

# *Research on Sustainable Development of Fashion Industry*

## *- Hermes, LVMH, Inditex as an Example*

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**Abstract:** ESG is one of the critical topics in today's research. In recent years, researchers have found that sustainability, as represented by ESG, plays a significant role in the development of companies. However, there is a lack of a coherent explanation related to ESG in the segment of the fashion industry in which companies are located. Therefore the research topic of this paper is the relationship between the development of the fashion industry and ESG. The research methodology of this paper is as follows: firstly, we collect the reports like CSR Extract and Annual report published by Hermes, LVMH, and Inditex on their official websites, and then we conduct a qualitative analysis to explore the development of the fashion industry and the investment of fashion industry enterprises in ESG. The study found that ESG in the fashion industry can effectively promote the sustainable development of fashion industry enterprises themselves and also promote the sustainable development of the whole industry.

**Keyword:** ESG, fashion industry, sustainable

## 1. Introduction

The fashion industry is an indispensable part of people's lives, closely linked to their daily lives, representing individuality, innovation, aesthetics, and culture. It is a diversified, ever-changing, and evolving industry. Fashion is not only a superficial decoration but also an inner attitude and lifestyle. The development of the fashion industry also reflects people's pursuit of beauty and their need for individual expression. However, due to a lack of regulation, the overall climate impact of fast fashion alone increased by 35 percent between 2005-2016, accounting for 8.6 percent of global greenhouse gases [1]. Contributing to the statistics of how horrendously polluting it is the fact that many in the fashion industry are involved in every step of the supply chain, including, but not limited to, the production and processing of raw materials, packaging and distribution, and even the recycling aspect of clothing - much of which often takes hundreds of years to complete decomposition. In addition to the impact on the climate, the deprivation of workers is another factor, with many fashion industry companies locating their factories in countries with inadequate labor laws and little government control, and many of these factories are staffed by women who often do the dirtiest jobs and are often not paid for them [2]. In recent years, with the introduction and prevalence of the ESG concept, many experts and advocates have begun to focus more and more on sustainability in the fashion industry.

In 2018, many stakeholders within the fashion industry collaborated under the United Nations Climate Change Organisation (UN Climate Change) to explore strategies for the broader textile, clothing, and fashion sector to effectively engage in climate action. The UN Fashion Charter for Climate Action was established with the objective of guiding the fashion sector in achieving a state of net-zero greenhouse gas (GHG) emissions by the year 2050. This initiative aims to contribute to the worldwide effort of restricting the increase in average global temperature to below 1.5 degrees Celsius.

The UN Fashion Charter for Climate Action was officially introduced during the 24th UN Climate Change Conference in December 2018, and subsequently revised during the 26th UN Conference on Environmental Change in November 2021. It is evident that in light of the prevailing economic conditions and the influence of the UN recommendations, firms in the fashion sector have embraced high-quality development and embarked on a green, low-carbon transformation as their new objectives. Within this particular setting, the notion of Environmental, Social, and Governance (ESG) is progressively emerging as a fundamental framework for assessing the enduring worth and sustainability of fashion sector enterprises. The utilization of environmental, social, and governance (ESG) ideas by fashion industry firms has the potential to generate distinct competitive advantages, hence facilitating the enhancement of market competitiveness and the promotion of high-quality development.

The primary aim of this research is to examine the utilization of environmental, social, and governance (ESG) metrics by fashion brands and companies operating within the industry. The ability to adapt to changing environments is essential for a company to maintain a competitive advantage [3]. As a result, this study is expected to have significant ramifications for the fashion industry. Moreover, the primary objective of this research is to investigate the impact of environmental, social, and governance (ESG) activities implemented in the fashion industry on brand reputation and consumer purchase intention. It is important to acknowledge that the reputation of organizations in the fashion industry significantly influences their level of success [4]. In order to enhance the comprehensiveness of the research data, this study centers its analysis on the recent actions undertaken by three significant companies in the fashion sector, specifically Hermes, LVMH, and Inditex. This research investigates the recent actions undertaken by three significant fashion industry firms, namely Hermes, LVMH, and Inditex, with the aim of analyzing their relevance and evaluating their influence.

