages of adopting *eco-modulation* and *bio-fabrication*. Eco-modulation helps to distinguish the different types of products within the value chain are being adopted while the eco-modulation technology provides an incentive for sustainable or circular design to effectively drive change. Bio-fabrication addresses sustainable sourcing of inputs by designing organisms that can produce the proteins or the building blocks which can then be

nurtured in little biological factories to produce fabrics for luxury brands. The need for new investment in technologies for waste classification and high-value recycling was also dominant in their responses. The adoption of new technologies such as eco-modulation and bio-fabrication are value innovations which could create “uncontested market space” (see Kim and Mauborgne, 2004:115) hence, luxury differentiating factors for 'quality sustainable products'. (see section 4.3).

Most of the respondents are aware of the likelihood of introducing the EPR (Extended producer responsibility), an EU policy which has already been implemented in France and may be introduced in the UK too in the future. The EPR charges textile companies based on the quantum of products that sell annually, to contribute to a fund managed disposal of landfills and recycling of wastes generated from fashion products. EPR system is a penalty for non-adherence to sustainability, and according to WRAP (2019), over £35 million may be generated if EPR is implemented in the UK. Firstly, it is believed that the luxury brands do not generate as much wastes as the fashion brands. Secondly, all the respondents are confident that the issue will be addressed collaboratively by the operators to avoid additional costs.

#### **4.2 Application of the ‘circular economy’ principles in the value system**

Eight out of the ten interviewees have varying degrees of elements of ‘circular economy’ properly integrated into their value system including sourcing, procurement, haulage, production, sales and after-sales services. It is however more prevalent in the production system than in sourcing and procurement which many of them do not have control over.

“We allow customers to print their own sustainable garments. All the inputs are made from organic cotton. Our business model function by addressing the inefficiencies in the production system in the sense of preventing over-production which is a general problem in the fashion sector. We make the products that the customers need, when they need it. We reckon that this process adds about 25% to the average price paid by customers. However, we prevent wastage and maximise efficiencies using our own creative engineering in designing products.” (LB1, #3)

“The whole of our factory is powered by renewable energy. Everything that we make is designed from the start, and they come back to us when it is worn out. Each of our products have a unique barcode on the care label which, when you’re done with the products, you can scan it and would generate a postage label and allows you to send the shirt back for free. We will then give a discount on the next order in order to incentivise people to recycle instead of throw their clothes in the trash” (LB4, #3)

“We are a fashion designer business where you can basically shop menswear that is made sustainable from recycled materials, but crucially also made to last. We have a set of standards and every product produced by us must meet these standards, including zero social and environmental damage.” Product costs using sustainable materials are 150% higher than for basic menswear due to the technology that we use. This means that customers are charged more than our other product offerings. In spite of this, sales have grown by 50% in each of the last 5 years.” (LB9, #3)

All these are variants of “Greening of Industry” which benefits value chain and the whole economic system through reduced biodiversity loss, reduced water and air emissions, reduced dependence on fossil fuel and mitigates climate change in agreement with (Saikku *et al.*, 2015). Further analysis revealed that the luxury brands examined here also have other production

lines that cannot be classified as sustainable brands. For those fashion brands with sustainability in their brand DNA, interview data suggests that their main clientele are Millennials and Generation Z in agreement with previous reports (BCG Luxury Market Model, 2020; McKinsey 2020) which revealed that demand for sustainable clothing is increasing by up to 78% of procurement managers said that by 2025, sustainability would be a significant factor for luxury fashion consumers. Interview data also suggests that many respondents have started investing in circular models on a large scale in the luxury fashion business, which may be indicative of the things to come in the industry, especially as a consequence of the covid-19 era.

