

A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

**ELABORATION ON THE FUTURE ROLE SUSTAINABLE BUSINESS PRACTICES  
AND TRANSPARENCY WILL PLAY FOR APPAREL COMPANIES**

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## **Abstract**

### **Elaboration on the Future Role Sustainable Business Practices and Transparency will play for Apparel Companies**

The world is changing and uncertain. Sustainability-related practices in business are no longer a niche (Harvard Business School, 2017). The global fashion industry, despite generating over €1.5 trillion turnover annually, has seen shifts in criticism for being harmful, anonymous and polluting (Buchel et al., 2018, 7). In response, sustainability initiatives from multiple stakeholders and the sector itself, are observed increasingly within the market. However, ambiguity still exists regarding the relevance of sustainability, for the competitiveness of the individual industry players. This paper answers that firms in the fashion industry should prioritize sustainability and integrate the concept into their corporate DNA. Transparent operations along the value chain assist thereby.

**Keywords:** fashion industry, transition, sustainability, transparency

#### **Abbreviations:**

FI = Fashion Industry

CSR = Corporate Social Responsibility

SECTOR: fashion industry  $\hat{=}$  apparel industry  $\hat{=}$  clothing industry

COMPANY: fashion company  $\hat{=}$  industry player  $\hat{=}$  apparel company  $\hat{=}$  fashion firm

transition  $\hat{=}$  transformation

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## 1. Introduction into the Topic

### 1.1 Problem, Relevance of the Topic and Research Questions

Global expenditure on fashion consumption doubled between 2000 and 2015, while the product lifecycle of clothes decreased and production output has been increasing (Statista, 2020c). Access to cheap labor, predominately in Asian markets, allows for low-cost production and hence attractive retail prices (Buchel et al., 2018, 11). Actors of the global fashion industry (FI) seem to operate in a fruitful market environment.

However, pressure on the FI from multiple stakeholders is based on diverse intentions. From rising climate change activism, trade war 2.0 US-China, and various external factors there are also internal tensions such as resource constraints, fatal working conditions, upcoming consumer demand and consciousness for sustainable fashion among customer groups like LOHAS<sup>1</sup> (Berg et al., 2019, 2 ff.). On top, the FI is considered to be the second most harmful industry after oil and embedded in one of the fastest-changing environments (Henninger et al., 2017, 4). The industry is responsible for 20 percent of the world's wastewater and ten percent of global carbon emissions (UNECE, 2018). Stigmatized by greenwashing policies, missing transparency and questionable procedures, firms have to implement change in their business procedures (Berg et al., 2019, 2). Whereas mainly the managing of price and fast fashion determined a fashion player's success, sustainability as a third key success factor has been entering the market (Gassmann, 2019). The impact of this third factor however still has a research gap. *Sustainability in Fashion: A pure trend or is irreversible transition already ongoing (RQ1)?*

Associated with the trend-or-transition-question, apparel companies are confronted with an additional difficulty: There is no clear definition for the term sustainability in the fashion

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<sup>1</sup> Lifestyles of Health and Sustainability - is a market segment that values sustainable/green practices.

industry and international standards are missing (Berg et al., 2019, 2). Simultaneously, sustainability from the fashion manufacturer towards the customer is relevant for apparel companies to get out of the greenwashing zone and to generate competitive advantage. This is reinforced by the yet unknown extent but growing relevance of “sustainability” in the sector. Hence, the need for companies to deliver highly thought-out transparency strategies exists. *How can companies manage transparency despite the non-existence of “sustainability standardization” in the fashion industry (RQ2)?*

This paper is written to provide industry players with input into the sustainability developments of the FI and insights related to transparency-strategy-practices that are crucial in order to not miss the bus. The purpose of this paper is to contribute to a better outlook of the importance of sustainability in the FI. This paper will elaborate on the following two research questions:

| PROBLEM →   | RESEARCH QUESTION (RQ) →  | ANSWER                  |
|---|---|-------------------------|
| Where is the industry right now?<br>Confusing status quo.   | <b><i>1. Sustainability in Fashion: A pure trend or is irreversible transition already ongoing?</i></b>                                       | in <a href="#">2.3.</a> |
| No standardization regarding sustainability in the industry and lack of transparency as a point of criticism. | <b><i>2. How can companies manage transparency despite the non-existence of “sustainability standardization” in the fashion industry?</i></b> | in <a href="#">4.2.</a> |

## 1.2 Research Approach, Methodology and Structure of the Paper

This paper follows the Directed Research approach by NOVA through a strong focus on desk research and its structure is guided by the two beforementioned research questions.

Methodology-wise this paper is composed of four elements which combined and applied allow to answer the research gaps identified: 1. desk research, 2. transition model with industry monitor, 3. consumer research survey and 4. best practice comparison of two FI players. Primarily, the foundation of the paper is based on desk research that screens academic literature and market data related to the FI. The author chose this procedure for a holistic picture of the industry and since it is useful when specific market data has been already generated by third

parties. The usage of a transitions model from the field of “sustainability transitions research” allows for a structured categorization of the market insights and to give an answer on RQ1. This was further supported by an industry monitor, developed for this paper, that ensured the structured screening of the FI market. Small field research was applied in the form of a consumer survey. Fourteen questions allowed to generate quantitative results to add insights into consumers’ attitudes regarding sustainable fashion. The survey was conducted online and had 70 participants that were chosen by the author with the consideration to have a certain consistency (see [2.2.2](#)). A best practice comparison between H&M and Adidas was done to generate specific benchmark data and to understand what the top sustainability players actually do regarding transparency related to sustainability. This best practice data supported the answer of RQ2.

After this introduction into the topic, [chapter 2](#) conducts a market analysis on sustainability streams in the FI with the purpose of identifying whether the industry undergoes a trend or transition (RQ1). The analysis is done with the application of literature review, a transition model, a consumer survey and a coronavirus update. In [chapter 3](#), the foundations for answering the RQ2 are investigated by firstly revealing the importance of transparent business practices in the FI. Secondly, the best practices related to the transparency of Adidas and H&M are explored. [Chapter 4](#) represents the core of this inductive research procedure. The general implications of the findings from chapter 2 and 3 are created and awarding transparency practices are derived (RQ2). In the end, [chapter 5](#) will recall the main content of the paper and critically assess the work.

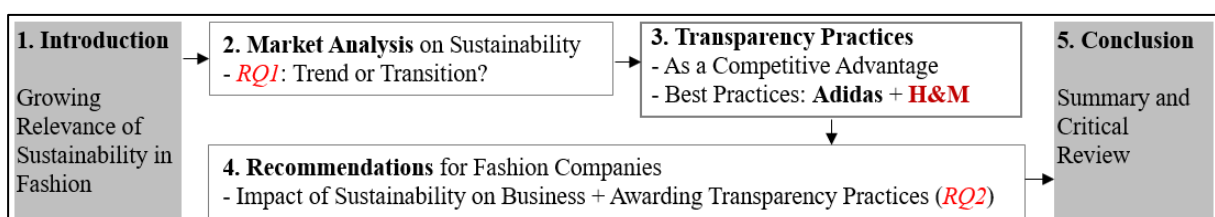


Figure 1: Structure of the Paper.

### **1.3 Definition of Sustainability in this Paper**

Considering that the term sustainability is a generic term, a definition on what this paper relates to will be explained hereinafter. In literature multiple perspectives and descriptions appear, including economic, environmental and social components. Henninger et al. highlight the concept's subjective manner and its context-dependency. Due to the complexity of the global FI market and the application of sustainability throughout the complete value chain, research in sustainability approaches already naturally holds different perspectives (Henninger et al., 2017, 3). Being aware of the diverse focuses sustainability allows, in here, the term's broad scope of encompassing all social, environmental and economic elements are addressed. To answer both research questions and due to the limited extent of this paper, the individual sustainability initiatives do not have to and cannot be clustered into categories but are rather used exemplarily for the topic.

