



**CATÓLICA
LISBON**
BUSINESS & ECONOMICS

Can Green And Gold Go Hand In Hand?

**The Implementation Of Sustainable Development In The Luxury Goods Industry:
The Case Of LVMH And Guerlain**



Author: Maximilian Andreas Heimig

Supervisor: Susana Frazão Pinheiro

Dissertation submitted in partial fulfillment of requirements for the degree of MSc in
Management at the Universidade Católica Portuguesa

December 2015

ABSTRACT

Author: Maximilian Andreas Heimig
Title: Can Green and Gold Go Hand In Hand?
Sub-Title: The Implementation Of Sustainable Development In The Luxury Goods Industry: The Case Of LVMH And Guerlain

The present dissertation outlines the incorporation of sustainable development in luxury goods industries and hence, seeks to find an answer as to whether the dimensions of luxury and sustainability have a common ground. In analyzing the luxury industry, this dissertation employs a case study approach in order to critically analyze practical sustainable activities. LVMH, as the world's largest luxury group, is portrayed as for the macro perspective of the industry and Guerlain, LVMH's prestige Perfume & Cosmetics brand, is analyzed as for luxury's micro perspective. Prior to the case study, literature on the fusion of sustainable development and luxury is presented and highlights findings on both, possible contradictions and parallels, between the two concepts. Furthermore, the literature review sketches findings on the sustainable luxury customer and eventually looks at the company respectively industry side, in analyzing the implementation of sustainable development at luxury industries. With the help of the literature findings and case study, the teaching questions eventually present what critical activities and organizational structures enable a luxury group respectively company to act sustainable along its entire value chain accordingly to its business context. Furthermore, this dissertation outlines how a luxury company can adapt the right communication and marketing strategy in order to both, communicate its sustainability approach and at the same time remain its exclusivity. Finally, the concepts of luxury and sustainable development are analyzed in terms of their convergence.

RESUMO

Autor: Maximilian Andreas Heimig
Título: Podem Verde E Ouro Andar De Mãos Dadas?
Sub-Título: A Implementação Do Desenvolvimento Sustentável Na Indústria De Bens De Luxo: O Caso Da LVMH E Guerlain

A presente dissertação aborda a incorporação de um desenvolvimento sustentável nas indústrias de artigos de luxo e, conseqüentemente, busca achar uma resposta se luxo e sustentabilidade podem alcançar um território em comum. Ao analisar a indústria de luxo, esta dissertação emprega um estudo de caso a fim de avaliar criticamente atividades sustentáveis práticas. LVMH, como o maior grupo de produtos de luxo do mundo, é retratada como uma perspectiva macro dessa indústria, enquanto a Guerlain, prestigiada marca de Perfumes e Cosmética da LVMH, é analisada numa micro perspectiva. Anteriormente ao caso de estudo, é apresentada bibliográfica sobre a fusão entre desenvolvimento sustentável e luxo, e são apontados em ambos, paralelos e contradições entre os dois conceitos. Além disso, a revisão bibliográfica esboça aspectos no consumidor do luxo sustentável, e eventualmente olha para o lado empresarial, ao analisar a implementação do desenvolvimento sustentável nas indústrias de luxo. Com o suporte da bibliografia e da análise do estudo de caso da LVMH e Guerlain, as questões apresentam quais atividades e estruturas organizacionais permitem uma companhia de um grupo de consumo de luxo agir sustentavelmente ao longo de toda sua cadeia de valor. Ademais, esta dissertação apresenta como uma empresa de luxo pode adaptar uma correta comunicação e estratégias de marketing a fim de, comunicar sua abordagem sustentável, e ao mesmo tempo, manter sua exclusividade. Finalmente, os conceitos de luxo e desenvolvimento sustentável são analisados no âmbito de suas convergências.

PREFACE

This thesis analyzes the corporate world with a strong focus on its social, ethical and environmental impact.

As part of my motivation to pursue research, which transcends the usual pure Marketing, Finance or Strategy topics, prevailing at business schools, I would like to thank Prof. Tommaso Ramus for introducing me to the world of Business Ethics and Social Entrepreneurship.