Some operators interviewed understand the benefits of the issues most especially the ones that they have control over that is their production process however they believe that some of the issues especially the ones relating to the supply chain which they do not have control over should be ceded to government:

“We understand that are in the era of ‘Rs’. That is recycle, remanufacture, repair, reuse, re-programme, etc. These programme benefits not only the manufacturers, but the consumers and the environment since less of natural resources are being used. These issues are beyond us as an organisation. We are always ready to do what everyone else is doing.” (LB10, #4)

“Fashion industry is connected in many ways to others in the value chain. For instance, agriculture, food, extraction, water processing, financing. Whatever we implement here will cascade into other sectors. Hence, the benefit of sharing best practice will help everyone. Labour standards, supply processing standards, production standards are all likely to be affected in all companies and sectors.” (LB5, #4)

The awareness of, and implementation of decarbonisation programmes in the luxury fashion value chain is expected to deliver accelerate abatement in CO<sub>2</sub> emission e.g., switching to renewable energy, making efficiency improvements in spinning, weaving and kneading, and machining. These are all within the control of each luxury fashion business. However, again the upstream sector involving procurement, transportation and sourcing of raw materials are outside of the control of each luxury businesses, except the ones that have backwardly integrated within the value chain. Also, most of the interviewees have done away with plastic waste in their value chain, which makes them to be ahead in the ‘Plastic 2030 challenge’. However, training will be key to making the others avoid or totally eradicate plastic wastes.

#### **4.3 Trust, sustainability and Luxury products**

Can luxury fashion be sustainable? The respondents are of the view that being sustainable is product dependent. For instance, inputs sourced from the extractive industries are likely to be tainted with environmental costs especially where they are sourced from the developing countries.

“We need to be careful not to lump all products together under luxury brands. Most of luxury fashion clothing business the UK has been sanitised as far as our supply chain is concerned. For instance, it is rare to see original (not synthetic) fur products being sold in the UK. Does that remove the quality and the perception of the customers? Maybe not because the law prohibits their (fur) sale. But jewellery is part of fashion and it is sources mainly from developing countries with poor business governance. Some of them are war raved and sadly we lack control over the production processes” (LB6, #5)

“Yes, it is possible. We are luxury and ethical at the same time. We grow our animals in an ethical manner. We have a crocodile farm managed by our associate company in South Africa where we produce directly for the international market. These are high quality luxurious products. Crocodiles have not been classified as endangered species. If anything, we have continued to increase the global stock of crocodiles. .... We respect laws, and that is why we shall not use endangered species like rhinoceros” (LB9, #5)

These contrasting views illustrates a snippet of the trust dilemma issues in the luxury fashion value chain. In a dis-embedded system (Giddens, 1991), it is expected that the system functions normally in an autopilot format. When applied to sustainable and luxury products, these products are supposed to be seamlessly differentiated in the market. However due to the erosion of trust in the fashion luxury market, brands are expected to carry additional communication clearly differentiating the features of one brand from another. It may be necessary therefore, for fashion luxury brands to clearly label their products based on other features such as origin of product and other shades of sustainability. This is what Giddens (1991:53) referred to as “*facework*” or “symbolic tokens” for differentiation purposes due to the collapse of trust in the system. Secondly, as a result of the collapse of trust in whether sustainable products and luxury can go together, there are evidence of differentiation between the traditional ‘quality product’ which attracts premium price, and ‘quality sustainable product’. This development may alter how we classify luxury products in the future.

The need to differentiate between a luxury brand and a sustainable product arises from proliferation of knowledge in a risk society. According to Beck, in a risk society, the concept of risk and trust are related inversely (1992), whereby the more the knowledge, the lower the level of trusts in dis-embedded systems such as the luxury brands. Another trust issue that the interview data revealed is that the ownership of the respective luxury fashion brands is likely to have effect on how they perceive the issue of sustainability in the value system. The ones that are owned by families or individuals are likely to have a long-term perspective on sustainability, and the ones owned by private equity of hedge funds are not likely to care about offering sustainability product or measuring sustainability KPIs. This view agrees with the views of Cheffins (2008) and Ramadorai (2010) that hedge funds may take a long or short position on their equity investment, which means that sustainability which is in tandem with long-run performance, is not their priority.