## **2. Market Analysis of Sustainability in the Fashion Industry**

The exploitation of workers and natural resources has forced fashion companies to extend their sustainability efforts beyond CSR policies. The collapse of the Rana Plaza factory in Bangladesh in 2013 with over 1,000 deaths is one of the most memorized catastrophes within the FI that called for more transparent supply chains and security (Henninger et al., 2017, 2).

### **2.1 Global Apparel Market and its Business Models**

The value of the **global apparel market** has been estimated to grow from 1.306 trillion USD in 2015 to 1.517 trillion USD by 2020. The demand share is mainly coming from Asia Pacific (38%), Europe (26%) and North America (22%) (Statista, 2020b, 3 f.). The apparel market is highly fragmented among its players and clustered into four general customer segments being women's, men's, children's and sportswear. The sector is characterized by short product lifecycles, unpredictable and volatile demand, labor insensitivity and a large product variety. Also, intense, polluting and inflexible production-supply functions describe the industry.

The industry's value chain (appendix 1 p. 28) is complex and composed of a network of multiple, independent actors. The real net output ratio of an apparel company depends on its individual set up. In general, apparel companies design and sell clothes within the scope of basic to luxury. They market their products through third-party wholesalers or own retail stores on- and offline, and beforehand subcontract sewing firms in mainly low-cost countries with the fabrication. The FI is characterized by different **business models**: **Fast Fashion**, relates to the quick responsiveness in production and delivery of clothes by FI firms into retail/online stores. High turnaround rates foster a culture of mass consumption. The utilization of mostly low-quality material decreases the life expectancy of clothes artificially (Buzzo and Abreu, 2019, 1 ff.). The concept faces several accusations, justified on its resource-intensive business model e.g. producing of CO<sub>2</sub> emissions. An opposing concept is **Slow Fashion**. Slow fashion appreciates local resources, the creation of sustainable products and transparent production. It basically rejects the characteristics of the fast fashion movement and wants the consumer to think about their consumption (Buzzo and Abreu, 2019, 11 f.). **Circular Economy** is another concept in fashion. Although the focus is still on profit, it incorporates closed-loop strategies with the recovery of materials in mind. This aims at designing out waste to maximize resource utilization and to procrastinate scrapping (Rutter, Armstrong, and Cano, 2017, 26).

## **2.2 Status Quo of Sustainability Practices in the Fashion Industry**

### **2.2.1 Transitions in the Fashion Industry**

Recall the guiding thread of the primary part of this paper is RQ1: *Sustainability in Fashion: A pure trend or is irreversible transition already ongoing?* In the field of **sustainability transitions research**, Loorbach et al. introduced two models that help to understand transitions from assumed unsustainability towards sustainability. They will be adapted for this paper and used to allocate the scope and status quo of sustainability movements in the FI. Transitions research in general deals with the procedure of shifts from one system to another, accompanied



by a time of nonlinear disruptive change. The interplay of multiple changes at varying levels eventually leads to a profound change in the societal system. The disruptive change can be located within the regime, which is the dominating and robust configuration in a system. The other two levels are the context (landscape) and alternatives (niches) (Loorbach, Frantzeskaki, and Avelino, 2017, 606 f.). **Figure 2** visualizes this multilevel perspective and the FI System is created, based on the original model on the left.

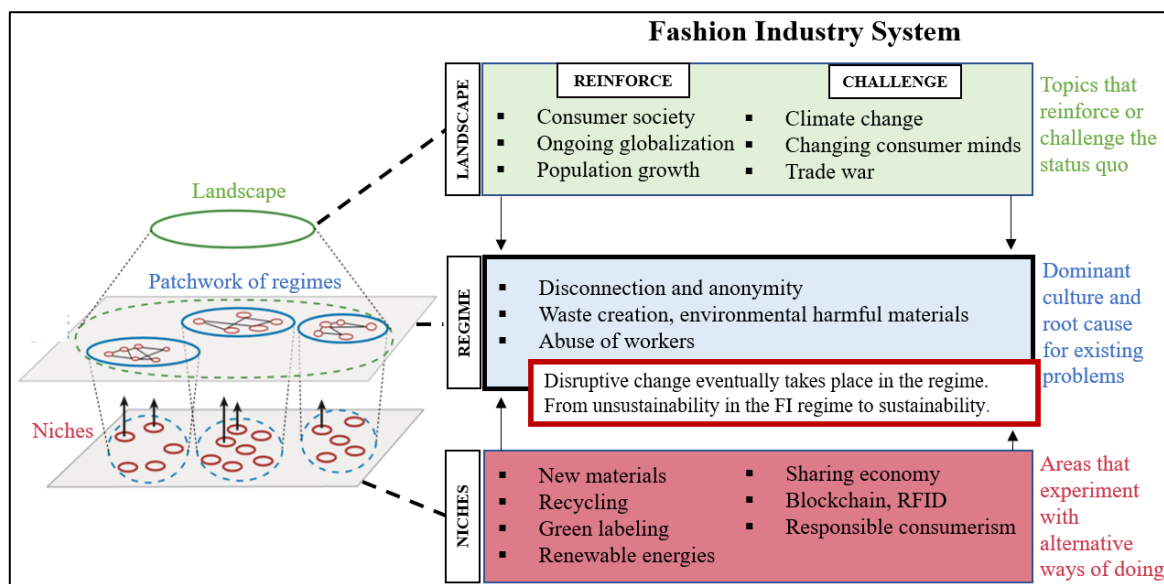


Figure 2: Multilevel Transition System and the Fashion Industry System. Adopted from (Loorbach, Frantzeskaki, and Avelino, 2017, 606).

**Figure 3** illustrates the analytical model of transitions, which has ten stages. It allows the evaluation of ongoing and past transitions in the system, to reflect on the type of change and interactions at multiple levels. It is an iterative process of creation (new regime) and destruction (old regime) of a system over time. Actors in the system either reinforce or counteract each other, the dynamics are nonlinear, and the new regime is finally established after the breakdown of the former regime. Applying **figure 3** for answering RQ1, would theoretically lead to a quick response. If developments in the sector can be assigned to one of the ten stages of transition, it could be concluded that the industry has entered a transition phase. The author wants to hint at the missing distinction between appearing/fading trends and the entering of a transition phase in literature.

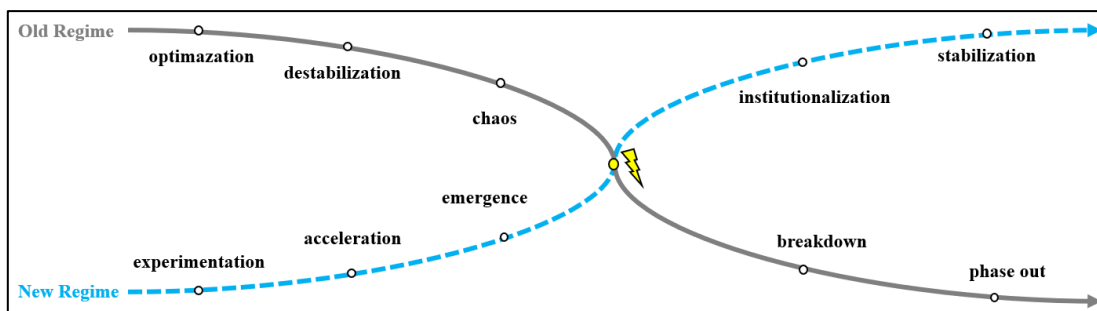


Figure 3: Transition Curve. Adopted from (Loorbach, Frantzeskaki, and Avelino, 2017, 607).

To generate a comprehensive insight into the industry, the author developed the “industry monitor”, **figure 4**, as a framework to screen the sector developments. With this procedure, the scope of all existing sustainability practices will allow to conclude whether sustainability is simply in fashion or becoming the standard. The author screened literature of sustainability practices in business and clustered the findings along the six elements of the industry monitor.

