

The Effectiveness of ESG and Sustainability on Luxury Brand

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Abstract. This study examines the impact of sustainability and environmental, social, and governance (ESG) concerns on luxury businesses, focusing specifically on Prada's recent pledge to the United Nations Global Compact (UNGC). With the increasing urgency of global environmental challenges, luxury firms are under mounting pressure to embrace sustainable practices. The analysis examines Prada's endeavors and their impact on the perception of the brand, customer loyalty, and financial results. The findings demonstrate that Prada's commitment to ESG principles enhances its reputation, fosters customer confidence, and enhances its competitiveness in the market. The article demonstrates that the utilization of sustainable techniques not only aligns with ethical principles but also confers a competitive advantage to luxury firms. Firms such as Prada may more effectively navigate the obstacles posed by a rapidly evolving market if they adhere to sustainability objectives. In conclusion, the report asserts that adopting sustainability is crucial for achieving long-term success, enabling luxury firms to flourish while simultaneously making a positive impact on society and the environment.

Keywords: ESG; Luxury Brands; UNGC; Prada.

1. Introduction

For a few decades, the hottest buzzword in luxury fashion has always been sustainability. As global environmental issues gain prominence, businesses are eagerly anticipating the development of ESG factors. The luxury goods market has experienced rapid growth in recent years, with projected profits of \$58.39 billion this year and an expected annual growth rate of 9.75%, resulting in an estimated market volume of \$92.98 billion by 2029 [1]. However, this market was not traditionally associated with environmental sustainability because luxury fashion is typically associated with excessive energy consumption, pollution, and resource waste [2].

Watchdogs and advocates for sustainable development, such as Greenpeace, are increasingly focusing on the most well-known luxury brands due to their increased visibility and ability to market to larger audiences. It appears that sustainable development is both a business requirement for luxury and a humanitarian opportunity.

In this context of heightened focus on sustainability and ESG, Prada Group, a leading global company in the industry renowned for its unique methods of connecting with modern society and different cultures, has been demonstrating its commitment to ESG development [3]. On December 12th, 2023, Prada Group participated in the U.N. Global Compact initiative. By joining the UN Global Compact, Prada Group has set a benchmark for sustainability and corporate responsibility within the luxury sector, encouraging other companies to follow suit and adhere to similar standards.

An increasing number of researchers are starting to focus on topics related to sustainable development, such as Jeremias conducted a study on Stella McCartney, using qualitative research and purely secondary data to investigate issues related to sustainability in luxury fashion [4]. Clarisse and Juliette also conducted a study on LVMH and Chanel Inc., using questionnaires to inquire about the attitudes of important professionals from these companies towards the SDGs [5]. The purpose of the study was to look into questions about the usefulness of SDGs for analyzing the market's behavior and incorporating social, economic, and environmental aspects [5]. Of course, Enrica et al. also conducted a study on the French Group Kering using a framework that integrates strategic management, corporate social responsibility (CSR), and sustainability theories to investigate issues related to



examining how luxury companies incorporate sustainability into their competitive strategies [6]. Furthermore, Su used the Triple Bottom Line (TBL) framework and conducted a study on Burberry as the research subject, investigating the current status and future directions of sustainability in luxury brands [7].

Sustainability in the luxury industry has been the subject of extensive research, including investigations into brands like Stella McCartney, Burberry, and Louis Vuitton. Prada's recent pledge to join the United Nations Global Compact on December 12th, 2023, represents a notable advancement. By committing to this initiative, Prada seeks to align its operations with the UN's SDGs. This development highlights an increasing trend among luxury brands to focus on social responsibility and make meaningful contributions to societal and environmental well-being.

The scientific literature contains sufficient evidence to support sustainability and its importance. Despite the significance and consequences of this phenomenon, the literature on sustainability and ESGs in the luxury industry is limited. It is known to all, no study has yielded research between Prada, sustainability, and ESG; meanwhile, there is only a little research about the luxury industries and ESG. Therefore, to address this gap in literature, the primary objective is to investigate the impact of ESG and sustainability on luxury brands, specifically focusing on Prada.

