Impact of Sustainability on the Strategic Direction of Luxury Companies

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Abstract
Today's society is undergoing a paradigm shift driven by the megatrend of sustainability. This undeniably affects all areas of Western life. This paper aims to find out how the luxury industry is dealing with this change and what adjustments are made by the companies. For this purpose, interviews were conducted with managers from the luxury industry, in which they were asked about specific measures taken by their companies as well as trends in the industry. In a subsequent evaluation, the trends in the luxury industry were summarized for the areas of ecological, social, and economic sustainability. It was found that the area of environmental sustainability is significantly more focused than the other sub-areas. Furthermore, the need for a customer survey to validate the industry-based measures was identified.

Keywords: Change, Luxury, Brands, Operations

Introduction
The phenomenon of luxury has been known for centuries and has not lost its relevance in modern times (Berry 1994). Nevertheless, a paradigm shift is currently taking place in the modern luxury industry. An industry often associated with a lifestyle of excess, indulgence, and waste (Dubois et al. 2005, p. 115) – and in some ways contrary to the concept of sustainability – luxury brands have recently embraced sustainability as part of the luxury essence and are exploring ethical consumer trends (Prüne 2013, p. 21; Bendell and Kleanthous 2007; Davies et al. 2012, p. 37). Challenged by the balancing act between brand exclusivity and the
The globalization of luxury brands, marketing managers face serious issues, such as the widespread use of counterfeits, consumer concerns about poor working conditions, blood diamonds, wildlife products, fur, and anorexic models (Tynan et al. 2010; Bendell and Kleanthous 2007). Moreover, luxury brands, especially in emerging economies, are accused of exacerbating social inequalities and the tensions between rich and poor (Kleanthous 2011).

Given that the luxury industry is extremely sensitive to reputational damage, and consumers from all walks of life are increasingly concerned about social and environmental issues (Bendell and Kleanthous 2007), the concept of sustainability must also become a priority for luxury brands. Digitalization has drastically accelerated the exchange of negative impressions so that a failure to meet expectations now poses an existential threat to entire companies. In general, a link can be established between the quality and longevity of luxury products and the resulting sustainability (Janssen et al. 2014).

However, existing studies suggest that the luxury industry still lags behind other industries in terms of sustainable commitment. Nevertheless, the concept of luxury, traditionally based on high quality, superior durability, and deeper value, is a perfect foundation for designing and marketing products that preserve fundamental social and environmental values (Atwal and Alistair, 2010). This leads to the following research questions:

How do luxury brands integrate ethical excellence into their operations?

How can brand managers communicate sustainability efforts to their consumers?

Our paper aims to provide a comprehensive framework of sustainability efforts currently being undertaken by luxury brands. We therefore use semi-structured expert interviews to explore strategic and operational directions followed by industry executives.

**Research Methods**

The following section explains the approach and methodology underlying this work. The goal of qualitative content analysis is to understand human behavior and decision-making through the systematic analysis of communication. With the methodology of semi-structured interviews and qualitative content analysis, it is possible to approach the research question with the greatest possible openness. This leads to a detailed and subjectively perceived account of the causal relationships, in the case of this work, between sustainability and its impact on the luxury goods industry (Prüne 2013; Pietzcker and Vaih-Baur 2018; Grützmacher 2020).

The basic idea of qualitative content analysis was to build on the rule-based systematic principles of quantitative content analysis. Furthermore, qualitative procedures that do not exclude quantitative analyses (category frequencies) have been developed and substantiated for a variety of qualitative text analysis tasks.
(summarizing, explicating, structuring text material) (Flick et al. 2004).

In order to carry out an appropriate analysis, suitable data must first be collected. To this end, this paper uses the guided interview method, which will be presented in more detail in due course. The scientific community and literature have presented various guidelines and approaches for the systematic elaboration of qualitative datasets. Among the best-known proponents of this method of research and analysis is Mayring (Mayring 1991; Flick 1991). Therefore, Mayring’s approach was chosen for this work, and his eight-step guide was adapted and condensed into an agenda specifically tailored to the needs of this analysis (Mayring 1991, 209 ff.).