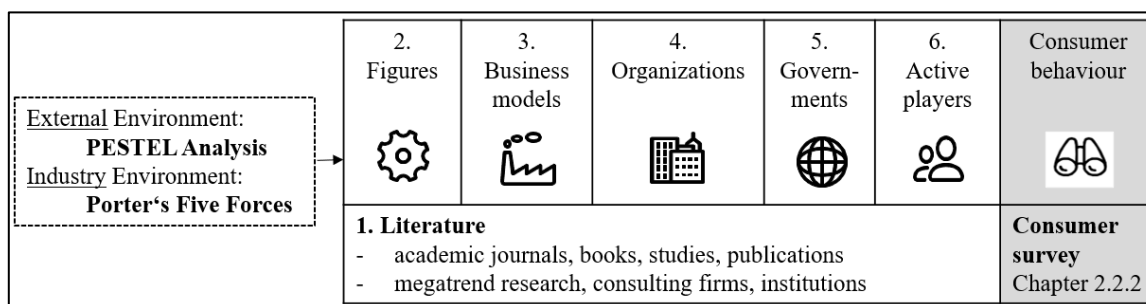


Figure 4: Industry Monitor.

**Literature**-wise insights into the FI’s status quo were found with recent publication dates. Henninger et al. state that many FI actors have chosen the right direction towards sustainable practices but hint at the long way ahead. Adding to this, research confirms that sustainable fashion and sustainability in fashion are not occurrences that are fashionable, but rather necessities within the sector that are steadily growing in significance (Henninger et al., 2017, 3 f.). Some authors compare the events within the FI with that of the sustainable food industry and observe in current times an increase in consumer expectations towards sustainability in fashion (Rutter, Armstrong, and Cano, 2017, 23). A normalization of sustainability within fast fashion brands can be monitored by looking at adopted sustainable policies and key metrics among leading players. Fashion and ecology are seen as compatible and not contradictory

(Rutter, Armstrong, and Cano, 2017, 23 f.). However, Mejías et al. state that the implementation and coordination of sustainability in a multi-tier supply chain environment last to be a key challenge in the fast FI. Lately though, players have started to try to master this task (Mejías et al., 2019, 156). Cleff et al. found in their study that the FI is becoming more sustainable but at slower pace under the condition of non-sufficient stakeholder cooperation. They state that all stakeholders firstly have to realize the relevance of sustainability in order to accelerate change (Cleff et al., 2018, 258). All in all though, Mittelstaedt et al. state in their journal article that sustainability in general, as a former CSR topic has become undoubtedly a megatrend (Mittelstaedt et al., 2014, 255). Hence it will disruptively impact the FI.

Besides literature research, **figures** related to sustainability allow for the identification of change. Keyword searches for terms such as “sustainable fashion”, tripled between 2017 and 2019. Queries on Instagram have quintupled within three years. Besides, an analysis of 235 online shops revealed that the number of clothes sold with reference to “made of sustainable cotton”, has risen by a factor of 2.6 from 2017 to 2019 (Gassmann, 2019). A rising number of seals enters the market such as GOTS and Cradle-to-Cradle (Joho, 2019). Competition is embodied through **business model** innovation (affecting process and product). Circular economy models have been launched and criticism of the fast fashion model exists. One example of a new business model can be assigned to the entry of the slow fashion movement. Further, old and new brands undergo transformation within their business models regarding operation and production approach.

There is growing momentum in the activities conducted by international **organizations**. The World Economic Forum concluded in 2018 that the sustainable revolution in the FI is well on its way (World Economic Forum, 2018). The Sustainable Apparel Coalition (SAC) is a sector-wide group composed of more than 100 leading fashion and footwear brands, NGOs, suppliers and retailers with the goal to limit the industry’s environmental and socially harmful impacts

globally. Founded in 2010, its members today account for more than one third of clothes and footwear produced in the world. SAC has developed their own key indicators such as the SAC Higg Index 2.0 which allows for the assessment of products, material types and more (H&M Group, 2020, 20). **Governmental involvement** is visible in (transparency-related) initiatives globally. The German state introduced in September 2019 the “Grüner Knopf” (Joho, 2019). Manufacturers using this label for marketing communication must adhere to a code of conduct that asks for specific ecological and social standards. **Active players** in the sector raise their investments due to sustainability which is visible in rising salaries for example. Furthermore, new goals are created and published. Moreover, more companies also state that things have to change (Joho, 2019). A CPO (Chief Procurement Officer) survey by McKinsey says that sustainability is on the priority list (Berg et al., 2019, 2).

### **2.2.2 Consumer Research Survey on Purchasing Sustainable Fashion**

One element of the industry monitor introduced in [2.2.1](#) is assigned to consumer behavior. Hence, an online survey (Qualtrics) was conducted by the author and its summary with graphical analysis can be found in [appendix 2](#) (p. 28 ff.) of this paper. In total 70 people were surveyed. A high degree of homogeneity among the participants was reached by surveying European nationalities (69% German, 10% Portuguese, 15% other European), with an average age of 25.6 years (standard deviation of 2.85 years), with an almost equal gender distribution and similar occupations (51% students, 44% non-executive employees). This consumer study allows for an insight into consumer attitudes. Nevertheless, it is necessary to be aware of its limitations regarding sample size, sample setup and closed questions on Likert scale structure. 60% of respondents confirm that sustainability plays an active role when they purchase clothes. 17% neither agree nor disagree and 23% express that sustainability is not at all relevant for them when shopping clothes (nr. 5). Further, 89% state that they think that sustainable fashion will increase in importance and is not only a trend (6%) (nr. 6). Out of five predetermined

factors that can influence a purchase decision (price, quality, design, brand and sustainable practices of the fashion manufacturer), sustainable practices however only account for six percent of the participants as the most relevant factor. 60% and 31% respectively assign sustainability as the second to last and last position. Independently of the absolute rank, 90% prefer price over sustainable practices (nr. 7). 54% somewhat agree that their purchase behavior is influenced by prior knowledge about a fashion manufacturer's practices and even 17% strongly agree (nr. 8). Moreover, 83% are valuing/appreciating if a fashion manufacturer is transparent on his business practices (nr. 9). Also, 76% appreciate sustainable fashion nowadays increasingly compared to the past (nr. 10). Nevertheless, almost two thirds of the participants confess that they do not inform themselves about sustainable fashion. The ones who do, mainly conduct internet research by reading blogs or newspaper (nr. 11). Around half of the participants mention the lack of transparency, lack of information and higher price as an obstacle regarding investing in sustainable clothing (nr. 12). The study reveals an attitude-behavior gap (a discrepancy between a person's values and its actual actions) within the consumer group. 26% of participants strongly agree and 50% somewhat agree that there is a difference between their values related to sustainable fashion and their actual shopping behavior (nr. 13). In general, the survey reveals that consumers believe in a rising importance of sustainability in the future with 60% admitting that the concept is already having a stake when they shop for clothes. Though as visible in the ranking, sustainability per se is still rather at the margin of influence when a purchase decision takes place. Knowledge and transparency about a firm's practices nevertheless influence a purchase. The survey however does not provide an answer on the extent of the influence. Consumers' proactivity towards information gathering is still low and missing transparency/information and an assumed higher price act as deterrents into investing in sustainable clothing. Since there is an existing attitude-behavior-gap, FI firms might win by tackling consumers prejudices about sustainable clothing and by being transparent.

### **2.2.3 The Impact of the Corona Pandemic on the Fashion Industry**

The coronavirus outbreak and its spread in quarter one in 2020 have been affecting global society and economy deeply. For the FI, the average market capitalization of apparel players decreased around 40 percent in the first three months in 2020 and revenues for the global FI are expected to shrink by almost 30 percent. It is assumed that a high number of fashion companies will declare bankruptcy within one and a half years (BOF and McKinsey & Company, 2020, 7). The FI is affected by the pandemic in multiple aspects. Its long, complex and geographically diversified supply chains are not functioning properly anymore, e.g. due to country-wide lockdowns. Besides a challenged supply, demand issues are damaging the industry, e.g. with retail stores closing and prominent consumer pessimism due to a fragile economic situation.