His classes on the aforementioned topics and his arousing way of teaching opened up a new corporate world to me:

Being capable to overturn my initial belief that companies are merely interested in maximizing shareholder value, Ramus' classes convinced me that a company has to create value for all of its stakeholders in order to be successful in the long run.

Eventually, this -to me- new perspective highly motivated me to pursue a thesis, which would look at an industry respectively company from a standpoint covering the impact it has on the environment and local communities, affected by its business operations.

As for my actual thesis, I always knew I wanted to cover a topic, which was of personal interest to me and which was still sufficiently uncovered by the literature, in order to explore new horizons.

Due to my personal interest in aesthetic products, I was not only motivated to pursue an internship at LVMH/Guerlain, the prestige Perfume & Cosmetics Company this thesis deals with, but I was also determined to base my thesis on the luxury goods sector, which –after some research- turned out to be only portrayed little by analyses in terms of sustainability yet.

The first point of contact I had with LVMH respectively Guerlain had a lasting impression on me as its e-mail signature stated the words *Think about the environment before printing*, which really stood out compared to the communication I had with other companies at that time.

Then, while working for the company over the summer of 2015, I could feel first-hands how a new wave of commitment to social and environmental actions took place in an industry, which is often publicly perceived as not necessarily being tied to sustainable issues.

Therefore, I was eventually motivated to base my thesis on the analysis of the sustainability programs of LVMH and Guerlain and critically analyze if public's mistrust of luxury's compliance to social and environmental issues was justified or if the luxury industry, shown at the world's largest luxury group LVMH and its brand Guerlain, indeed considers sustainability as the only way to transfer a brand's rich heritage into the future.

In pursuing research about Guerlain, I would like to sincerely thank Marion Oudin, Sustainable Development Manager at Guerlain, for her outstanding support in providing me with extremely helpful information.

Some of the aspects covered by the case study of this thesis would not have been possible without her help, thus I am very grateful about such rich insights into the company's sustainability structures.

I would also like to kindly thank my supervisor Prof. Susana Frazao Pinheiro, who has always been of great help to me in all kinds of questions and concerns I had.

Due to the fast and efficient communication I had with her, the process of conducting this thesis has been greatly facilitated.

Last but not least, I would like to thank my family for being such great support for all of my life.

As this thesis marks the end of my studies, I would like to particularly thank my grandfather, Dr. Hubert Heimig; without whose generous financial support my academic path would not have been the same.

Personally, this thesis has been more than just a duty to me as the sustainability issues, covered by this thesis, inspired me to rethink my very own impact on the environment and have furthermore motivated me as the President of Católica's Marketing Club to lead the team towards green initiatives in order to also let environmentally friendly actions at corporate level, which this thesis portrays, evolve at university level.

Table of Contents

LIST OF FIGURES	vii
LIST OF ACRONYMS	ix
1 INTRODUCTION	6
2 LITERATURE REVIEW	9
2.1 Sustainable Development	9
2.2 Luxury	10
2.3 Possible Contradictions Between Luxury And Sustainability	10
2.4 Why SD And Luxury Can Go Hand In Hand	12
2.5 Who Is The Sustainable Luxury Customer And What Drives The Decision Making Process?	14
2.6 Consumer Perception On Sustainable Luxury	16
2.7 Why Luxury Brands Need To Improve Their Social And Environmental Performance	18
2.8 How Luxury Brands Can Integrate SD Into Their Business Strategy And Benefit From Improving Their Social And Economical Performance	19
3 METHODOLOGY	22
4 CASE STUDY	23
4.1 Macro Perspective: LVMH	23
4.1.1 <i>Business Scope</i>	23
4.1.2 <i>Social Responsibility At LVMH</i>	23
4.1.2.1 Social Responsibility Scope And Management	23
4.1.2.2 Social Responsibility Disclosure And Stakeholder Engagement	25
4.1.2.3 Social Activities For (Prospective-) Employees	25
4.1.2.4 Social Activities In The Workplace	26
4.1.2.5 Individuality Promotion And Prevention Of Discrimination	27
4.1.2.6 External Social Responsibility Focus	28
4.1.3 <i>Environmental Responsibility At LVMH</i>	30
4.1.3.1 Commitment	30
4.1.3.2 Structure Of The Environmental Program	31
4.1.3.3 LIFE Program	31
4.2 Micro Perspective: Guerlain	38
4.2.1 <i>Company Description</i>	38
4.2.2 <i>Sustainable Development At Guerlain</i>	38

