

Luxury organizations and responsibility: A toolbox

25

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The fashion and textile industry is one of the most polluting, second only to oil. Luxury companies have long held the belief that they are not responsible for their adverse impact on the world and its inhabitants, and that to take on a sustainable mindset would mean curbing creativity and innovation. However, sustainability issues are coming to the forefront, for example, the film, ‘Blood Diamond’, raised concerns over the sourcing of luxury materials. Some luxury companies today take on environmental and social responsibility as arbitrary acts of philanthropy and sponsorship with no lasting impact, while others, like Tiffany & Co’s commitment to responsible mining practices and Ermenegildo Zegna’s innovative products and materials, are exploring new ways to be environmentally-friendly and ethical. To be left behind in the sustainability cause could damage a brand’s reputation and financial success. In this chapter we define sustainability and provide a framework for how luxury firms can become more responsible through eight generic tools used to assess the luxury firm’s level of sustainability, and to guide the selection and implementation of responsible practices.

Introduction

Fashion and textiles are some of the most polluting industries, because of their heavy demand for resources such as water and energy used in the production of cotton and synthetic fabrics, the toxic chemicals used for pesticides and dyes, and waste like noxious effluents from leather tanning. The luxury industry has long thought that sustainability concerns had nothing to do with it, emphasizing that mass-market fashion brands are responsible for the atrocities and luxury by definition uses the finest materials to make beautiful, durable objects. Moreover, there is a fear that adopting a sustainable mindset would deter innovation and creativity, seeing sustainable development as meaning frugality and minimalism.¹

These are short-sighted views. The luxury industry involves more than creating beautiful objects with the finest materials, and sustainability means more than cutting back on air conditioning and using recycled paper. Emerging questions of the provenance of raw materials and production as well as ethical and labour issues are threatening brands' reputation and financial success. Luxury companies today take on environmental and social responsibility as arbitrary acts of philanthropy and sponsorship with no lasting environmental or social impact. How can that be changed to create a committed, responsible luxury brand?

Firms wanting to adopt responsible practices may find themselves paralysed by a lack of knowledge of what sustainability actually means or how to become more sustainable. Established luxury brands still have a comparatively weak level of responsibility, opting for short-term philanthropy, like glitzy charity events. Meanwhile, more progressive firms are experimenting with innovative ways to be environmentally and ethically responsible. For example, Zegna Sport has sustainability at the core of its value proposition in its Eco-Tech Solar-Powered jacket, made partially of recycled plastic.²

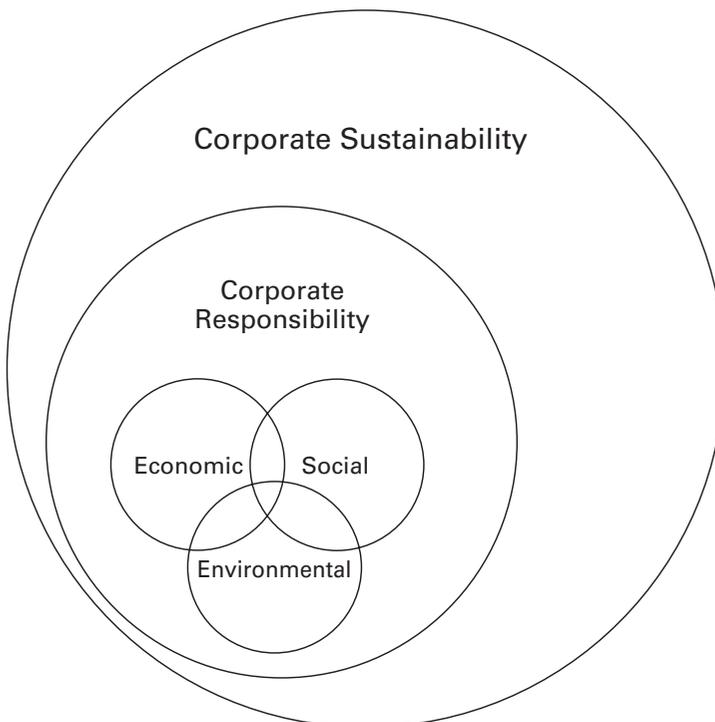
In this chapter we hope to elucidate the meaning of sustainability as well as provide a framework for how luxury firms can become more responsible. The basis of the chapter comes from previous research: almost 40 examples of responsible practices in luxury firms were examined and eight generic tools to advance sustainability were revealed.