Luxury brands must recognize the critical role of ESG factors in attracting investors. By evaluating ESG criteria, these companies can assess and enhance their sustainability practices, identifying areas within their strategy that require improvement to ensure long-term viability.

In order to rectify the problems mentioned above, this research paper will firstly provide a summary introduction to the Prada brand. It then discusses Prada's involvement in the UNGC in terms of sustainability and applies relevant theoretical knowledge to determine the impact of these eco-conscious enterprises on Prada. Finally, based on these impacts analysis, the paper offers reasonable recommendations for Prada and suggests ways the brand can further optimize its sustainability practices to enhance its brand image.

2. Case Description

Prada, founded in 1913, is an Italian luxury fashion house based in Milan. It has gained a reputation for its high-end fashion, leather goods, shoes, and accessories.

Sustainability is becoming a major concern for more and more businesses, as are luxury brands. Prada, a well-known Italian luxury fashion group, has made significant strides by joining the UNGC. This reflects Prada's dedication to getting one step closer to incorporating eco-friendly and socially conscious practices into its operations.

The UNGC is a global program that motivates enterprises to adopt sustainable and socially responsible methods. Firms that join commit to adjusting their strategies and operations in accordance with their principal rules and reporting their progress each year.

Prada officially joined the UNGC in 2023. The process involved signing a formal commitment to the Compact's principles and openly declaring the company's intention to incorporate those principles into its business operations. As part of its commitment, Prada must submit an annual Communication on Progress (COP) report. This report details the company's compliance with the principles of the Compact and outlines its progress in implementing sustainability and social responsibility practices.

Since joining the Global Compact, Prada has taken meaningful steps to strengthen its efforts in sustainability. The company has adjusted its practices with the Compact's principles, making for supply chain improvement, labor conditions, and transparency.

Prada Group's participation in the UNGC reflects its active role in directing the field towards a brighter, more durable, and more responsible future [8].

3. Analyses on Problems

3.1. Effectiveness on Brand Image and Brand Reputation

Joining the UNGC, Prada commits to stand on the ten principles. The commitment enables the brand to increase its image of social responsibility and reputation. Prada and UNFPA announced Fashion Expression: The Stories She Wears, an innovative fashion training program, this March, ahead of International Women's Day. The United Nations sexual and reproductive health agency uses fashion to promote gender equality and sexual reproductive health. It includes 30 women artisans from nearby communities who are skilled in textile arts and needlework to strengthen their artistic and financial skills. By launching this program, Prada aims to provide women technical skills and resources that will not only enhance their knowledge but also empower them to make aware choices with respect to their sexual and reproductive health, while also highlighting their unique cultural heritage [9].

Stakeholders can better understand an organization's risk and opportunity management by using the ESG framework, also called ESG elements, which looks at sustainability in a broader way than just environmental issues [10].

In their research on the effects of corporate ESG management, Lee and Rhee used consumer behavior theory and empirical analysis methods to show a strong positive link between how companies manage ESG and their brand image [11]. Koh and others conducted a study on how consumers' views of ESG initiatives affect their attitudes, employing the partial least squares method for path modeling [12]. The study's findings revealed that consumers' perceptions of the social and governance aspects of ESG positively and directly influence brand credibility, brand image, and perceived quality, with no direct impact from the environmental dimension. Additionally, the results indicated that brand celebrity, brand image, and perceived quality partially mediate the connection between perceived ESG and attitude. In light of these findings, the paper offers implications and suggestions for future research [12].

3.2. Effectiveness on Consumer Loyalty and Market Competitiveness

After becoming a member of the UNGC, Prada has seen various positive changes. Prada launched a huge number of projects that keep emphasizing the importance of acknowledging their influence on society and the environment. The brand has significantly impacted its market competitiveness and consumer loyalty.

Federico Marchetti, a technology entrepreneur and sustainable fashion innovator, led the Sustainable Markets Initiative's Fashion Task Force, which Prada joined on February 19, 2024. The initiative is committed to developing and accelerating proactive solutions across the global fashion, textile, and apparel sectors to speed up the conversion towards a more viable future [13].