2.1 Methodology

The selection or procuring of appropriate source material and datasets is an elementary part of qualitative research and accordingly the first part of Mayring’s approach to analysis. Due to the complex and very specific research question, individual qualitative interviews are essential for this work. To this end, various research approaches were considered, with the decision being made in favor of a guideline-based expert interview, which is considered in more detail in the following section. The field of qualitative market and consumer research includes a variety of approaches to conducting field research. Among the different approaches, the semi-structured interview is distinguished and methodologically elaborated. Therefore, they are often used to obtain qualitative data (Helfferich 2014, p. 559). This technique can be further specified by the targeted audience.

The starting point of a semi-structured expert interview analysis is to define a field of research and define one or more lead questions, which shall be investigated throughout the research process.

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\begin{align*}
1. \text{Research Question} \\
2. \text{Target Group Definition} \\
3. \text{Questionnaire Definition} \\
4. \text{Pre-Test phase} \\
5. \text{Rework} \\
6. \text{Field phase} \\
7. \text{Evaluation}
\end{align*}
\]

**Figure 1: Semi-structured interview;** Source: Own representation derived from (Flick et al. 2004)

The figure shown illustrates the seven steps necessary to conduct a structured guided interview and ensure that the material and data obtained are suitable for qualitative analysis. The detailed conduct of the guided interviews for this work is explained in
the following overview:

The defined research question is: “How is the sustainability megatrend affecting the luxury industry?”

In order to answer the research question accurately, strict parameters were set to define the target group. To be eligible as respondents, respondents must be managing directors or senior managers with strategic responsibility in a German luxury company. This ensures that the answers have the necessary significance and that the respondents have the appropriate decision-making authority in their companies.

In accordance with the research question and the defined target group, an adequate guideline must be developed that considers the corresponding spatial and temporal determinants. Due to the current pandemic situation, the questions are designed to be asked via telephone or online conference. In this context, it is also necessary to determine the appropriate recording method. The apps TapeACall and Microsoft Teams recordings are considered suitable. For the structure of the questionnaire, the research question was divided into question blocks that logically build on each other. At this stage, the questionnaire consists of 15 questions.

In the pre-test phase, the developed questionnaire is tested on a group of representative respondents with regard to its usefulness, its structure, but also the necessary time component for the survey. Here it has become apparent that some of the questions are not sufficiently clearly delineated and the questionnaire is too extensive. For the defined target group of managing directors and senior executives, time is a key determinant and therefore plays a decisive role in their willingness to support the survey by participating.

In the event of a rework, the question blocks and questions are revised based on the results of the test phase. This results in a questionnaire consisting of a total of 10 questions, starting with a general icebreaker question and three identically structured question blocks.

The conception of the questionnaire is followed by the field phase and the practical implementation. In this case, 14 people from the target group were interviewed. A total of 215 minutes of audio recordings were generated. The previously defined minimum number of 10 interviews was thus exceeded. The actual interviewing is done via phone calls and Microsoft Teams calls.

The raw data obtained must be processed for further analysis. This requires accurate transcription following the given transcription rules (Azevedo et al. 2017). Therefore, the smoothed verbatim transcription method was used (Mergenthaler 1996). In total, the transcriptions comprise 22,140 words. At this point, a thorough review of the previous steps must be done, and they must be checked for errors before the data is used for further analysis.

Based on the previously defined five steps of qualitative content analysis according to
Mayring, the data obtained can now be further evaluated.

**Analysis and Findings**

In the following chapter, the interviews are analyzed and summarized by forming content-related categories. The basic structure of the interviews continues to serve as a guide. However, the content-related statements are linked across questions and interviewees. Furthermore, external references and studies are integrated and used for cross-referencing.