#### **4.4 Measuring performance in the sustainability environment**

Many of the interviewees are of the opinion that their trade associations have a role to play in measuring the overall sustainability performance which may be too expensive for each business to address without collaborative efforts. The general consensus is that many sustainability and technology issues have already been addressed by each operator to the extent that they were influenced by industry regulations and cost considerations:

“There are certain good practices that we have imbibed over the years, and we do communicate these clearly to our customers. For instance, this year alone, we have reduced emissions in our production process substantially due to our new source of energy which was a process predating the Fashion Pact. We also source organic cotton because our clients demand it. We understand that organic cotton is

better than conventional cotton because it is 50% less emissions intensive when compared to the regular cotton fabric, and it uses fewer pesticides and fertilisers.” (LB1, #6)

“Understanding our impact from start to finish. Since early 2019, we calculate the carbon footprints based on our carbon assets and the carbon generated in our production process. We understand the whole footprint for the whole business, and this helps us in implementing a simple carbon costing. We label each product with the carbon score so that our customers can compare with other products. Not only on price and quality but on the cost on the planet. This is transparency. Once the customers are educated on this, we can change the ways the industry measures performance in this area.” (LB3 #6)

“We are all connected in this and we must all take collective action as an industry to address this microfibre pollution and all other actions causing environmental degradation. None of us can solve this alone, no matter our size can solve this alone because we are all connected in one planet” (LB4 #7)

“15% of our members have achieved 100% non-plastics. This is a good development, although we still have a long way to go.” (LB7 #7)

“In terms of the measurement of science-based targets, everything needs to be measured if we are to have success. It is critical that we are serious about what we are doing. We are also holding ourselves accountable on them. The publication in the future will tell whether we are achieving this. They should be result oriented throughout the industry.” (LB10 #7)

However, the incapacity to accomplish the strict requirements of the “Fashion Pact” due to the limited understanding of the operators, and the imposed cost restrictions may be the greatest undoing of the system:

“The scientific details look difficult to me except properly codified and communicated to businesses like ours. It may be costly to be able to do this measurement, but the details are still sketchy, not only how we should do it, but the level of details required. The challenges which we face are enormous as SMEs. Mind you in terms of sustainability, I believe that we are doing the right thing already. I don’t think the measurement changes anything.” LB2, #8)

“We started our sustainability journey 12 years ago, by setting up ‘green factories’ for producing apparels abroad and importing them into the UK.... our focus is predominantly on energy efficiency and sustainability in our value chain. Last year, we were certified as NetZero even in our factories abroad. That was done by installing evaporative cooling, solar power, offsetting some of our energy through wind power assets that we own. The difficulty we have in measuring is in finding tools which will help us in measuring based on the new guidelines. We need to *retrofit* in order to do this, which is going to be quite expensive, although we are doing the right things.” LB9, #8)

From the above, it is clear that the new performance measurement imposed on the industry can only be accomplished by the luxury fashion businesses with means and skills. This explains the need for an industry-wide non-competitive collaboration to develop technologies that could be shared by many in the industry. Conversely, the non-specification of the measurement criteria of the scientific targets may encourage greenwashing and impression management which has plagued financial and corporate report world for quite a while now (*see Solomon et al., 2013; Olatubosun and Nyazenga, 2019*). The organisers of the “Fashion Pact” have however promised to publish how they meet the annual scientific targets through the Boston Consulting Group (BCG), but how they will source the data remains unclear.

Some of the interviewees are of the opinion that the big luxury fashion businesses are best able to meet the measuring requirements of the “Fashion Pact” better due to the economies of scale advantage which they get. Perhaps, some form of collaboration, especially in the luxury fashion downstream is inevitable if the scientific targets are to be achieved.