First, we introduce four levels of sustainability, adapted from van Marrewijk.³ The stages allow the firm to assess its level of responsibility as an enterprise and in its individual practices. Then, the generic tools are posed as eight questions to assess the luxury firm's level of sustainability and to guide selection and implementation of responsibility practices.

The four levels of sustainability

Businesses understand the need for a more ethical and environmentally-friendly way of doing business, but they have different views on what this means in the real world.⁴ Sustainable development is defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.⁵ In our work, four levels of sustainability are defined (see Figure 25.1). These levels are seen as a maturity model, which starts on the first

FIGURE 25.1 Model of the levels of sustainability



SOURCE: Linnanen & Panapanaan (2002)

level with a minimal, voluntary effort and progresses to the fourth level, corporate sustainability.^{3,4}

The first stage is represented by the economic responsibility circle, as the focus is on shareholders (investors) and profit maximization. The second stage is represented by the economic and social responsibility circles, as businesses have a responsibility to their stakeholders (employees, customers, suppliers and the community where they do business) as well as their shareholders. The third stage is corporate responsibility and is represented by the economic, social and environmental circles, also known as ‘balancing the triple bottom line’. The fourth stage is corporate sustainability, where the firm goes beyond its existing business to satisfy the needs of those outside its network.

Defining the levels

Level 1. Compliance

Level 1 practices aim to be compliant with laws and regulations, and any additional effort is seen as an unnecessary expense, hurting profitability.^{6,7} The dominant belief of level 1 managers is that a firm is a self-contained entity and has no direct responsibility to society, because profits contribute to society by means of job and wealth creation through wages, taxes and investments.

An example of a level 1 practice is Louis Vuitton’s use of monogrammed chainmail to improve natural light and reduce electricity in its stores. Shops in major cities are fined for wasting electricity: New York City shops are fined for running air conditioning while keeping the doors open.⁸ Another example is cosmetic firms trumpeting their commitment against animal testing, when a European Commission ban has actually been in effect since 2004 (European Commission).

Level 2. Philanthropy

Once firms are able to keep up with regulations, they become more proactive about sustainability issues.⁹ The aim is seen as two-fold: to legitimize the business as a part of society and to improve its reputation.

The public gives businesses a licence-to-operate and the firm has a responsibility to meet the needs of its employees, suppliers, customers and communities where it does business. To ignore stakeholders' interests could hurt a firm's reputation, profitability and future growth.¹⁰

For example, in 1930 Ermenegildo Zegna designed and financed a massive reforestation of the mountains surrounding the Zegna wool mill in Trivero, providing a beautiful natural landscape for his employees and the community (Oasi Zegna).

To improve their reputation, firms aim to display sensitivity and philanthropy. Goodwill programmes are seen as a necessary expense, but at the same time an investment, as the firm becomes attractive to employees, customers and shareholders.^{11,12} However, the focus is on satisfying external audiences, and can overlap with cause-related marketing.¹¹ Cause-related marketing communicates the message that a company is a good citizen and is a means to improve its reputation by associating itself with a cause or a charity.¹³ Managers may prefer the benefits of promotion and improved reputation over the environmental and social impact.¹¹ Efforts may be short-term, aligning with what the firm considers as glamorous or appropriate causes.

An example of Level 2 is Louis Vuitton's customized pieces for an auction in Sotheby's to celebrate the Red Cross' 150th anniversary. At the gala event, US\$755,000 was raised for the Red Cross' Fight Against Malnutrition programme in Niger.

Level 3. Corporate responsibility

At this level, a firm balances the triple bottom line, where environmental, social and economic efforts are executed in a firm's value chain.¹⁴ Management understands that some environmental and social know-how may be beyond their scope and will engage with stakeholders, NGOs and education and research institutes.¹⁵ Managers implement metrics and lifecycle assessment tools to gauge the firm's environmental impact throughout the whole value chain.