Given this black swan event, under consideration of the focus of this paper, the author reports on the potential impact of the pandemic on sustainability movements in the FI. Primarily, the crisis could function as an alarm call and bring faults within the FI system to light that reveal that the industry's set up is fragile. One, already in the first weeks of crisis, upcoming aspect is related to workers in low-cost countries. Their suffering under the coronavirus outbreak due to cancelled and non-paid orders by fashion companies hints at the precarious employee treatment of the industry. Further, closed factories in multiple countries can force fashion companies to consider more regional production, thereby distancing themselves from worker exploitation and decreasing complex dependencies within the supply chains. Already before the appearance of the coronavirus, shifts in consumer mindsets have been observed, e.g. regarding criticism of the fast fashion business model. With consumers not buying the current new seasonal clothes, industry habits such as launching multiple collections during the year might dissolve. Consumers' attitudes may be reorganized and the general care for the planet will sensitize for a revised attitude towards clothes shopping.

Industry players are in the short-term primarily affected by financial deficits. Missing revenue and unsold stock may not allow for investing into sustainability. In the long-term though, with altered consumer demand and the global sensibilization towards sustainability, sustainability may be a prerequisite for a successful performance in the industry. In general, the crisis could become an accelerator of change that would have happened anyway further into the future. Potentially the event will transport sustainability more simply into the center of attention (BOF and McKinsey & Company, 2020, 1 ff.). Also, the restrictions given by the pandemic can function as a catalyst for more sustainable business practices. Nevertheless, a risk still exists that the fashion business will go back to their business as usual habits after the crisis.

### **2.3 Interim Conclusion of the Paper**

*RQ1. Sustainability in Fashion: A pure trend or is irreversible transition ongoing?* → To give a straight answer on this it can be stated: The FI has entered the transition phase and a transformation of the rules of the game is about to become effective. Those firms lacking adjustments in their strategies must act. Sustainability practices are not a voluntary add-on anymore. Other voices conclude similar opinions. McKinsey declares that players in the FI must take an active role to meet customer demands related to sustainability. Further, they should self-disrupt their former identity (BOF and McKinsey & Company, 2019, 11). The World Economic Forum predicts the future of the FI by saying that it is no longer a question of how but rather of when it will become fully circular (World Economic Forum, 2018).

**Figure 5** merges the insights from [chapter 2.2](#) and visualizes the current status quo of the fashion industry along the transition curve. Large efforts (size of circle) can be identified in the early stages of both curves (old and new regime). Nevertheless, many companies are still considering sustainability policies under the umbrella of risk management (Joho, 2019). In summary though, sustainability is on its way. That the concept/ideology/practice has arrived however as mainstream practice would be to overestimated stating.

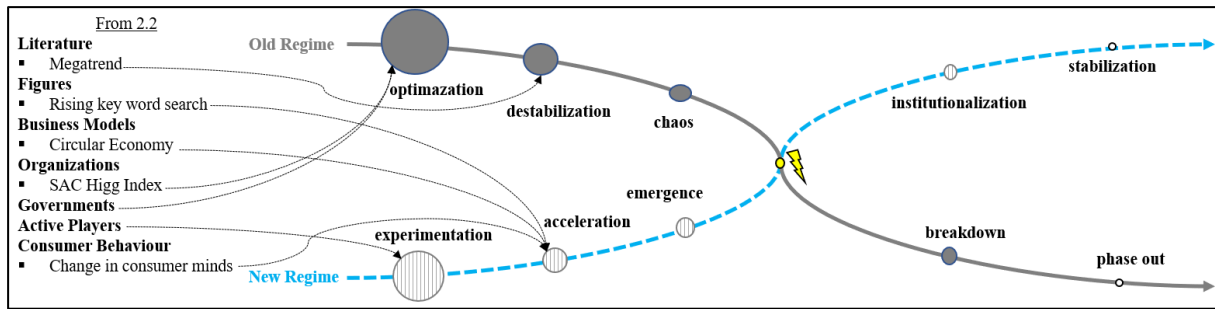


Figure 5: Snapshot on Transition Dynamics in the Fashion Industry.

Both sides of the market equilibrium, supply and demand, are still acting in the early phases of experimentation and optimization, respectively. All in all, the efforts towards a more sustainable direction are seen industry-wide (sourcing, production, design). The industry, in its transition phase, is encouraged by consumer pressure, governmental ruling, stakeholders and internal influences. New founders for example do not consider the ethical positions as visionary or original as the established players might have but rather as standards (Rutter, Armstrong, and Cano, 2017, 24). In addition, the **consumer survey** revealed that sustainability is gaining momentum among consumers and actively influencing their purchase behavior. Although respondents clearly agree on an attitude-behavior-gap in their habits, almost 90% believe in sustainability's lasting impact on the industry in future. The **coronavirus** outbreak is negatively affecting the FI's financial figures, though its existence can actually be supportive for sustainability streams in the industry. With supply chains having proven to be weak and oversupply not meeting demand, only sustainably acting players may pass through the pandemic-catalyst successfully. The long-term impact is difficult to define, however critics on all fronts may build the way for a sustainable industry to come.

### **3. Transparency Practices among Fashion Industry Players**

To recall the problematic: There is a non-existence of sustainability standardization within the fashion sector. Simultaneously, transparency is a crucial topic for apparel companies to get out of the greenwashing zone and to generate competitive advantage (Berg et al., 2019, 29). In consideration of the result of RQ1 which says that sustainability will transform the industry, the



relevance of transparent practices to demonstrate a firm's sustainable business practices is strengthened. However, corporate attention on transparency has been rising slowly. In 2005, as one of the first manufacturers, Nike released factory lists. Adidas, Patagonia and some few companies followed, despite catastrophes, have been continuing to happen (see Rana Plaza [chapter 2](#)). Astonishingly, multiple companies still do not know exactly who manufactures their clothes (Fashion Revolution, 2019, 9 f.). External transparency is further relevant since it demonstrates the firm's efforts on being held accountable for its practices.

Conducting research about transparency is untransparent, if the term itself is not defined. In here, transparency refers to the fair/complete disclosure of information along the fashion brand's value chain under the aspect of sustainability (see definition [chapter 1.3](#)). Traceability is defined as the degree to which a company comprehends its supply chain.

### **3.1 Transparency for the Creation of Competitive Advantage**

With objective criteria for rating sustainable fashion lacking, it must be scrutinized what fashion brands are genuinely sustainable? Therefore, for instance, the leadership forum "Global Fashion Agenda" defines eight vital sustainability priorities. Supply chain traceability is one of them, referring to e.g. supplier lists on corporate websites (Global Fashion Agenda, 2020, 12). Further, the survey "The State of Fashion 2019" determines radical transparency as one of the most relevant trends in the FI (BOF and McKinsey & Company, 2019, 60). Having said that, transparency appears as a key element for business strategy that FI companies must exercise. Since transparent practices though are still not established industry-wide, early adopters on transparency practices can use this fact and create a competitive advantage. The author's consumer study explored that consumers' purchase intention is influenced by prior knowledge about the apparel manufacturer's practices (see question nr. 8: 17% strongly agree, 54% somewhat agree). In addition, Farfetch chief strategy officer, Phair, sheds light on another strategic value generated by being transparent. According to her, social media allows for a

certain transparency (BOF and McKinsey & Company, 2019, 60). This transparency related to the easiness and scope of the publication of a single consumer's opinion about a fashion brand should not be underestimated by the industry player. Being as transparent as possible about well-established and for-improvement-seeking practices from the company-side may prevent the firm from defamation and hence generate competitive advantage.

Related to transparency in the FI industry, some brands associate transparency with a **competitive disadvantage**. They argue that transparency diminishes their competitiveness through the provision of information (Human Rights Watch, 2017). This way of thinking is put into question by the author since recognized fashion companies are among the most transparent apparel companies globally (Fashion Revolution, 2019). Further, many brands started issuing information on sector platforms (e.g. Sedex). Financially speaking, the increasing relevance of ESG (Environmental, Social and Governance are categories, related to assess the sustainability impact of an investment into a firm, that value-driven investors apply.) indicators to investors should make companies think. With that in mind, companies may do better by providing information themselves instead of having investigators potentially misinterpreting data. Not depreciating the arguments stated above, it is relevant to add some words regarding the importance of transparency from a slightly **different standpoint**. Transparency should not be considered as being a panacea or silver bullet (Human Rights Watch, 2017). Transparency alone does not generate a holistic competitive advantage but can contribute to its foundation.