“It is believed that the impact is likely to be felt in the medium scale brands that have been acquired by the big brands like Chanel, and all the economic entities connected with them in the value chain, like their suppliers of fabrics, energy, labour and even finance.” LB6 #9)

“Energy production and material are the main user of Co2 emission. Policy change is very important. A ban may be necessary compelling the use of synthetic rather than raw materials. But these are quite expensive, and the costs may cause diseconomies of scale especially for medium scale businesses like ours. Buying lower carbon intensity production machines to be used by several operators is possible if we operate in an industrial hub. That is almost impossible in the London area. But who know? (LB8 #9)

There are lots of great technological solutions that we can use for production out there, e.g. using green chemistry. However, it requires a number of companies to come together because small company are not big enough to move the industry. That is where collective actions could be struck, otherwise we may wait for the price to fall before we make the move. Before then, the CO<sub>2</sub> emissions keep piling up I’m afraid. LB10 #9)

Nevertheless, there are luxury brand operators who disagree with the notion of sharing technology in the industry due to concerns about loss of trade secret and their unique selling proposition (USP).

“We developed a technology which is our own USP and enables us to deliver superior product. If we share the technology with our competitors today, we will be out of business in no time. It makes economic sense that we enjoy this ‘blue ocean’ whilst it lasts”. LB2, #10)

Another operator suggests that luxury fashion businesses can collaborate in the upstream since 70% of emissions can be traced to upstream activities, whilst keeping their USP in the downstream to themselves:

“Sharing technology isn’t a bad idea but that could be done in the upstream where everyone is affected by transportation logistics, procurement, and so on which are not particularly proprietary. What happens downstream in our own production environment is for us exclusively.” LB7, #10)

In terms of the enforcement of the Fashion Pact, some CEOs agreed that if their respective brands do not address the highlighted sustainability issues in their production processes, they run the risk of being bypassed by enlightened clients, and they may also be susceptible to the dangers of brand-damaging protests. They identified transparency in measuring and timely publication of the Fashion Pact performance measurement on their respective websites and social media platforms as ways of creating awareness.

#### **4.5 Sustainability in the Brand DNA**

The need to build and treasure iconic luxury fashion brands with premium price is quite clear to the brand owners interviewed. Nevertheless, a few are struggling with how to make

sustainability to stand out amongst the client as a basis for charging premium price, especially where other luxury fashion brands are also offering sustainability in their value chain. Still, some have turned sustainability in the luxury fashion into a *'facework'* that differentiate their product or service from others:

“We are making low-carbon intensity products and we are selling them as great brands. I had a frustrating experience because our brands didn't know how to translate this into stories that would resonate with the consumers. I think consumers care more now than ever.” (LB2 #10)

“If consumers are made aware of the choices that they are making and their impact is on the planet, I think we can see some fundamental shift. We label the products with details of carbon consumption. That would help educate consumers and start really shift the dialogue. If that becomes the standard, then retailers and manufacturers will follow suit.... our customers want healthy products, they need a better product, they need a product that matches sustainability, product design, product efficacy, and is manufactured by a sustainable supply chain.” (LB8 #10).

Interview data suggest therefore, that presenting fashion products as luxury brand is preferable to sustainable brands from a unique value proposition (UVP) perspective. A few of the interviewees believe that sustainability has a positive effect on the brand DNA as they are able to consistently push this message to their clientele who are mainly millennials and generation Z. They have therefore built a sustainability *'facework'* into how they create awareness for their service. The majority are however struggling to justify premium pricing on basis of sustainability because they found it either neutral or insignificant from a UVP perspective.

## 5.0 Discussion of findings

In terms of how circular economy principles are infused into luxury fashion brands and the luxury fashion value chain, the luxury brand operators interviewed demonstrated good knowledge and skills in sustainability in the luxury value chain in the London area, not as their UVP, but either as a matter of necessity due to regulatory compulsion, or as cost-saving measure. The possibility of using either new technology or sustainability in the value chain as a Blue Ocean strategy (see Kim and Mauborgne, 2005) in the luxury fashion market is being influenced by operators whose main clients are generation Z and the Millennials. Such changing consumer taste is traceable to the increasing awareness of nature from a deep ecological perspective as opposed to the system of placing higher value on people over planet (i.e., Anthropocene perspective), emanating from the fear that consumption of irreplaceable natural resources may in turn affect the survival of the ecosystem and human beings. Beck (1990) opined that such fears are expected to dominate business discourse in the postmodern era which is also typified by proliferation of new knowledge and skills which unfortunately leads to less trusts in dis-embedded systems (i.e., systems that are supposed to function seamlessly without regulators' interference) necessitating the need for *'facework'* systems. In this case, the prevalence of declining trusts in the luxury fashion brands have necessitated a market niche – sustainable luxury fashion brands as *'facework'*, which are being priced differently. This is a new development in the understanding of the pre-existing market-based pricing which maps low or high price against low or high quality in quadrants. How this is likely to play out in the