An example of metrics is Puma's (Kering) Environmental Profit & Loss (EP&L) statement, which rates its environmental impact throughout its

supply chain, starting with Tier One at an operational level, to Tier Four at a raw materials level. With the EP&L, Puma is able to assess where the greatest environmental harm occurs and how it can minimize or eliminate its negative impact.¹⁶

The management of responsible practices at this stage is continuous and incremental. A Sustainability Department may be established to educate managers and employees in making better choices, as well as contributing to a firm's long-term competitiveness. In addition, sustainable products and process are adopted in its value chain and green spaces are created.

An example of Level 3 is Louis Vuitton's logistics centre in Cergy, France, which has geothermal heating, photosensitive sensors to automatically regulate interior lighting, a system of collection and purification of rainwater before it is channelled into the ground, and waste water is filtered using natural methods such as a series of ponds lined with special membranes to achieve zero used-water impact.

Level 4. Corporate sustainability

At this stage, businesses understand they have a responsibility to their stakeholders and to the world outside its network, as managers recognize the potential of untapped markets in developing countries.¹⁷ The company uses sustainability as a competitive advantage by creating clean and innovative products, an ethical and environmental value chain, or serving a vast new customer base in developing countries. Top management questions current practices and eliminates obsolete and harmful businesses¹⁸ and sustainability is holistically integrated throughout the corporation.¹⁹

An example of Level 4 is Loro Piana and Ermenegildo Zegna's commitment to repopulate the vicuñas, the smallest living species on the family *Camelidae*, in the Andes. Zegna's Vicuña Project protects and safeguards the animals as well as the local communities by developing water facilities. Loro Piana invests in research in a private natural reserve: at the end of the 1960s, there were less than 5,000 vicuñas; today, there are over 150,000.

A toolbox for advancing corporate sustainability

Eight generic tools, posed as questions, assess the luxury firm's current level of sustainability and can help it become a responsible company. The subjectivity of the exercise should be acknowledged: information on practices can be patchy and biased, so conclusions had to be drawn. We choose to work on the basis of individual practices, rather than attempting to compare at the level of the firm. The questionnaire can be used to:

- determine the firm's current level of sustainability practices;
- guide the search for adoptable inspirational practices;
- measure the progress towards corporate sustainability.

The toolbox

A firm can start the transformation to becoming a responsible company by assessing its triple bottom line, or its economic, social and environmental capital.²⁰ To this end the questionnaire is presented in two dimensions, environmental and social. Examples are provided to serve as a source of inspiration and to help in understanding the tool's full potential. The manager answers and ranks the questions and then the scores are added and plotted. The tools contribute to the overall Corporate Sustainability Index.

Environmental dimension

On the environmental dimension we have identified four tools: reduction, creation, eco-friendly products and sustainability processes (see Figure 25.2).

An example of reduction is Bottega Veneta's carbon neutral Milan headquarters²¹ and an example of creation is jewellery designer John Hardy's 'Wear bamboo, plant bamboo' programme, in which the company donated 600,000 bamboo seedlings in Bali to fight against deforestation, maintain the water table and offset carbon emissions.²²

FIGURE 25.2 Questionnaire on corporate sustainability, environmental dimension

| | | | |
|---|--|---------------|--|
| 1 | Reduction: where would you rank your firm's efforts in reducing its negative environmental impact? | | |
| | For example, reduction of CO ₂ emissions, waste, water usage etc | | |
| | Compliant with minimum standards | 1 2 3 4 5 6 7 | No negative impact |
| 2 | Creation: where would you rank your firm's efforts in creating a positive environmental impact? | | |
| | For example, repopulation, reforestation, renewable energy, and upcycling (transforming waste to something of greater value) | | |
| | Compliant with minimum standards | 1 2 3 4 5 6 7 | Contributes extensively to a positive impact |
| 3 | Environment-friendly products: where would you rank your firm's efforts in producing sustainability products? | | |
| | For example, usage of recycled or biodegradable materials, managing the lifecycle of a product, responsible sourcing, etc. | | |
| | Our products are compliant with minimum standards | 1 2 3 4 5 6 7 | Our product portfolio is 100% sustainable |
| 4 | Sustainability processes: where would you rank your firm's efforts in adopting and using clean technology and methods? | | |
| | For example, discontinue unsustainable practices and adopting cleaner processes, adopting an environmental metric system, creating a sustainable work space, zero landfill waste, etc. | | |
| | We have no such systems | 1 2 3 4 5 6 7 | All our processes integrate sustainability aspects |

Social dimension

On the social dimension we have also identified four tools: supporting human capital, partner network, stakeholder engagement and social philanthropy (see Figure 25.3).