The unanimous opinion of the respondents showed that the topic of sustainability is attributed a steadily growing importance for the luxury industry. Each of the companies surveyed also indicated that they had already begun evaluating ways to adapt to this megatrend. The influence of sustainability is growing accordingly and is becoming increasingly relevant for day-to-day business and customer relations. Luxury consumers’ demands on products are changing, and companies need to adapt their portfolios accordingly. Luxury and sustainability sound like a contradiction, but nowadays they must be combined and must go beyond the products themselves and be a holistic, industry-wide approach, that is closely linked to the company’s own corporate DNA, which was also noted in the World Wildlife Fund (WWF) report by Bendell and Kleanthous (2007) (Athwal et al. 2019, p. 407; Bendell and Kleanthous 2007). Derived from this and evidenced by the present research, sustainability can be an integral part of an entrepreneur’s start-up motive in the luxury industry, which is also pointed out by Li and Leonas (2019) (Li and Leonas 2019, p. 110). For existing companies, it should be a motivation to question current practices and business operations. Sustainability can therefore be an integral part of a company’s business foundation. Sustainable production and products also justify a higher price in combination with marketing potential and more pleasant user experiences. The trend towards greater sustainability in the luxury industry is one of seven developments in the industry towards what is known as *NEO luxury*, which in 2019 was largely shaped by the work of Meurer and Riedmeier. The results of the study with regard to sustainability were again confirmed by this study (Meurer and Riedmeier 2019, 10 ff.).

Luxury in itself is very personal and therefore cannot be standardized. Expectations of sustainability are also individual. This is particularly determinant of the secondhand and recycled luxury market (Atwal and Williams 2017, p. 44).

Even industries that tend to be diametrically opposed to sustainability and green thinking, such as the superyacht industry, are beginning to develop a more sustainable and environmentally friendly approach. In this context, alternative fueling systems are being designed and tested, as well as the introduction of marine-care programs by industry-affiliated companies in cooperation with private owners. Nevertheless, all efforts in this industry must follow the need to be profitable. For example, the *Lürssen Kröger* shipyard in northern Germany recently signed the first order to build a superyacht with fuel-cell technology (Webster 2021).
Other companies have a more sustainable approach, defined by the materials they use in their products. Nevertheless, current trends are moving in the direction of resource conservation and environmentally friendly production methods. Demand for sustainable luxury vacations is steadily increasing, and companies in the industry are adapting their product portfolios accordingly.

Although the issue of sustainability is ubiquitous, not all companies in the luxury industry have integrated it into their current strategic and operational development. While the previous approach is relatively rare, other companies state that luxury and sustainability are inseparable and integral. At this point, it must be emphasized that this study only refers to the German industry and its views. A 2019 study by Dekhili, Achabou, and Alharbi highlighted that attitudes towards the link between luxury and sustainability can vary depending on cultural background (Dekhili et al. 2019).

3.1 Impact of Environmental Sustainability on the Luxury Industry

Environmental sustainability is currently one of the biggest challenges, and at the same time, opportunities for the luxury industry, and will continue to grow in importance, mainly because the CO₂ footprint of luxury consumers is significantly higher than average (Lynch et al. 2019, p. 377). From a historical perspective, luxury is strongly associated with a dissolute and lavish lifestyle, and sustainability has been neglected in recent decades. The industry must adapt to the new demands of consumers and implement appropriate reforms. Accordingly, the integration of environmental sustainability is inevitable. Sustainability starts in the company itself but is increasingly expected along the entire value chain. This trend towards a more sustainable approach in the luxury industry continues to evolve and grow.