future is still in its infancy. Regarding how luxury fashion brands embed sustainability KPIs into their corporate planning and control, qualitative data suggests that the Fashion Pact is an attempt to create awareness about ESG issues which is the bedrock of sustainability, otherwise called responsible business practice (*see table 3*). Some of these metrics are already used as KPI's in the financial and investment sector, and there have been existing EU guidelines on this since 2015<sup>19</sup>. However, the infusion of the responsible business practice into fashion business is likely to have a wider effect on climate change, biodiversity loss and ocean pollution in agreement with the views of The Global Fashion Agenda (2020).

There are two interesting findings in addressing how luxury brand businesses embed sustainability into luxury fashion. Firstly, the researchers assumed that all the luxury fashion operators are aware of how to measure periodic performance using balance scorecard, and therefore, applying this to the ESG matrix in Table 3 would be possible. Unfortunately, only 2 out of 10 interviewees are able to do this and therefore the idea was dropped. Secondly, the operationalisation of the Fashion Pact under the three pillars (*see table 5*) are only indirectly related. Some training workshops on how these are to be measured and matched with the core and transformational priorities (*see table 7*) are warranted. Some of the operators have already started measuring KPIs based on the Fashion Pact guidelines (*see table 7*). However, what we noticed is that this is imposing new requirements on luxury fashion SMEs which are sometimes unclear. For instance, the science-based targets are yet to be operationalised, and the measurements communicated to these operators do not directly map the three Fashion Pact pillars (*see table 5*).

Based on the internal procedures reviewed, there is need for better understanding of the supply chain footprint by first identifying the sustainability risks to the brand that can be prioritised (e.g. which suppliers should include in the procurement programme and which knocked and set out their obligations this usually involved) development of a detailed supply chain risk map that charts inputs (e.g. raw materials, labour and packaging) and the production flow from start to the point of after-sales services which may involve carrying out some due diligence and information gathering on human rights, labour practices, environmental and corruption risks at every step of the production chain. Engaging with key suppliers to ensure shared understanding about the KPIs based on the “core” and “transformational” priorities (*see table 7*) may bring about proper oversight controls and possibly, the transfer ownership of these objectives to the suppliers themselves. But then the application knowledge balanced scorecard or any other models of performance measurement that seeks to integrate typical procurement considerations of price and quality with sustainability related issues. e.g., that sustainability obligations are written into supply contracts with incentives or penalties for suppliers for any breaches of the code of conduct (*see table 9*). Rather than unverifiable verbal commitments, actively engaging in due diligence activities to assess the ESG performance of suppliers in order to ensure compliance with companies' expectations this may be designed to involve collaborative self-assessments and on-site audits and supply chain management certifications and a review of the operational level grievance mechanisms by industry

association. Such “collective-choice processes and decisions” (Ostrom, 2015:192) is likely to reduce the overall cost of compliance and spread the benefits of sustainability practice to all.

## **6. Contribution to practice**

There is a seeming shift in the understanding of the meaning of luxury product from a pricing perspective, which was hitherto associated with ‘high quality and high price’, to ‘quality and sustainable product’. This is an issue which may have significant implications for luxury practitioners as this continues to unfold in the future. Also, it is believed that from a practitioners’ point of view, Millennials and Generation Z will dominate the luxury fashions market by 2030. If the current trend continues, then sustainability issues are likely to have become mainstream in the luxury market, and any operator who cannot compete on the basis on sustainable luxury in their brand DNA is likely to find the changing market dynamics challenging.