An example of supporting human capital is Bottega Veneta's endorsement of the Scuola d'Arte e Mestieri di Vicenza to train students in leatherworking. Bottega Veneta sustains a centuries-old craft, as well

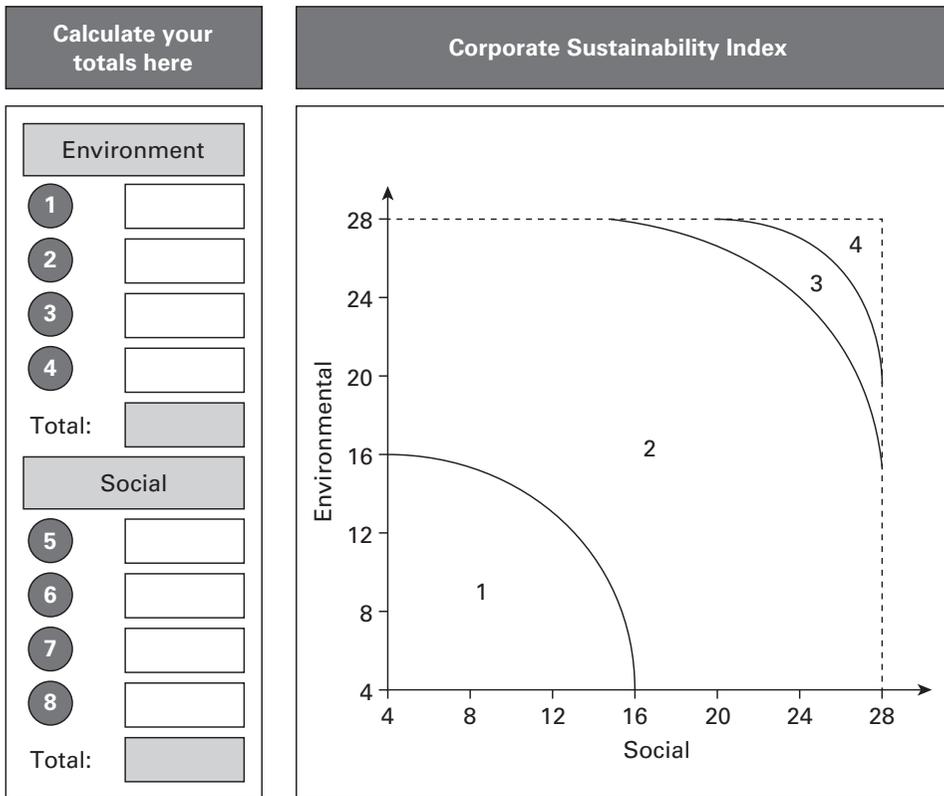
FIGURE 25.3 Questionnaire on corporate sustainability, social dimension

| I | Social | | |
|---|---|---------------|--|
| 1 | Support Human Capital: where would you rank your firm’s efforts in supporting its human capital? | | |
| | For example, local craftsmanship and skills, local communities, and education, etc. | | |
| | We make a minimal effort | 1 2 3 4 5 6 7 | We make significant positive impact |
| 2 | Partner network: where would you rank your firm’s efforts in fostering partnerships in order to become more ethical and knowledgeable about sustainability? | | |
| | For example, engagement with NGOs, education and research institutions? | | |
| | We make minimal effort | 1 2 3 4 5 6 7 | We have a vast and active partner network for fostering sustainability |
| 3 | Stakeholder engagement: where would you rank your firm’s efforts in engaging with employees, customers and competitors to become more sustainable? | | |
| | For example, educational tools, rewards, alliances, etc. | | |
| | We make minimal effort | 1 2 3 4 5 6 7 | We are engaged with our stakeholders |
| 4 | Social Philanthropy: Where would you rank your firm’s efforts in philanthropy in order to become more sustainable? | | |
| | We make minimal effort | 1 2 3 4 5 6 7 | We believe it is our duty to do good and invest more than 3% of our revenues on philanthropy |

as having access to talent. An example of partner network is Tiffany & Co’s work with the mining industry, NGOs and local communities to develop responsible operating standards.