## 2. Hermes

The first research subject chosen for this paper is Hermes, which is a family business with a history of 150 years. Family businesses tend to adapt to change and contribute to the sustainable development of society [5]. The group continues to grow thanks to its craftsmanship, exclusive distribution network, and creative heritage sustainably. In recent years, with the popularity of ESG, and sustainability, Hermès has also renewed its (Corporate Social Responsibility) development. For the second time in 2022, Hermès is using double maturity to conduct a “maturity analysis”, which produces an analysis based on how Hermès can increase its economic and financial value, and divides Hermès’s Action is divided into three themes: People, Planet and Community, with sustainability at its core. It is precisely because of this focus on sustainability that Hermès has survived as a family business for over 150 years and still exists at the top of the industry pyramid. In terms of employees, Hermès focuses on the personal mental health of employees, in addition to preventing risks, protecting employee health, Promoting the development of a robust health and safety culture, and effectively managing health and safety measures. In conjunction with the four fundamental guiding principles of culture, Hermès requires all countries in which it operates to adhere to a comprehensive action plan centered around three key domains. These domains

encompass unwavering adherence to the principle of non-discrimination, the enhancement of gender diversity and equality, and a heightened focus on integrating disability concerns into daily operations. In the area of employee psychology, during the 2022 China Lockdown, Hermès has also organized four online heart training sessions and 13 physical activity sessions focusing on the prevention of burnout, which will be rolled out to all employees before other mental health and psychology training, and regular training in office stress management is open to all employees to safeguard specialized psychological levels, among other things. In addition to this, Hermès signed an agreement with the National Gendarmerie in March 2022, which is dedicated to promoting the re-employment and training of gendarmes and officers of injured and disabled personnel and their relatives, and even during the epidemic, Hermès ensured that the salaries of its employees remained stable and even increased, with the cost of Hermès' payroll amounting to 1.129 million euros in 2022, an increase of (1,129-8) million euros in 2020, and a (1,929-8) million euros in 2020. The presence of Hermès in the top 10 of the Financial Times' 2022 "Diversity and Inclusion" rating may be attributed to the company's commitment to safeguarding its employees. This recognition is based on a comprehensive survey conducted among 100,000 employees across 16 European nations, which sought to gauge their perspectives on Hermès' policies pertaining to diversity and inclusion. Their perceptions and experiences of the company's diversity and inclusion practices were assessed on five criteria: age, gender, disability, ethnicity, age, and respect for sexual orientation. Hermès stood out because of its sense of belonging and perception of diversity in its different origins and the fact that a company's investment in social responsibility will enhance employees' sense of self-belonging and reduce turnover [6], proving employees' confidence in the quality of Hermès' values and practices. Values and the quality of its practices. Hermès has a long history of focusing on its own sustainability, with its flagship materials being natural and renewable. The family management model has allowed Hermès to implement this concept in every corner of the group, with artisans being very careful to maximize the use of resources without wasting them and to use only what they need. In recent years, as the concept of sustainable development and ESG has become more and more entrenched, Hermès has also taken a step forward. In recent years, Hermès has directed its attention on several key environmental factors, namely carbon dioxide equivalent emissions, water consumption, pollution of aquatic ecosystems, air pollution, soil impact, waste generation, and energy usage and efficiency, as assessed through the application of Life Cycle Analysis. In practical application, it is evident that Hermès has initiated the utilization of technology tools, including computerized systems, to detect flaws in the weaving and processing of raw materials, as well as to optimize material utilization. Hermès has established a supply chain committee that convenes biennially with the pertinent departments of the Group's management to acquire a full comprehension of supply chain management and the advancements made in implementing the action plan to ensure its protection. Hermès has invested a total of 6,626 (millions of euros) in total operating expenditure as audited by PricewaterhouseCoopers. In addition to this, Hermès is a family business and has been continuously managed by the family, which participates in the decisions of the company and has significant decision-making power on the board of directors. This model of family control favors the stability and continuity of the company in the long term. Hermès is also highly transparent by providing full disclosure to shareholders and investors, publishing financial and sustainability reports, and publicly reporting on its operations and ESG practices. It is because of all this that Hermès will post a net profit of €3.4 billion for the year 2022, up 29 percent compared to the previous year.