Technology and legal frameworks will likely create a critical mass in luxury fashion. There are still many areas which luxury brands based in London do not have control over inputs e.g., extractions in the upstream markets taking place in the developing countries and delivered in the EU. However, since this is an issue which is not limited to the London market operators alone, the market is likely to confront them frontally in due course. Empirical evidence suggests that when the industry collaborates with others such as the technology providers, regulators and the customers (*see table 8*), it is possible to create tipping points and make every stakeholder to work towards achieving them.

## **6.3 Conclusion**

This work demonstrated the extent of multidisciplinary and multifaceted approach in the use of technology and industry policies and regulations in achieving a closed-loop circular economy. This work also demonstrated the nature of complex and multidisciplinary issue such as sustainability which does not start nor end in the luxury fashion business. Therefore, solving systemic problems such as this require collaboration withing and outside of the luxury fashion value chain. For instance, the issue of child labour existing in sourcing the agricultural inputs will automatically feed into the luxury fashion value chain.

The data generated in this work, analysed from a risk society theory, a sociological perspective, is a departure from previous theoretical lenses, and it is likely to expand the body of knowledge in the understanding of luxury business in a circular economy which may become the norm in due course.

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## NOTES

1. According to the 2019 World Wealth Report published by capgemini.com, millennials currently representing around 32% of the luxury market is likely to reach 50% by 2025. Geographically, China currently represents 33% of the market, is expected to rise to 40% by 2025.
2. 2016 Report published by the Luxury Society titled “2016 Predictions For Luxury Sustainability & Innovation. Key highlights include: the risk of scarcity in supply chain, investors growing interest in sustainable investing, growing interests of millennials in sustainability.  
<https://www.luxurysociety.com/en/articles/2016/01/2016-predictions-for-luxury-sustainability-innovation/>
3. According to recent findings by Harnaiez (2020), expectations of luxury differs based on nationalities of clients. For instance, Chinese, Americans, French, and Italian clients pay attention to the following in the order in which they appear here:

Chinese: High-end watches, mobility, jewellery, beautiful people, fashion & accessories.

Americans: Mobility, sustainability, warm interior, aquatic & summer holidays, urban intensity.

French: Mobility, high-end watches, warm interior, sustainability, jewellery.

Italians: Mobility, sustainability, aquatic & summer holidays, high-end watches, warm interior.

Further details are available at: <http://www.sommetduluxe.com/wp-content/uploads/2020/03/Slides-Fran%C3%A7oise-Hernaez-IPSOS-1.pdf>

4. According to Walpole, which is the trade body for British luxury sector has grown by 49% between 2015 and 2019, and the annual sales is projected to rise to £65 billion assuming that the UK and the EU are able to secure a Brexit trade deal. <https://fashionunited.uk/news/business/british-luxury-sector-has-grown-49-percent-in-four-years/2019060643531>
5. A circular economy seeks to use capitals in businesses, whether they are financial, intellectual, manufactured, human, social, natural.
6. A report by Jasmine Chinasamy which showed that the fashion industry is being increasingly scrutinised for its environmental impacts: <https://unearthed.greenpeace.org/2019/09/12/fast-facts-about-fast-fashion/>
7. Kering Chief to Present Industry Sustainability Pact to G7: <https://www.businessoffashion.com/articles/sustainability/kering-chief-to-present-industry-sustainability-pact-to-g7> where a group of world’s biggest fashion companies signed up to a climate commitment. This is also in tandem with the findings of the Fashion on Climate Report: <https://www.mckinsey.com/industries/retail/our-insights/fashion-on-climate>
8. Why protesters disrupted London Fashion Week: <https://www.weforum.org/agenda/2020/02/fashion-environment-london-extinction-rebellion/>
9. Sara Arnold, the spokesperson of XR aiming to raise awareness of the effect of environmental damage arising from unsustainable fashion practices: <https://www.theguardian.com/environment/2020/feb/15/extinction-rebellion-protest-at-gatwick-and-london-fashion-week>
10. Reports indicting Luxury Fashion of sustainability sins: <https://www.dw.com/en/fashions-eco-sins-in-search-of-sustainable-clothing/a-43402431>
11. Interview with Antoine Arnault, the Head of Image and Environment at LVMH during the LVMH Climate Week, December 8-11, 2020. Available at: <https://www.lvmh.com/lvmh-climate-week-2020/>
12. The EU directive 2014/95 – lays down the rules on disclosure of non-disclosure of non-financial and diversity information by large companies. Companies are required to include non-financial statements in their annual reports from 2018 onwards.