Du et al., in studying corporate social responsibility (CSR) as a competitive weapon for challengers against market leaders, applied complementary CSR literature theories and empirical research methods [14]. Consequently, consumers engaged in CSR are more likely to show loyalty, be willing to make repeat purchases, and recommend the brand, resulting in better business returns for the challenger [14]. In summary, CSR not only improves consumer attitudes and behaviors, but it also significantly enhances consumer loyalty by establishing trust [14]. Liu et al. examined how CSR performance influences brand preference and market competitiveness. They used relevant theories and regression analysis in the areas of environment, society, and stakeholders to make consumers more likely to choose a brand, though to different degrees [15]. Notably, CSR performance in relation to stakeholders has the most significant impact on brand preference among Chinese consumers. Additionally, perceived brand quality serves as a mediator in the relationship between CSR performance and brand preference [15]. Ultimately, effective CSR strategies can lead to a competitive advantage by aligning with stakeholder interests and improving overall brand perception [15].

3.3. Effectiveness on Investor Relations and Financial Performance

Prada made progress on their three-year roadmap during 2023, setting targets across their three pillars of action: planet, people, and culture, according to the 2023 annual sustainability report. Prada primarily focused on reducing Scope 3 emissions, which included transitioning to lower environmental impact alternatives for their key raw materials. Further integrating sustainability into their long-term growth objectives in a financially viable way is challenging but essential work. Prada has committed to continuing to focus on sustainability and promoting collaboration between the private sector and third-party institutions [16]. Through these measures, Prada experienced better long-term financial experience due to reduced risks and enhanced operational efficiencies.

Triple Bottom Line (TBL) Theory emphasizes that focusing on social, environmental, and economic factors can lead to sustainable business practices that enhance long-term profitability.

The work of Friede et al. used the ESG criteria and looked at more than 2,000 experimental studies to show that there was a link between standards and financial performance [17]. This supported the TBL's ideas. Eccles et al. applied the concept of corporate sustainability and conducted a practical study of organizational processes and performance [18]. Their findings demonstrated that companies with robust sustainability practices outperform others in the stock market and in their financial results over time, thereby supporting the principles of the TBL framework [18].

4. Suggestion

4.1. Suggestion on Brand Image and Brand Reputation

Nowadays, fashion brands anticipate more challenges and are unsure of what the future holds. Obviously, the phrase most frequently mentioned by directors in the BoF-McKinsey State of Fashion 2024 Executive Survey was “uncertainty.” The confidence of many customers will be weak for various reasons in Europe, the US, and China. Overall, this paper expects the relevant industry to grow retail sales by 2% to 4% in 2024. Besides economic issues, the climate crisis is a major concern. After many extreme weather events in 2023, companies will need to strengthen their ability to handle climate impacts in 2024. Doing nothing is no longer a selection, as global warming and extreme weather are now threatening the conditions of workers that work for the industry and could potentially lose around \$65 billion in clothing exports by 2030 [19]. This made a lot of brands start to focus on ESG. To further enhance Prada’s brand image and reputation, this paper suggests that the brand should focus on developing a brand-new sustainable material. It can not only reflect Prada’s commitment to sustainability but also perfectly showcase the brand’s luxurious aesthetic while providing alternative solutions that are free from animal ingredients and less pollution.

The revolutionary material Demetra combines quality, softness, durability, and flexibility, with up to 77% of its composition derived from renewable and bio-based sources. Demetra reflects Gucci's commitment to sustainability by providing animal-free alternatives while maintaining the brand's luxurious aesthetic. Produced entirely in Italy using leather tanning expertise, Demetra has expanded its applications, including in the latest Gucci Horsebit 1955 handbag, which features 75% plant-based materials, showcasing the brand's high craftsmanship standards [20]. Demetra is a step in the direction of more ethical fashion, which is a significant message for luxury brands seeking to incorporate alternative materials and dramatically increase their brand image. Prada should also create a new alternative material to increase its brand image.

4.2. Suggestion on Consumer Loyalty and Market Competitiveness

The fashion industry, known for its creativity and new ideas, is changing a lot because of virtual reality (VR) and augmented reality (AR). These technologies are revolutionizing the design and purchase of fashion, as well as the shopping experience. This measure eventually increases consumer loyalty and market competitiveness in the industry.