### 3. LVMH

The second object chosen in this article is LVMH Group; unlike Hermès, LVMH Group covers a total of over 70 brands, including Louis Vuitton, Dior, Guerlain, etc. When facing numerous brands,

LVMH Group adopts ESG measures that are slightly different from Hermès. Compared with Hermès Group's focus on the sustainability of leather and materials, LVMH Group focuses more on taking measures in the production and supply chain to reduce carbon emissions, promote sustainable procurement and resource management, reduce emissions, and promote the environment-friendly packaging and other measures. When ESG is applied to the production chain, it is beneficial for promoting the participation of all supply chain members in sustainable development and minimizing carbon emissions [7]; in response to the Rio de Janeiro Earth Summit, LVMH established its Environment Department in 1992. Ever since, LVMH has maintained a commitment to sustainable development. In 2020, LVMH launched its pioneering Life360 program, which focuses on four themes: creative circularity, Biodiversity, Climate, Traceability, and transparency. products with renewable design and a blockchain traceability program for every major material used. In response to LVMH's progressive goals, a sustainable innovation and design incubator will be established in 2021 in partnership with Central Saint Martin's College of Art and Design. This incubator's mission is to address the climate emergency by utilizing the environment's power. aspires to confront the climate issue by utilizing a creative curriculum to unlock the skills of young designers. and offers financial aid to those talented young designers. Throughout the year, LVMH engaged in a collaborative effort with the French start-up Fairly Made to conduct an assessment of sustainability practices. The objective is to facilitate the advancement of novel collections. The objective is to facilitate the development of new collections by the brands within the Group through the implementation of a comprehensive solution that enables complete traceability across the value chain, evaluates product quality, collects data, and openly shares the findings with customers. Nona Source was responsible for the establishment of the initial online platform that facilitated the sale of unused fabrics from renowned luxury brands, intended for repurposing by professionals in the fields of fashion and design. The entirety of the materials utilized in Louis Vuitton fashion presentations were derived from recycled sources, but the utilization of virgin fossil fuels for customer packaging purposes is projected to surpass the levels observed in 2019 by the year 2022. LVMH made revisions to its deforestation objective in 2022 with the aim of effectively aligning with the requirements of the Science-Based Targets for Biodiversity. LVMH has revised its deforestation objective in 2022 to align with the Science-Based Targets for Nature standard. This standard advocates for the cessation of deforestation and ecosystem conversion in LVMH's operations and supply chains by the year 2025. Furthermore, the company has established collaborations with esteemed organizations such as Forest Stewardship Council France (FSC France) and Canopy, a non-profit organization dedicated to combatting deforestation. Furthermore, the company has established collaborations with reputable entities such as Canopy, a non-governmental organization dedicated to combating deforestation, and FSC France, an organization that advocates for the promotion of certified responsible forest management practices. In the year 2022, there was an increase in the certification level of crucial raw materials for both cow and sheep skins. The certification levels of essential raw materials, specifically cow and sheep skins, and cotton, experienced an increase from 81% in 2021 to 91% in 2022, and from 61% in 2021 to 71% in 2022, respectively. These findings demonstrate the advancements made by the Group in relation to its 2026 goal. Production costs may be efficiently managed by achieving economies of scale and taking advantage of logistical efficiencies [8]. In order to simplify the data-collecting process and detect and mitigate any threats to the environment, society, ethics, or animal welfare, LVMH implemented Sourcemap across 12 brands in 2022. In order to develop and meet the needs of its employees, LVMH has recently introduced programs like Inside LVMH and THINK Retail. In addition, in 2022, LVMH organized its first "Voices of inclusion week" as well as the first "Voices of inclusion week," which was held all over the world. The EllesVMH initiative helped the Group reach a 45% representation of women in senior roles in 2022, and LVMH also

hosted its first “voices of inclusion week” and over 100 local events throughout the globe during the same year. The popularity of LVMH is increasing as a result of these sustainable actions, and in 2022, under the supervision of Deloitte, the Group’s Net profit, Group share was 14,084 EUR million, a rise of 17% from the year before.