Calculating the Corporate Sustainability Index

To calculate the Corporate Sustainability Index (see Figure 25.4), the scores from the questionnaire are entered in the fields on the left. The totals from the environmental and social dimensions are then

FIGURE 25.4 Calculating the corporate sustainability index

plotted on the axes and the lines are drawn. The point of intersection represents the firm's level of sustainability.

Guide to a responsible company

Use the score to judge the current sustainability level

With the Corporate Sustainability Index, the firm has established how far along it is in becoming a sustainable luxury company. This shows both the achieved level and the gap to the ultimate goal, corporate sustainability (level 4). For example, if the firm has self-assessed a low ranking in the second environmental question, it can evaluate whether there are opportunities to engage in repopulation, reforestation, renewable energy or upcycling (transforming waste to something of greater value) activities.

Choosing the right sustainability level can be guided by a general wish to move your company towards corporate sustainability to achieve competitive differentiation. In such a case, the firm aims for a considerably higher level than its competitors, communicates its efforts and ultimately builds a favourable competitive position.

Be inspired by the examples

The next step is to find good examples of sustainable luxury from other brands for each tool. In addition to the examples shared in this chapter, good practices are discussed in luxury brands' annual and CSR reports; environmental blogs (like Tree Hugger and Ecouterre); and magazine and newspaper articles. The examples are meant to inspire the firm and help its progress in sustainability maturity.

Set development goals

In the next step, measurable ambitions are created and opportunities are identified. With this new sustainable mindset, the luxury manager assesses the areas of growth – new products, processes and markets. The ownership of the goals should be defined. In most firms, the Sustainable Development manager will be responsible for tracking progress, but the responsibility for working towards the goal should in most cases be assigned to a business or functional unit, such as sourcing or production.

Track and report progress

Progress can be evaluated and advanced by employing metrics. This will help the firm to determine its current sustainability level and how to become more responsible. With metrics, the company can identify its current performance in corporate sustainability and secure continuous management attention. Equally important is the reporting of progress to external stakeholders. This also helps to avoid cause-related marketing and shows that the firm drives sustainability in a meaningful and professional way. By reporting its actions, the luxury firm sets an example and influences others to follow suit and become sustainable.

Conclusion

Firms understand the need for a more ethical and environmentally-friendly way of doing business but may find themselves paralysed by a lack of understanding and not knowing how to start. This chapter aimed to define sustainability and provide tools to facilitate responsible practices for luxury brands. As the sustainability cause is becoming more relevant in the luxury industry, for example with ethical concerns over diamonds and fur, companies must heed the call.

Some luxury firms have long relied on short-term and glamorous goodwill, while others are using the cause to innovate, for example Loro Piana and Ermenegildo Zegna's commitment to safeguard the vicuña and its habitat. The work of the two companies has ensured that the market for vicuña wool continues to prosper, as well as caring for the habitat and local community.

With the eight generic tools, luxury brands are now equipped with an understanding of sustainability and a framework to develop more responsible practices. In this exercise, the firm finds inspiration in other examples of sustainability in the luxury industry. Through benchmarking, the firm can assure that it is aligned with current ethical and environmental actions and may explore how sustainability can be a competitive advantage in its field through new processes, products or markets. This exercise is not static: it should be explored as new legislation or events, like the financial crisis, arise that may change the course of sustainable development. In luxury, lagging behind can hurt a brand's reputation and financial success. As sustainability is becoming more relevant, luxury brands can no longer afford to ignore the cause.

Key points

- Make a conscious choice to pursue sustainability to create a competitive advantage.
- Benchmark your company against your competitors using the toolbox.
- Implement practices that allow you to attain your sustainability goals.

Notes

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