Brands such as Chanel, Dior, and Burberry are utilizing AR and VR technologies to establish engaging and participatory shopping experiences. Dior has partnered with Instagram to enable users to virtually try on makeup and accessories, while Chanel has launched smart dressing rooms and a LipsScanner app for virtual lipstick testing. Burberry has collaborated with Google to integrate AR into Google Search, enhancing product exploration. Other significant innovations include AR mirrors, in-store navigation, and expanded advertising media options. Additionally, UNIQLO employs smart mirrors that let customers virtually try on clothing [21]. It simplified the whole shopping experience, addressed issues such as fitting concerns, and facilitated virtual try-ons for a broader selection of products, potentially resulting in higher sales and increasing the market's competitiveness. Prada's growing brand reputation will attract a large number of consumers in the retail space. By implementing these measures, Prada will undoubtedly enhance its competitiveness in the market.

4.3. Suggestion on Investor Relations and Financial Performance

Two years ago, the Asia Pacific market generated \$109.42 billion in revenue. It is expected that the Asia Pacific market will grow swiftly due to the rising disposable incomes of its middle-class population. Furthermore, improved access to global luxury brands is likely to lead to an increase in product consumption. It is expected that the South American market to grow steadily as the urban population in Brazil and Chile continues to grow. Changes in the standard of living in the region are likely to lead to an increase in spending on luxury products [22]. Prada's market is predominantly located in Western Europe, North America, and Asia. This encompasses Italy, the USA, China, and Japan.

On July 14th, 2023, Burberry reported an increase in its store sales across most regions, including the Middle East, which contributed to a rise in first-quarter retail earnings for its financial year. During the thirteen weeks ending July 1st, the sales in Africa, the Middle East, Europe, and India grew by 17%. Burberry has a strong presence in the Gulf region, with major locations in the UAE, such as the Mall of the Emirates and Dubai Mall, as well as stores in Riyadh and Jeddah, Saudi Arabia. The group's retail revenue for the first quarter reached £589 million, reflecting a 17% increase from £505 million the previous year and a 19% rise at unchanging exchange rates. Burberry anticipates a currency headwind of approximately £150 million to revenue and around £70 million to adjusted operating profit, based on exchange rates as of June 29. It is expected that the luxury goods market in the Middle East and Africa to grow from \$13.23 billion in 2023 to \$17.90 billion by 2028, with a compound annual growth rate of 6.23% during the forecast period (2023-2028) [23]. Prada should consider expanding its presence in more potential regions to better meet the demands of its customers. Taking these measures can improve investor relations and financial performance.

5. Conclusion

In the context of a growing global, this paper focused on sustainability within the luxury fashion sector to conclude. The more consumers become environmentally conscious and demand greater accountability from brands, the more responsible they become. Luxury fashion houses must adjust their business practices accordingly. This study investigates the case of Prada, which has recently committed to the UNGC, reflecting a huge shift towards incorporating ESG factors into its business practices. The main research question focused on how ESG and sustainability initiatives affect luxury brands, particularly examining Prada's strategies and how they affect their brand image, consumer loyalty, and financial performance.

The research involved a detailed analysis of Prada's sustainability efforts, supported by relevant theories like the TBL theory and studies on CSR. The results suggest that Prada, by doing those things, not only enhances its brand image but also fosters consumer loyalty and strengthens investor relations, ultimately leading to better financial performance.

This paper's strengths lie in its innovative perspective on examining the connection between luxury branding and sustainability, emphasizing the importance of ESG factors in attracting both consumers

and investors. The future of luxury fashion increasingly emphasizes sustainable practices as a crucial element.

However, the study has some limitations. It may not fully capture the diverse viewpoints of all stakeholders involved; overly relying on secondary data could leave gaps regarding the immediate effects of Prada's initiatives. Future researchers should consider using primary research methods, such as interviews or surveys, to gain deeper insights into how consumers view and behave in understanding sustainability in luxury fashion. Furthermore, compared to other luxury brands, it could provide a more complete understanding of the industry's dynamic regarding ESG practices.

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