Digitalization has made the consequences of environmental pollution more visible than ever before and has reached the general public, especially in relation to nature in remote regions of the world. These have become virtually accessible through the Internet, and global education about the overexploitation of the Earth is taking place. It can be deduced that companies need to control and optimize their value chain in order to achieve their own environmental goals, but also to avoid social pressure from their customers (Lynch et al. 2019, p. 377). The major luxury conglomerates have launched extensive transparency campaigns in response to massive pressure from environmental activists, politicians, and not least, their customers. As a result, pressure has been put on all companies in the industry to challenge their environmental impacts and provide transparency to customers and stakeholders. At the same time, investments were made at all levels to reduce the impact on the environment. Nevertheless, many luxury products are based on expensive and rare raw materials, for which currently only abandonment or, in some cases, recycling is an option. The resulting threat to existing companies has enabled an emerging generation of new luxury brands with a strong focus on sustainable resource use to successfully position themselves in the market. However, there are also companies that deal with the issue of environmental sustainability, but this is not demanded by
the customer. In principle, quality and the resulting longevity can also be seen as an environmentally friendly use of resources (Amatulli et al. 2017, 97 ff.; Lynch et al. 2019, p. 378). A trend that has now reached the luxury industry is the recycling or upcycling of products, including the use of ocean plastic as raw material for production. This trend is now also being followed by major brands like Gucci, Versace, and Burberry. However, these campaigns are exceedingly rare and designed primarily for positive media effects. In this context, it is also important to point out the often long supply chains through Far Eastern production, which have a significant impact on the overall CO₂ footprint of luxury products in Europe. Overall, the work of Lynch, Long, Stretesky, and Barrett found that the environmental impacts of customers in the luxury segment remain significantly higher than those of ordinary consumers, a finding confirmed by Kenner and Grützmacher as well as by the statements of the companies surveyed (Lynch et al. 2019; Kenner 2015). Nevertheless, this question has shown that customers are becoming increasingly aware of the environmental impact of their purchases and that this trend is also affecting the luxury industry. Another important aspect of the modern interpretation of luxury is dematerialization, which is a decisive purchasing argument for a new target group with purchasing power, but which has grown up with luxury. These predominantly younger buyers are looking for sustainability-oriented luxury experiences and are less focused on material luxury (Bosshart et al. 2019). However, this target group defined by Bosshart, Gurzki, and Mei-Pochtler was not a central part of the present study but must be mentioned for the sake of completeness. In the further course, the materialistic luxury is in the foreground.

3.2 Measures to Combine Environmental Sustainability and Luxury

In the following section, the measures taken by the companies to improve their environmental sustainability are listed and simultaneously analyzed. It becomes clear that the reduction of CO₂ emissions is a central starting point for sustainable economic corporate management. However, reducing CO₂ emissions alone is a general measure and not specific to luxury companies. This also applies to the offset of Co2, which is also becoming increasingly important in the luxury consumer segment. When asked for more specific details, interviewees emphasized above all the optimization of production processes and the reduction of employee travel through the introduction of digital structures. Furthermore, many companies are reducing printing and the use of paper. Reducing water and avoiding plastic also fall into this category. One specific measure that has been mentioned several times is the recycling of second-hand products and materials. According to Cimatti, this approach is particularly common in the luxury fashion industry (Cimatti et al. 2017).

3.3 Communicating Environmental Sustainability

The literature review found that sufficient consideration of the communication of any environmental sustainability measures has not been done to date. Accordingly, the survey examined the extent to which the measures implemented by the companies
are communicated to the stakeholders. It also asks whether ecological sustainability is used as a marketing tool in the luxury industry.

A distinction must be made in the responses as to whether the company's target group is primarily B2C or B2B customers. For customers in the B2C sector, environmental sustainability measures are mainly used in individual campaigns and rarely communicated as a holistic approach. Transparency and traceability are provided for the campaigns, but the basic internal company processes with regard to sustainability are not communicated. Accordingly, the measures described in the previous chapter must be critically examined. In contrast, customers in the B2B sector expect more transparency and recognition of suppliers' compliance regulations. These can be achieved, for example, through the introduction of various national and international seals of approval, which serve as indicators for the use of sustainable packaging and transportation.