**Table 1:** The State of Luxury Market

Category	Generation	Nationality	True-Luxury Consumers
Personal luxury is worth €30b. Growth driven by accessories and cosmetics.	Millennials to grow from 32% to 50% of personal luxury market by 2025. 130% of the growth up to 2025 to come from Millennials.	China makes up 33% of the luxury market, and this is expected to reach 40% by 2025.	True-Luxury consumers generate €278b or 30% of global luxury market and expected to reach €395 by 2025.
Experiential luxury is worth €90. Growth driven by	Gen Z represents only 4% of the personal luxury market. However, they have a clearly different set	75% of the market growth from 2018-2025 is expected to	Largest contribution to growth coming from Status Seeker, Little Prince and Fashionista segments, seeking

hospitality and technology.	of behaviours and values that luxury brands should understand	come from Chinese True-Luxury consumers.	extravagance, fun and new form of creativity in product and brands.
		Largest worldwide luxury market covering 85% of global luxury sales value comprise of Brazil, USA, UK, Germany, France, Italy, Russia, China, Japan and South Korea.	<i>Megacitiers</i> , expression of the global millennial tribe, continue to grow.

Source: BCG Luxury Market Model (2020)

**Table 2:** Key trends in True-Luxury Global Consumer Insight

<b>New and Emerging</b>	Collaborations	Awareness is extremely high. 50% of True-Luxury consumers purchasing collaborators and special editions is driven by Chinese, younger generations made up of Generation Z and Millennials.
	Second-hand	Represents 7% of personal luxury market value and grows by 12% annually. 34% of the True-Luxury consumers sell second-hand products and 26% buy. 80% of market participants use online channels to get informed and to trade.
<b>Keeps growing</b>	Sustainability	There is a significant surge in the purchase behaviour of True-Luxury consumers driven by environmental, animal and ethical manufacturing concerns.
	Luxury casualwear	Casual approach to social and professional occasions continues to grow, now affecting 74% of True-Luxury consumers, with still further expected growth in spending (driven by sneakers and jeans)
	Influencers	Their relevance in shaping consumer purchasing decisions continues to increase, affecting twice as many True-Luxury consumers in China than in Europe and the USA.
	Social Media	Keep growing in all geographies, by far greatest influence lever in China, soon overtake magazines in Europe and the USA
	Online	Continues to grow, with over 20% of last purchase occasions online, and contributes to overall market growth more than cannibalising (60% in addition to physical, as against 40% cannibalisation)
<b>Stabilising</b>	Omnichannel	Accounts for 50% overall, with substantial variation by geography (64% China and 42% EU)
	Mono-Brand Stores	Appear to have stabilised in True-Luxury consumers' minds, no longer decreasing in a significant way, except for China
	Made-In	Made-in-Italy continues to strengthen its global lead among True-Luxury consumers and among Chinese Vs Made-in France. Made-In-China growing among Chinese up by 11% when compared to 2014
	Mix & Match	Luxury niche and sports brands driving greater shift. Exclusivity and perception of better value are driving consumers to niche brands, whereas comfort and active lifestyle to sportswear brands.
	Customisation	Demand stabilised (at high level). Product configuration, made to measure and bespoke products most desired.