Fostering proprietary transparency also comes with a **challenge**. Firms might primarily ask: How can we build competitive advantage despite higher costs? (Besides mentioning this topic, the paper's scope though is not focusing on answering it.) Insights from research on issues of transparency in the FI and the merge of different stakeholders through foundation of initiatives, may support and again emphasize the relevance of the thematic however (UNECE, 2018).

### 3.2 Forerunner Strategies regarding Transparency of Adidas and H&M

The decision to analyze Adidas’s and H&M’s transparency practices is based on the “Fashion Transparency Index 2019”. The index published by the campaign group “Fashion Revolution” ranked 200 global fashion brands according to their provision of data to the public, not according to their sustainability performance. Adidas scored the highest with a 64% result (average 21%) (Fashion Revolution, 2019, 32 ff.). H&M ranked fifth and was chosen since it is alongside Esprit the only non-sportswear brand in the top five and has the third largest market share (1.4%) worldwide after Nike and Adidas, which indicates its reach (Statista, 2020b, 32).



|                    |   |   |  |   |
|--------------------|---|---|--|---|
| <b>Turnover</b>    | 25.6 billion US\$ (2019)                      |  | 23.2 billion US\$ (2018)                 |  |
| <b>Employees</b>   | 59,533 (2019), HQ in Herzogenaurach (Germany) |   | 126,376 (2019), HQ in Stockholm (Sweden) |   |
| <b>Stock price</b> | 216.10 € (as of 21.05.2020)                   |   | 12.04 € (as of 21.05.2020)               |   |

Figure 6: Overview Key Metrics of Adidas and H&M (Statista, 2019, 2020a).

In the following the topics presented are focusing on transparency-related best practices and exclude pure sustainability-concerned themes. **Collaboration with international initiatives:** H&M demonstrates commitment to transparency related to sustainable material by collaborating with recognized international initiatives like “Textile Exchange” or “Organic Cotton Accelerator”. Further, the firm follows codes of conduct and compliance programs respectively and cares for both its suppliers’ raw materials as well as production processes (H&M Group, 2020, 8 ff.). **Company Commitments:** The alignment on a firm’s strategy starting at top management level demonstrates the visibility the company assigns to the addressed topic. H&M’s CEO Helmersson stated that the fashion company is putting sustainability into the center of corporate attention. Further, Helmersson has been promoted out of the position as former sustainability chief in March 2020 (H&M Group, 2020, 4). Her background indicates the future orientation H&M assigns towards sustainability and transparency. Considering transparency towards stakeholders as an important aspect motivated Adidas to publish its first sustainability report in 2001. It is the only company in the sporting

goods industry that updates the report annually. Further, Adidas was leading in the “KnowTheChain” evaluation in 2016 (Adidas AG, 2020). **Comprehensive traceability:** Adidas is besides very few other firms, the only brand informing on whether their first-tier supplier entities have a trade union in place. Further Adidas discloses individual supplier lists for several categories: licensees, sub-contractors etc. In the “Fashion Transparency Index”, H&M is the sole brand with supplier grading. The categorization into gold, silver or other is indicated for their first-tier facilities and elaborated on the bottom of its webpage. In addition, H&M has recently introduced product-level transparency for most of its products online. This transparency includes among others, information about the product’s material and sustainability goals (Fashion Revolution, 2019, 53 f.). **Context-based targets and strategy:** Adidas has put focus on context-based targets visible in its holistic “Sustainability Strategy for 2020”. It incorporates tangible and measurable targets to reduce the firm’s carbon footprint, reduction plans on water use, waste production and energy consumption (Adidas AG, 2020). **Founding member:** Concomitant with the start of Adidas’s stakeholder engagement approach, the firm engaged as a founding member in the “Fair Labor Association”. Other examples include the “Better Cotton Initiative” (Adidas AG, 2020). This presence in the foundation of sustainability-related initiatives indicates Adidas’s efforts into tackling issues along the opaque value chain. **Investor-orientation and audits:** Already at the turn of the millennium, Adidas was chosen to join the Dow Jones Sustainability Indices (DJSI). The firm continues to be listed in the DJSI until today, a fact that is highly appreciated by sustainability concerned investors. Also, Adidas continuously expanded its suppliers’ audit program from 2008 onwards to give real insight into its operations to customers, investors and other stakeholders (Adidas AG, 2020). **Open dialogue with workers:** H&M gives attention to workers through workplace dialogue. Employees is given a voice by supporting collective bargaining with its suppliers to allow e.g. for a democratically chosen worker representative (H&M Group, 2020, 4).

## **4. Development of Recommendations for Fashion Companies**

[Chapter 4](#) of this paper is composed of the insights generated in [chapter 2](#) and [3](#) and represents the author's derived proposals for players in the FI regarding sustainability/transparency.

### **4.1 Impact of Sustainability on Overall Business Strategy in Fashion Industry**

The in 2019 published working paper “Corporate Sustainability: A Strategy?” by HBS concluded that sustainability can be a strategy (Ioannou and Serafeim, 2019a, 1). Furthermore, the researchers mention in another article the two facets of sustainability such as being a differentiator and necessity simultaneously. Competitive advantage was identified to be generated by companies through sustainability practices that do not exist in their competitors' profiles. Eight years before, Michael Porter and Mark Kramer issued an HBR article expressing that sustainability is not at all at the center of entrepreneurial activity. Hence, economic success cannot be directly extracted from sustainability practices but still companies can benefit and generate credibility by conducting practices that are known industry-wide according to Porter and Kramer (Ioannou and Serafeim, 2019b). In the meantime, the author wants to highlight that circumstances have changed. Moreover, sustainability has gained momentum especially for the in this paper investigated FI as identified through RQ1 in [chapter 2.3](#).

The A+ academic journal “Management Science” reported in one study that sustainability-focused firms exceed their competitors in the long run regarding accounting and stock market performance (Eccles, Ioannou, and Serafeim, 2014, 2835). Moreover, since the author's survey with a focus on the FI found out that customers value sustainable fashion increasingly (question nr. 10: Comment on: I nowadays value sustainable fashion increasingly: 29% strongly agree, 47% somewhat agree), the absence of comprehensive information from the company-side could be a deterrent to invest into sustainable fashion. Further, 50 percent of respondents expressed that a lack of information hinders them from investing into sustainable clothing (question nr. 11), hence fashion firms could alleviate purchase decisions by provision of information about

their sustainable practices. The “Global Fashion Agenda” declares that the topic of sustainability will be an indispensable element of enterprise strategy in the global FI (Global Fashion Agenda, 2020, 9).

Despite the imperative to integrate sustainability in the corporate’s mindset, it is necessary to highlight the **challenges** FI players must anticipate. Firstly, fashion brands are selling their styles in a network with retailers. Those off- and online stores however are difficult to control regarding their real concern with sustainability. Secondly, resource constraints referring to organic cotton, for example, hinder companies in transforming their production completely (Berg et al., 2019, 13). Thirdly, due to the lack of a common language of sustainable sourcing and a shared set of standards, the implementation of sustainability practices along all members of the value chain is complex (Berg et al., 2019, 12). To conclude, FI players must set up corporate business strategies that give fair stake to sustainability while simultaneously working on managing the challenges associated with it.

#### **4.2 Awarding Transparency Practices for Fashion Companies**

Recall RQ2: *How can companies manage transparency despite the non-existence of “sustainability standardization” in the fashion industry?* The “Fashion Transparency Index” registers more brands that follow policies to enable transparent business practices in 2019. Besides this increase though, the movement states that this does not make the firms automatically the most sustainable. → Ideally, more publications about **tangible results/impact** must be reported and consequently companies should be perfectly **informed** and aware about the proceedings within their **complete value chain**. Adidas and H&M can issue comprehensive information on product backgrounds due to in-depth knowledge about their networks. → Similar to traditional turnover and growth targets, **sustainability targets** and metrics respectively should be reported. Adidas for instance states that it will achieve 20 percent of energy savings with its strategic suppliers by 2020 (Adidas AG, 2020). This goes hand in

hand with the integration of sustainability into the firm's mission and the active promotion of **corporate alignment**. H&M promoted its former sustainability chief in the position of CEO (H&M Group, 2020, 4). Likewise, corporations in the FI should rethink management set up.