3.4 Social Sustainability and Luxury

The social component or corporate responsibility in the social area is becoming increasingly important for companies and the luxury sector. Modern sustainability goes far beyond the ecological aspect. For a holistic sustainability concept, social factors must therefore also be considered. The luxury industry in particular is committed to a strong sense of social responsibility. Part of the new luxury is taking care of your employees and your community. Providing customers with products and services that go well beyond what is necessary is only accepted by society if it includes a certain giveback. Employee satisfaction and long-term employee loyalty have a significant positive impact on the company's success. Especially with service-intensive luxury products and services, employee satisfaction is critical to a positive customer experience. Employee development and the opportunity for further training are essential for a long-term employment relationship and thus part of a sustainable social strategy. Companies must therefore provide opportunities for continuous personal and professional development. As part of holistic employee advocacy, the relationship between customers and employees must also be considered. Discrepancies are common in the luxury industry. On the entrepreneurial side, a code of conduct for customers can be used as well as easy and safe ways for employees to report customer misconduct. However, this type of social sustainability is not yet widespread.

3.5 Transparency of Social Sustainability in the Luxury Industry

Although the importance of social sustainability was emphasized by all companies surveyed in the previous question, the answers to the question about specific measures varied. Only half of the respondents were able to provide specific information on the social sustainability concept in their company, while the other half were unable to name any specific measures. The measures indicated are explained in more detail below.
In order to meet social requirements such as work-life balance, flexible working options and a comprehensive home-office program are offered. In addition, opportunities for independent further training are offered by the company. These measures are supported by a high degree of flexibility in work activities. This also includes a continuous exchange with employees about their individual careers.

One approach that takes place outside the company and is therefore assessed as external social engagement is the charitable sponsoring of products or pro bono work. In this context, the share of proceeds from products or services sold for the benefit of charitable events should also be considered. The latter is often strongly motivated by positive marketing effects.

In summary, the socially sustainable engagement of luxury companies rarely exceeds the standard expected of good corporate citizenship.

3.6 Economic Sustainability in the Luxury Industry

The economic sustainability of luxury companies caused difficulties for the interviewees. In many cases, the topic has not yet been considered in a differentiated way. Economic sustainability relates to both the economic processes within the company and to long-term customer loyalty. In principle, every company in a free-market economy must operate economically in order to survive, so the focus of this question is on concrete measures to ensure long-term success. A sustainable success strategy means for companies to continuously develop with intrinsic motivation and to adapt to new market conditions. This change has not yet been noticed by all traditional luxury brands.

4.0 Results and Discussion

The modern kind of luxury is focused on experiencing and consciously perceiving. This includes the traceability of production chains and close personal identification with the brand offering the product or service. The luxury brand is therefore forced to reconnect with its customers, although it must maintain its limited availability and scarcity. The concept of sustainability is now closely linked to quality, so it is essential for premium-priced products to meet this standard. Customers are expected to have a strong focus on sustainability while expecting high-end luxury. Companies will therefore have to invest in suitable solutions. It should be emphasized that the expectations go well beyond a reduction in CO2 emissions and the sustainability approaches already in use. These will be defined as basic requirements in the future. Especially for young companies with flexible structures, these fundamental market changes can offer a great opportunity for market entry.

4.1 Measures to Combine Environmental Sustainability and Luxury

Some companies mentioned sustainability-related adjustments to their product portfolios and the introduction of alternative raw materials. In the case of product portfolio adjustments, the long-term sustainability of measures to promote ecology
must be discussed controversially elsewhere, especially in the case of electromobility and the associated demand for lithium batteries. Some companies have not changed their product portfolio because it already meets modern requirements for sustainable ecological product design and production. In this case, however, a focus on the use of sustainable energy sources such as solar is worth emphasizing. One aspect highlighted by several companies is the reduction of plastic packaging material and the exploration of alternative biodegradable packaging. However, customer expectations are often a problem here. High-priced products are expected to come in high-priced packaging with a corresponding look and feel. In practice, it is still difficult to produce these with biodegradable materials. Overall, it can be seen that almost all companies are implementing targeted measures to make their business activities more environmentally sustainable.