**Source:** Altgamma True-Luxury Global Consumer Insight Survey, 2019.

**Table 3:** Observed ESG issues affecting Luxury Businesses

Business Issue	ESG Policy Issues	ESG Sub-policy issues	RISKS OF NON-ADHERENCE TO ESG ISSUES
Environmental	Climate change driving increased exposure for business	Supply chain management and logistics; Use of sustainable materials, energy and production technology; NetZero or Carbon neutral policies within the IPCC “2°C scenario”.	<p>Developments such as the Paris Accord 2015 (COP21), the Sustainable Development Goals, the UK Bribery Act 2010 and the Modern Anti-Slavery Act 2015 have increased awareness of the ESG business issues from both legal and moral perspectives.</p> <p>Also, the EU plans to achieve net-zero carbon emission by 2050 through the European Parliament endorsement of its March 2019 “resolution on climate change”. This policy was endorsed in December 2019, and it is expected that this would be domesticated by all EU countries through the development of national strategies on GHG emission. The EU submitted this to the UNFCCC in March 2020 as its long-term strategy on addressing climate change.</p>
	Water management strategies	Adoption of water management strategies to prevent drought and contamination; prevent pollution of waterways; rethinking water-supply models.	
	Biodiversity	Land degradation leading to reduced productivity, plastic pollution, industrial waste and sludge dumping into global waters, loss of rare flora and fauna species	
Social	Exploitation in the supply chain	Child labour, the issue of living wage, forced labour, modern slavery and other human rights abuses	<p>Non-adherence opens the local Luxury Business and their foreign associates to litigation risks for non-compliance in the EU even where this occurred abroad. Where litigation is impossible, social actions and negative campaigns such as climate-linked activism and boycotts targeted at the Luxury Business may influence bad press against the Luxury Business.</p>
	Compliance issues	Respect for local and international laws including religious beliefs and customs	
Governance	Investor engagement	Continuous communication with the capital providers to reinforce goal-congruence and reduce agency problems	<p>These actions may trigger a chain of events which may influence a pattern of decline in customer patronage, financial losses, and even insolvency which may put the business 'going concern' assumption in jeopardy.</p>
	Diversity of the Board	Having gender, ethnic, executive and non-executive balance, and appointing directors with ESG management skills	
	Public accountability	Demonstrating transparency, engagement in local issues through functional accountability mechanisms, thereby increasing legitimacy of the Luxury Business	

**Source:** Researchers’ Findings.

**Table 7:** Measurement of performance against “The Fashion Pact”

<b>Core priorities for immediate implementation</b>	LB1	LB2	LB3	LB4	LB5	LB6	LB7	LB8	LB9	LB10
Supply chain traceability	x			x		x	x			x
Reversing climate change	x			x			x			
Efficient use of water energy and chemicals	x			x		x	x			x
Respectful and secure work environments	x	x	x	x	x	x	x	x	x	x

<b>Transformational priorities for fundamental change</b>										
Sustainable material mix	x	x		x		x			x	x
Circular fashion system	x			x		x				x
Promotion of better wage systems	x	x	x	x	x	x	x	x	x	x
Fourth industrial revolution	x			x		x				x

**Source:** Researchers’ Findings

**Table 8:** Luxury Fashion Supply Chain

<b>Luxury Fashion Activities</b>	<b>Sustainability Issues</b>	<b>Sustainable Alternative</b>
Fibre and yarn production	Child labour, forced labour, human rights, carbon footprint	Biotechnology and eco-friendly production technique, Recycle, Remanufacture, Repair, Reprogramme goods, Collaboration in measuring sustainable KPIs.
Fabric production	Leather, fur and plants from endangered species	
Apparel manufacture	Material wastage, water pollution, carbon footprint	
Procurement	Bribery, Procurement from blacklisted territories, Restricted party screening	Ethical procurement, Re-fine, collaboration in measuring sustainable KPIs.
Distribution	Carbon footprint, bribery of corrupt officials	Collaboration in measuring sustainable KPIs.
Retail	Energy consumption in shops	Collaboration in measuring sustainable KPIs.
Pricing and costing	Budgets padding	Measuring sustainable KPIs, Responsible budgeting.
Sales and after-sales	Disposal in landfills, Export control.	Reverse logistics, Re-market.

**Source:** Researchers' Findings