Multi-stakeholder **initiatives** have been found to provide basic transparency standards for the industry. → FI players should demonstrate active participation by either participating in or by founding working groups; see Adidas's forerunner strategy. Looking at the significance of consumers' attitudes, according to question nr. 9 of the consumer survey, 40 percent strongly agree and 43 percent somewhat agree that they value if a fashion manufacturer is transparent on his sustainable business practices. → This connotes that information about all steps, from material production till clothes **manufacturing** is highly important to convey as **information**. Online portals such as the "Sustainable Fashion directory" are sources of recommendations that customers trust when it comes to the question of where to shop in a sustainable way. → Incorporating sustainability-related practices in the FI player's business models, such as awareness and participation on these platforms, can contribute positively to the transparency issues of the branch (Thorisdottir and Johannsdottir, 2019, 22).

Considering the history of the FI, to tackle sustainability was mostly set from external parties on a FI player's to-do-list. However, transparency permits firms to **address critical areas directly**. → Companies should internalize this and accept transparency for its corporate value. The forerunner strategies of both Adidas and H&M are often based on **being the ahead** of competition such as acting as a founding member and scoring high in industry comparisons. Looking at the results of the "Fashion Transparency Index", besides the number of brands publishing supplier lists rising year-to-year, there is a difference visible depending on the levels of the supplier. Lists on first-tier manufacturers account for the highest publication rates. Lists of processing facilities lists and supplier of raw materials are only occasionally reported

(Fashion Revolution, 2019, 4). → With this in mind, an adjusting screw for firms is to be consistently transparent on all levels of their supply chain.

Many statements in this paper are referred to the “Fashion Transparency Index”, indicating its global relevance and recognition. It was analyzed that the inclusion of brands into the index has motivated them to become better, visible by a rising average score among those firms of 8.9 percent (Fashion Revolution, 2019, 5). → By implication, large companies should aim at being **listed in the index**, such as Adidas and H&M. Further implications can be derived from the report: Only 26.5 percent of brands **explain their strategies to limit waste** and just 26 percent express their efforts in circular solutions (Fashion Revolution, 2019, 6). → At the current status, firms that investigate such underrepresented topics as stated above with the example of publication of waste strategies, could generate competitive advantage. Further, missing publication hints at a lack of the existence of such strategies, indicating underdeveloped areas and hence strategic points to invest in for companies to stay at the top of the sector.

A transparent supply chain is the key that verifies fair working conditions, trade paths and open communication and subcontracting represents a major possibility for unwanted practices like human rights violations (Fashion Revolution, 2019, 10). → The better a firm is **monitoring** and auditing the extension of its production network, the higher the likelihood is to avoid reputation loss and preservation of business.

Due to the nature of the industry with fragmented supply chains, accountability seems to be difficult to assign. Since most fashion brands do not own their manufacturing facilities, they tend to use this obscure ownership situation as an excuse for lack in control and monitoring systems. → The author though sees a clear opportunity here to demonstrate responsible business acumen by the FI player. H&M for example informs about factory location and head numbers online.



## **5. Conclusion and Critical Review of the Paper**

The introduction of this paper reported about rising global expenditure on fashion consumption, decreased product lifecycles and an increased production output of clothes. A change within those practices may not be as utopian as it once was. Accelerating climate change, causing human rights abuses, or producing toxic material, the fashion brand's global value chains and practices are in criticism and being forced to adapt their strategic agenda towards sustainability. The transition curve from unsustainability towards sustainability reveals activities along all stages such as governmental initiatives and adapted business models. These developments contribute to the transformation of the industry landscape and underpin the undeniable seriousness sustainability has gained among the FI' stakeholders. Sustainability as a former niche topic is moving step by step into the center of the industry.

Having said that, the alignment of a fashion player's business model on sustainable practices will be a matter of survival. Knowing though, that the industry lacks a clear standardization of sustainability, companies can gain credibility by acting visibly sustainable. Characterized by non-transparency as the former secret-of-business, FI firms must make a turnaround and embrace transparency policies. Within the current status quo, in which sustainability is gaining in relevance but still underrepresented and underestimated by apparel companies, efforts in the transparent communication of value chain related information will allow firms to get ahead. The more comprehensive a company deals with sustainability and transparency, see Adidas and H&M respectively, the better it is equipped to perform in the highly fragmented market. Key metrics that track the efforts related to sustainability and simultaneously report on the beneficial impact created, are some adjusting screws FI companies can leverage from.

On a final note, a **critical contemplation** should highlight the limitations of this paper. One main area of concern is the focusing made in this paper concomitant with the negligence of specific themes. Thereby to mention is the application of a broad definition for sustainability

without a further classification and differentiation into its practical output in the FI. The different categories of the term might be on different status levels in their advancements to master sustainability. For example, technological developments such as RFID already assist to enforce sustainability. A detailed investigation of the single sustainability streams however was impossible due to the limited extent of this paper. Further, cherry-picking only transparency as a generator for competitive advantage due to the non-existence of a sustainability standardization is not enough. Thereby to further mention is that the FI market was investigated from a high flight level and not analyzed in categories (basic, luxury, sport, etc.) or regions.

It was assumed that consumers increasingly value and demand sustainable clothes and practices in the fashion value chain. However, the author points out that research still identifies differences in verbal expression and physical action among consumers (survey question nr. 13: attitude-behavior-gap). Also, the survey conducted with 70 participants only allows for a glimpse at consumer attitudes and does not allow for making global deductions. Consumer mindsets were investigated but no detailed correlations were calculated.

It is also important to mention that the honest intention and the commitment of FI firms to truly fulfill sustainability practices can never be fully assessed. What is done for profit reasons might look at the outside as an investment in sustainability. The term greenwashing may still have its *raison d'être*.

To finalize this work: In 2020 with the coronavirus spread globally, an additional factor was imposed on the FI. Primarily its occurrence has negative financial consequences for the sector. The importance of sustainability within the industry however may become accelerated by the crisis due to shifting consumer mindsets and malfunctioning supply chains. This recent event may emphasize again the outspoken importance of sustainability within the FI and any company investing into it, is building the required foundation for a future in fashion post-crisis.

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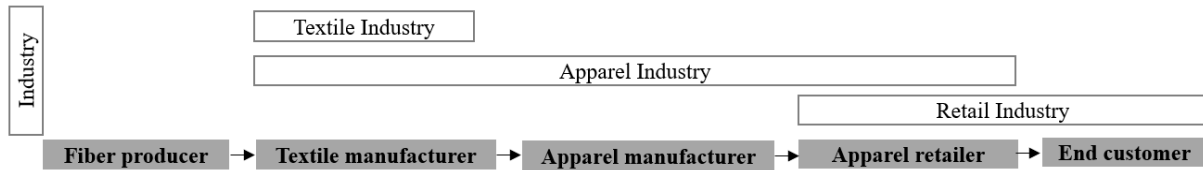
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Anyone at Nova SBE who uses the link has access to most of the publications used in this work: [Folder - Google Drive](#).