4.2 Communicating Environmental Sustainability

In summary, it can be concluded from the responses that there is an increasing demand for environmental sustainability, but not yet an increased interest in actually monitoring these measures. Campaigns around the topic of sustainability are becoming more and more popular, but at present, they can hardly be distinguished from greenwashing measures. If the trend towards sustainability and the associated traceability continues in the luxury segment, companies will have to back up their promises with transparency.

4.3 Social Sustainability and Luxury

Social sustainability is also reflected in the company’s internal leadership style and management. Family-run companies in particular excel in terms of employee development and leadership. The benefits package includes above-average wages and a good work-life balance. Flat hierarchies enable fast communication and a high degree of personal responsibility for the employees. Social sustainability goes beyond the company’s employees and must be demanded and verified along the entire supply chain. Companies, especially in the high-price segment, must be able to answer questions about the ecological and, above all, the social behavior of their manufactories and suppliers at any time. Digitalization has made value chains more transparent and accessible for clients and critics, so a transparent and compliant approach is essential. In general, any entrepreneurial activity should also bring benefits to society. Companies need to review the impact of their actions on society per se and also on the local community and sphere of influence. Especially in the luxury industry, this is sometimes only possible through donations or other involvement outside of the actual business operations. Giving back to society and donating a portion of the revenue of products or certain campaigns is becoming a popular tool among companies in the luxury industry. The idea of philanthropy is widespread among clients in the luxury segment, especially in the Anglo-Saxon world. Accordingly, companies can take advantage of the wishes of their customers and develop projects or charities together with the customers. Social responsibility and
sustainability also mean that people who are less privileged can use part of the margin to expand social programs.

In conclusion, the luxury industry needs to be holistic in the social sphere, in line with the demands and expectations of its discerning clientele. This applies to internal company structures but also to the entire value chain. Digitalization means that deviations from expected standards quickly become public and can have far-reaching consequences.

4.4 Transparency of Social Sustainability in the Luxury Industry.

All but three respondents indicated that they did not communicate their social sustainability strategy externally. The measures communicated externally are predominantly fundraising campaigns and revenue participation campaigns for the benefit of social projects, which are used to create media attention and a positive effect on the brand image.

There is no active communication regarding internal social sustainability measures. Employee training and retention is only communicated internally and is not communicated externally. This is a marked difference from the FMCG industry, where various companies use their employees and any support measures for marketing purposes. Furthermore, although measures to ensure compliance standards along the value chain are an integral part of the social and environmental sustainability concept at some companies, they are not communicated or made transparent to customers.

4.5 Economic Sustainability in the Luxury Industry

Sustainability and change are sometimes viewed critically, although the experience of the interviewees shows that measures to promote sustainability can also promote economic success. A reduction in production costs can be achieved by optimizing the use of resources. This results in two positive effects with regard to the sustainability of the company. A similar effect is achieved when energy is generated by wind or the sun. The interest in and need for ecological sustainability and social sustainability are much more pronounced than the awareness of economic sustainability.

Overall, it must be mentioned at this point that the opportunity to be sustainable through the choice of resources used for products is itself a luxury and should not be underestimated.

Conclusion

The presented survey and subsequent evaluation have shown that the luxury industry is at the beginning of a transition. The topic of sustainability has inevitably arrived in the industry and can no longer be ignored. Currently, the area of environmental sustainability is almost exclusively addressed. The resulting insight is that companies need to adapt even more to the new expectations of customers. Furthermore, the industry needs to break new ground in terms of communication and transparency of its production and sustainability. The measures implemented are currently hardly
communicated and are not comprehensible for customers. Purely striking marketing does not do justice to the claim of luxury, but the possibility of traceability must be created. Overall, the results of the study conducted provide the basis for further research. Based on the findings and statements of the participants from the luxury industry, the perspective and perception of the customers must be examined in a further study. The research gap identified in the literature regarding the relationship between sustainability and luxury can also be adopted from the customer perspective.

Bibliography


