
Social Impact & the Bottom Line: New Expectations for Luxury Companies



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CSR is no luxury - it's key to firms' future survival.

The following is adapted from a talk delivered to the Sustainable Luxury Forum, held in Geneva in June 2013.

In 2011, Ethical Consumer Research Association (ECRA), a UK non-profit, sent a questionnaire to more than a dozen designer clothing companies – including several world-famous brands – about their social and environmental sustainability practices.

None of the companies completed the questionnaire.

For some people, their refusal to respond was an invitation to believe the worst, as the title of ECRA's report, "Style Over Substance: Why ethics are not in fashion for designer labels", may suggest.

With its bad rap of decadence and excess, the luxury sector automatically has a strike against it in the minds of many consumers. And increasing consumer awareness of – and insistence on – sustainability and corporate social responsibility (CSR) policies heighten the potential for luxury companies to experience potentially painful pushback.

Nine out of ten global consumers say they want companies to go beyond the minimum standards required by law to operate responsibly and address social and environmental issues, according to the 2013 Cone Communications/Echo Global CSR Study. Eighty-seven percent of global consumers surveyed said they would consider boycotting companies that engage in irresponsible behavior.

As Associate Director of INSEAD's Social Entrepreneurship Initiative, I've noticed tomorrow's business leaders are of a similar mindset. If you ask a business school student today whether they believe it's necessary to take into account the social and environmental impact of an enterprise, they will nearly always say yes.

Many students come to INSEAD after completing professional or volunteer experience in developing countries. After their degree program, they expect to enter a career where social innovation and social impact are part of their daily life.

The takeaway? In order to win socially conscious consumers and tomorrow's top talent, luxury brands will have to clearly and convincingly demonstrate a commitment to sustainable business practices.

Not your older sibling's CSR

And here's more bracing news for companies: If you're just joining the CSR game, you may already be two steps behind.

That's because over the last five to ten years CSR has evolved beyond its initial stages, which were focused heavily on defensive measures and compliance (phase one) and peripheral departments and philanthropy (phase two).

CSR 3.0 is about integrating change into your business model – your sourcing, your production, your processes. It's about the realisation that your brand's future is inextricably linked with the future of the communities, the workers, the employees, and the consumers with whom you interact.

This can take the form of base-of-pyramid (or “BoP”) strategies, for example, in which businesses partner with communities composed of people making US\$2.00 per day or less – the largest socio-economic level estimated at four billion people in the world. One way to reach the BoP is for companies to create *inclusive business models*, commercially viable models that benefit these low-income communities by involving them in the supply side as producers, entrepreneurs, or employees and/or on the demand side as clients and consumers of products and services that improve their lives.

Including BoP communities in your supply chain aligns your company’s interests with those of its producers and customers. That means when you win, everybody wins – a value key to achieving true sustainability.

The vanguard of luxury CSR

Companies still stuck at CSR 1.0 or 2.0, or struggling to implement even these, shouldn’t be discouraged. Remember, these early steps are a crucial part of developing a well-rounded CSR platform. Keep ensuring compliance; keep donating through your foundation.

And when you’re ready for CSR 3.0, there are plenty of trailblazing people and organizations to assist and inspire you, e.g. Eduardo Escobedo, Director at Responsible Ecocsystems Sourcing Platform (RESP) helping brands to develop sustainable sourcing strategies, and the Ethical Fashion Initiative of the International Trade Centre, which is devoted to helping international fashion companies develop products that draw upon skills and materials from African nations.

Emerging brands such as Suno, Soko, Maiyet, and the pioneering Edun are integrating fashion with artisanal production and materials sourced from Kenya, India, Peru, and other countries.

And the big names are starting to step up too. In 2011, Vivienne Westwood partnered with the Ethical Fashion Initiative to create a series of handbags handcrafted by impoverished women in Nairobi, Kenya. Also that year, Tiffany & Co. launched a comprehensive website detailing the company’s diamond supply chain and sourcing procedures.

And earlier this year, Gucci kicked off a company-led global campaign to promote rights for women and girls called “Chime for Change”.

The most important thing to remember is that unlike today's fashion trends, CSR and sustainability concerns will be with us for the foreseeable future.

And with them come very exciting opportunities to develop new business strategies that create value for both companies and communities – economic, social, and environmental. So be bold and innovative, because that's what tomorrow's socially conscious consumers, executives, and suppliers expect.



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