## Appendix

### Appendix 1) Overview of the simplified Apparel Industry Value Chain (2.1)



### Appendix 2) Questionnaire (2.2.2)

Consumer research was conducted by developing a survey about consumer behavior related to “sustainable fashion”. The questionnaire was distributed, filled out and analyzed online and conducted in “Qualtrics”. The questions are listed below:

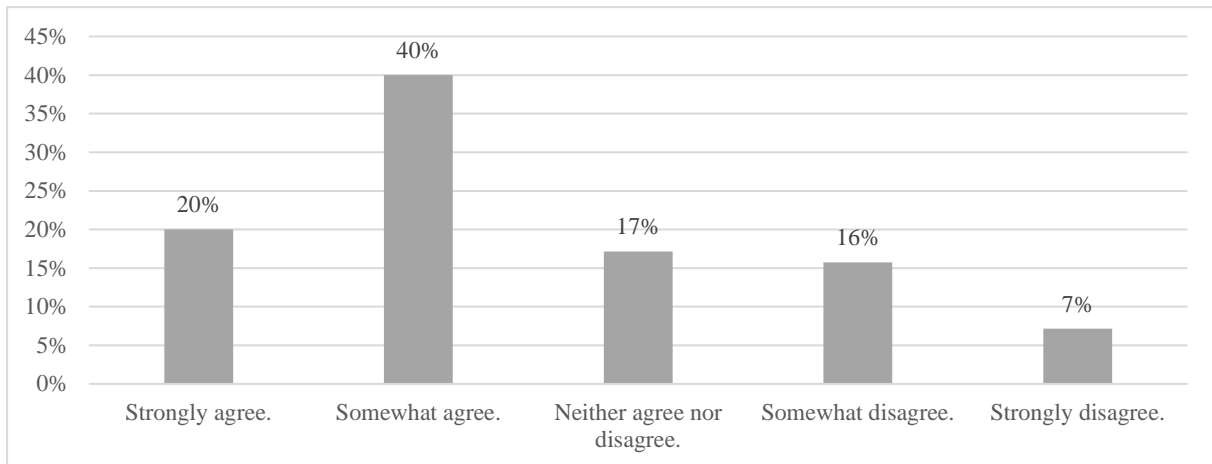
|   |  |
|---|--|
| 1. What is your nationality?  | Answer: select nationality   |
| 2. What is your age?  | Answer: type in age  |
| 3. What is your gender?   | Answer: select between male, female and diverse  |
| 4. What is your current job position?   | Answer: select between student, self-employed, etc.  |
| 5. Does "Sustainability" (related to a fashion manufacturer's practices e.g. sustainable material) play a role when you purchase clothes?   | Answer: select between:<br>Strongly disagree. Somewhat disagree. Neither agree nor disagree. Somewhat agree. Strongly agree.                                   |
| 6. Do you think that "Sustainability in Fashion" will generally increase in importance or do you think it is just a temporary trend?  | Answer: select between:<br>- increase in importance - just a temporary trend - I do not know.  |
| 7. What factor has which influence on your shopping behaviour?  | Answer: Please rank. Start with the most relevant one:<br>- Price - Quality - Design - Brand - Sustainable Practices   |
| 8. Do you think that your purchase behaviour (clothes) is influenced by prior knowledge about a fashion manufacturer's practices?   | Answer: select between:<br>Strongly disagree. Somewhat disagree. Neither agree nor disagree. Somewhat agree. Strongly agree.                                   |
| 9. Do you value if a fashion manufacturer is transparent on his sustainable business practices?   | Answer: select between:<br>Strongly disagree. Somewhat disagree. Neither agree nor disagree. Somewhat agree. Strongly agree.                                   |
| 10. Comment on: I nowadays value sustainable/ethical fashion increasingly.  | Answer: select between:<br>Strongly disagree. Somewhat disagree. Neither agree nor disagree. Somewhat agree. Strongly agree.                                   |
| 11. Do you inform yourself about "Sustainable" fashion?   | Answer: select between:<br>- yes in: _____ - no  |
| 12. Is there anything that hinders you from investing in sustainable clothing?  | Answer: select between, multiple answers are allowed.<br>- lack of transparency - lack of information - higher price<br>- missing certification - other: _____ |
| 13. Do you see a difference between your values related to sustainable fashion and your actual shopping behavior? E.g. you appreciate sustainable material buy you still purchase normal items. | Answer: select between:<br>Strongly disagree. Somewhat disagree. Neither agree nor disagree. Somewhat agree. Strongly agree.                                   |
| 14. Do you have any comments or questions?  | Answer: _____  |

### **Evaluation:**

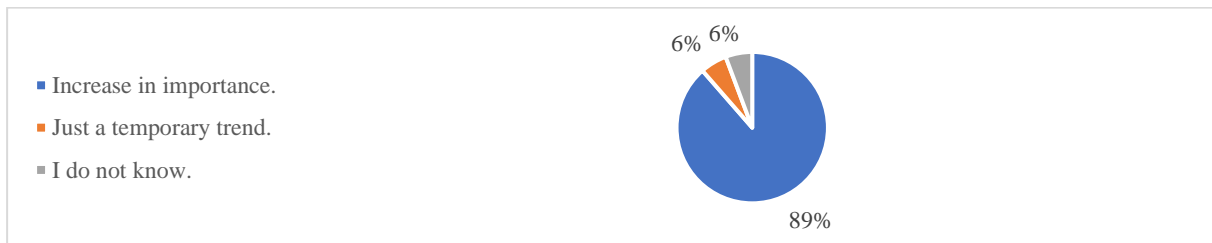
#### 70 participants:

- nationality: 69% German, 10% Portuguese, 15% other European, 6% others
- average age: 25,59 years (25,83 female/ 25,27 male), standard deviation 2,85)
- gender: 57% female, 43% male
- occupation: 51% students, 44% non-executive employees, 3% self-employed

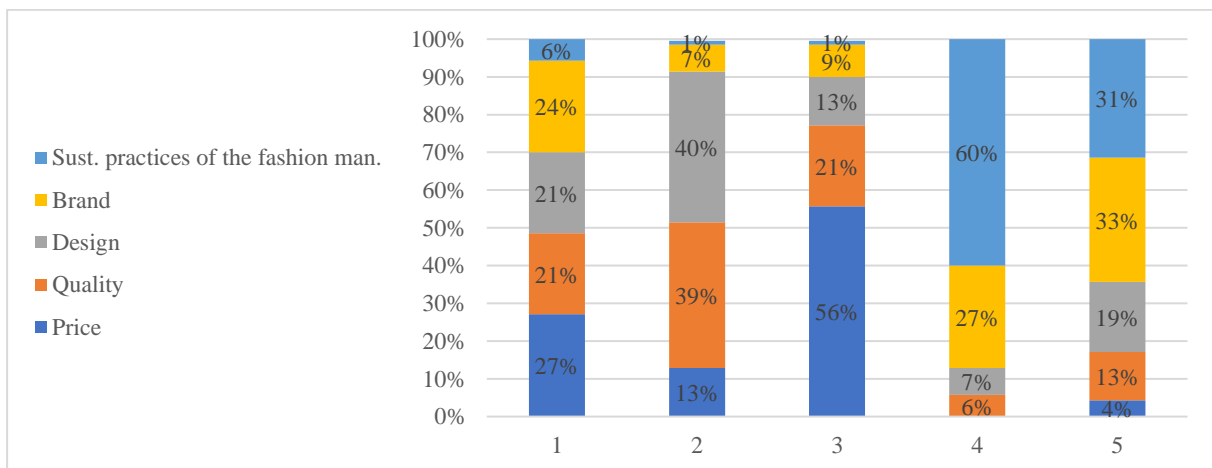
5.) Does sustainability (related to a fashion manufacturer's practices e.g. sustainable material) play a role when you purchase clothes?



6.) Do you think that "Sustainability in Fashion" will generally increase in importance or do you think it is just a temporary trend?

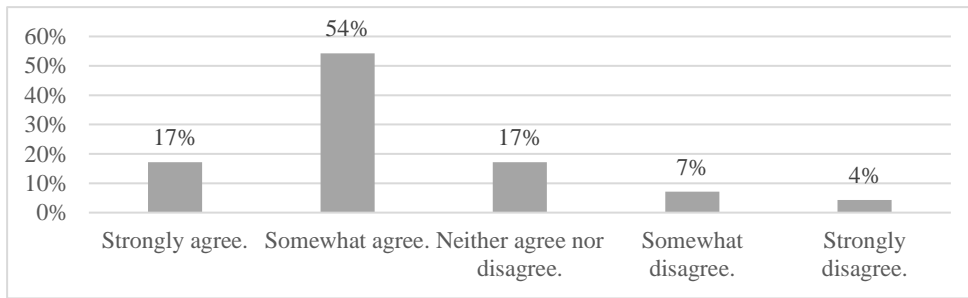


7.) What factor has which influence on your shopping behavior? Please rank. Start with the most relevant one.