#### 4. Inditex

The third subject chosen for this paper is Inditex; unlike the first two subjects, Inditex is an international fashion retail group that is characterized by its pursuit of fast fashion and mass production. Most consumers expressed strong negative feelings when they learned how much waste and pollution the fast fashion industry produces [9]. Therefore, with the fast fashion model, Inditex may need to face more environmental impact challenges and need to pay more attention to environmental protection measures and resource management. Inditex has decided to reduce its emissions by more than 50 percent by 2023 and to achieve zero net emissions by 2040, as well as to use materials with less environmental impact, revamping its supply chain and expanding its recycling programs. In response to these goals set by Inditex, Inditex established a Sustainability Committee in 2019 to oversee stakeholder engagement in the area of sustainability. Inditex is implementing its sustainability strategy with four key elements: culture, collaboration, transparency, and innovation. Every employee at Inditex is required to undergo training, and in 2021 Inditex has specialized training courses, created the School of Sustainable Fashion with the University of Leeds, and has over 13,000 employees trained in sustainability by 2022. At the same time, Inditex is actively engaged in physical partnerships with the United Nations Global Compact, the International Labour Organization, and the UNI Global Union to promote its own transformation. It is noteworthy to remark that the Inditex Group has recently introduced the Infinited Fiber x ZARA environmentally conscious capsule collection. This marks the inaugural apparel collection of the group in partnership with Infinited Fiber Company, wherein 60% of the production is derived from the recycling of worn garments through ZARA’s garment collection initiative. The duration of the cooperation will span a period of three years, culminating in the establishment of the inaugural large-scale factory in the year 2024. At that time, Inditex Group will purchase high-quality recycled fabrics made entirely from garment waste. Meanwhile, Inditex has announced that it will join forces with World Wide Fund for Nature or World Wildlife Fund over the next three years to carry out environmental restoration projects in the areas of forest conservation, watershed restoration, and protection of endangered species and ecosystems. Inditex plans to invest 10 million euros in this endeavor. In addition to this, the development of Inditex and human rights are inextricably linked, as Inditex promotes respect for human rights in all its businesses, and the Group’s human rights approach is based on a due diligence process that ensures and respects human rights in the management of its supply chain. It is worth noting that developing female talent has always been a pursuit for the Inditex Group, with 45.45% of women on the Board of Directors in 2022, an increase of 23% compared to 2016. ESG performs better when women play a greater role in management [10], and Inditex’s respect for human rights has led to a 70 percent job satisfaction rate in an anonymous survey of Inditex employees in 2022. In 2022, under ey’s audit, Inditex Group sales jumped 17.5 percent year-on-year to €32.6 billion, up 18 percent at constant exchange rates, with gross margins up 18 percent. jumped 18 percent, with a gross margin of 57 percent and a 27 percent jump in net profit to €4.1 billion.

#### 5. Conclusion

In summary, the development of ESG in the fashion industry can not only mitigate the negative impacts of enterprises on the environment but also protect natural resources by adopting more

environmentally friendly production and operation methods, which can reduce the emission of hazardous substances and reduce air, water and soil pollution. In addition to this, it can also as well enhance employee satisfaction and loyalty and have a positive impact in terms of brand image and reputation by improving the operational efficiency of the business through innovation and technology, better identifying and managing risks, and reducing corruption and misconduct. As consumers become increasingly concerned about sustainability and social responsibility, active participation in ESG practices by fashion companies will increase consumer recognition and loyalty to their brands, adding value and reputation. In addition, the development of ESG by fashion companies can also promote the overall sustainability of the industry and contribute to future sustainability. The fashion industry analyzed in this paper involves a number of suppliers from different industries in the processing of the production chain, and the ways taken by the fashion industry in terms of ESG are worth studying and exploring in other different industries. However, fashion companies face many challenges and dilemmas when practicing ESG. For example, different countries and regions have different laws, regulations, and cultural backgrounds, which makes the standards and requirements of ESG practices different, and fashion companies need to find a unified standard in the context of globalization. In the future, the operationalization of the above relevant variables can be further refined to facilitate in-depth research on the topic.

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