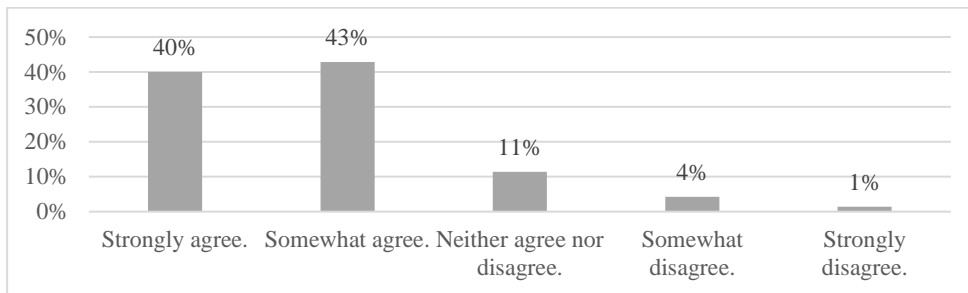


Explanation of the graph: The respondents were asked to rank the five criteria (see legend) according to their personal prioritization. The most relevant factor should be assigned on place 1 (column), followed by the second most relevant one on place 2, etc. The results illustrated in the graph express the following: Among all participants, 27% say that PRICE is for them the factor with the largest influence on their personal shopping behavior. For 21% QUALITY and also for 21% DESIGN are the most important factors. Jumping to the fifth column, it can be analyzed that 31% assign SUSTAINABLE PRACTICES to the last place.

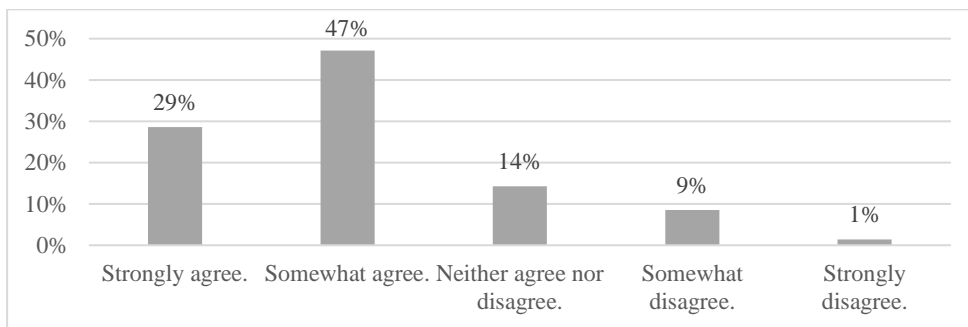
**8.) Do you think that your purchase behavior (clothes) is influenced by prior knowledge about a fashion manufacturer's practices?**



**9.) Do you value if a fashion manufacturer is transparent on his sustainable business practices?**



**10.) Comment on: I nowadays value sustainable/ethical fashion increasingly.**



**11.) Do you inform yourself about "Sustainable" fashion?**



**Yes in:**

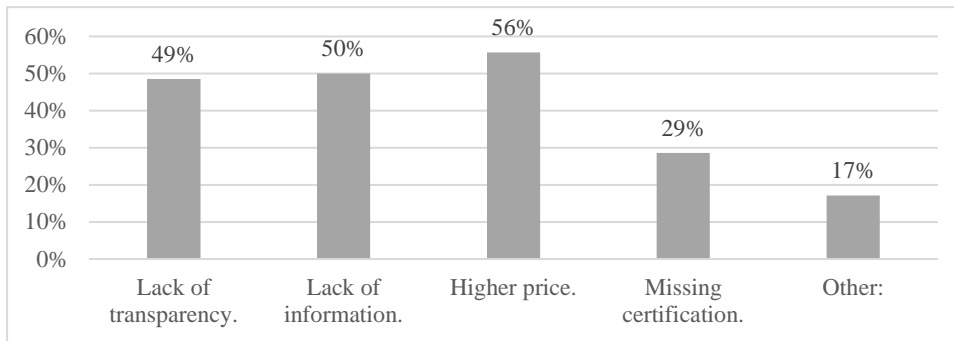
- online:

through internet research (utopia.de, rankabrand.com, avocadostore.com) , annual reports, social media (Instagram), sustainability blogs, apps, newsletter of organizations, websites, documentaries, Jugend-Initiative zur Nachhaltigkeitsstrategie in Baden-Württemberg

- offline:

friends, newspaper/magazine, directly in store

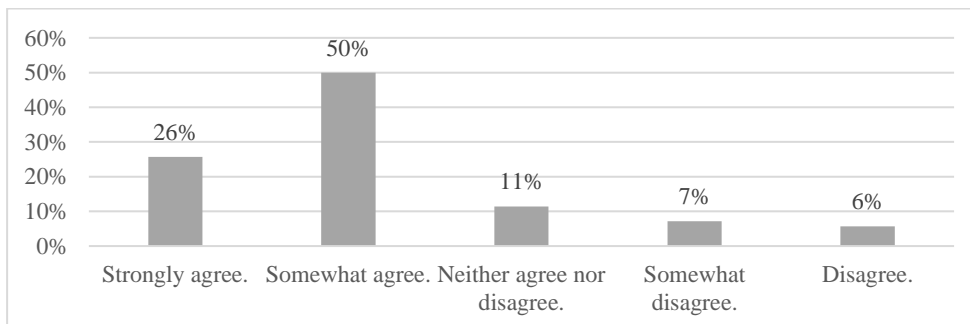
**12.)** Is there anything that hinders you from investing in sustainable clothing? Multiple answers are allowed.



**Other:**

- Design
- Lack of reliable information about the production and supply chain
- Even sustainable clothes need natural resources
- No trust in campaigns/certification, practices considered as “greenwashing”
- the fact that it is taken to an extreme by many people may discourage others to do the same on a less extreme level.
- Time-consuming research

**13.)** Do you see a difference between your values related to sustainable fashion and your actual shopping behavior? E.g. you appreciate sustainable material but you still purchase normal items.



**14.)** Do you have any comments or questions?

- I think most people claim that they are concerned about the environment, but in reality they are too lazy to change their behavior.
- For me sustainability in fashion not only means purchasing new sustainable brands, but first purchasing secondhand clothes.
- If my budget would be bigger I would consume more sustainable fashion. Momentarily I use second Hand online shops. Maybe we aren’t used to higher prices for clothes, but for now sustainable fashion is not affordable to me.
- I practice sustainability in regards to fashion in the way that I buy less clothes and use my clothes up to 10 years
- How do you define sustainability? Would be nice to know your definition
- I hate shopping for clothes so much, even more so shopping for them online. ‘d want to buy sustainable clothing, but then I’d have to invest even more time I dislike doing.
- I have a super sensitive skin and cannot wear wool. This is my limiting factor buying sustainable clothes.



- At one point all business models will have to turn to sustainable, however, the process tough because the prices are too high and end economical sustainability of the targeted audience is not at the level to boost “sustainable clothing” at the primary goal
- It should not be the question, if we can buy sustainable fashion product, but why we can buy so many not sustainable fashion products.
- I would appreciate a trustworthy label indicating cloths considering sustainability in production and materials
- Yes, I almost always buy my clothes at the same stores which I know they have concerns about sustainability. Other thing is that I try to make the most of my closet and be minimalist in the amount of clothes I buy
- The most sustainable fashion is second-hand items. I think you should add that into your questionnaire.

**Appendix 3** Literature (relevant for whole paper)

The line chart reveals the growth of research across the sustainable fashion field in general. The conceptual framework below allocates the research field of sustainable fashion across seven clusters in Management. From: **Mukendi, Amira, Iain Davies, Sarah Glozer, and Pierre McDonagh.** 2020. “Sustainable fashion: current and future research directions.” *European Journal of Marketing*, ahead of print.

SF Over the Years: 2000 - June 2019