4.2.2.1	Structure Of The SD Program.....	39
4.2.2.2	Key Issues Of Guerlain's SD Program	39
4.2.2.3	SD Budget.....	44
4.2.2.4	Communication Of The SD Program	44
5	TEACHING NOTES	46
5.1	TQ 1: What Are The Critical <i>Activities</i> Enabling A Luxury Company, Shown At The Example Of LVMH And Guerlain, To Pursue An SD Strategy?	46
5.2	TQ 2: Communication And Marketing Of Sustainable Luxury: How Can Guerlain Address Its SD Activities To Customers In Order To Maintain Its Exclusivity?	48
5.3	TQ 3: What Critical <i>Organizational Dimensions</i> Enable A Luxury Company To a) React To Sustainable Concerns, Which Address The Particular Business Environment Of The Company And b) Implement SD Along Its Entire Value Chain?	50
5.4	TQ4: The Fusion Of Sustainability And Luxury: Do Both Concepts Share A Common Ground?	53
6	CONCLUSION.....	55
	REFERENCES.....	59
	APPENDICES.....	64

LIST OF FIGURES

Figure 1 - LVMH's Four Priority Areas Of SR.....	24
Figure 2 - LVMH's Key Workplace Social Issues And Respective Activities	26
Figure 3 - LVMH's Key Issues: Individuality Promotion/Discrimination Prevention	27
Figure 4 - LVMH's Key Issues Fostering Local Community Support.....	28
Figure 5 – The 9 Key Issues Of LVMH's Environmental LIFE Program.....	31
Figure 6 - Guerlain's Actions Fostering Environmental Compliance In Offices/Sites	40
Figure 7 - Summary Of LVMH's And Guerlain's SD Activities.....	46
Figure 8 - Corporate SD Structures At LVMH/Guerlain.....	50
Figure 9 – LVMH LIFE Program's Issues Adopted By Guerlain	51
Figure 10 – Organizational Structures And Tools Ensuring SD Compliance.....	52
Figure 11 – Luxury's And SD's Overlapping Dimensions: LVMH/Guerlain.....	53
Figure 12 - LVMH List Of Brands.....	70
Figure 13 - LVMH Founder And Chairman Bernard Arnault	70
Figure 14 - LVMH's Business Lines And Their Main Social Responsibility Issues	72
Figure 15 - LVMH's Relationship Styles With Stakeholders	73
Figure 16 - Main LVMH NGO/NPO Partnerships Fostering Social Issues.....	74
Figure 17 - LVMH's Activities Ensuring Individuality Promotion.....	74
Figure 18 - LVMH's Activities Ensuring Local Community Support	75
Figure 19 - Main LVMH NGO/NPO Partnerships Fostering Local Community Help	75
Figure 20 - Main Environmental Concerns For LVMH's Business Groups.....	76
Figure 21 - Veuve Cliquot's Fully Biodegradable Champagne Case.....	76
Figure 22 - Scope Of Sustainable Standards Of The Responsible Jewellery Council.....	77
Figure 23 - LVMH's Consolidated Greenhouse Gas Emissions 2011 - 2014.....	78
Figure 24 - LVMH's Consolidated Energy Consumption 2011 - 2014.....	78
Figure 25 - LVMH's Consolidated Water Consumption 2011 - 2014	79
Figure 26 – LVMH's Percentage Of Waste Recovery 2004 - 2014	79
Figure 27 - Historic Advertisement For The Perfume Jicky	81
Figure 28 - Historic Advertisement For The Perfume Shalimar	81
Figure 29 - Current Guerlain Parfumeur Thierry Wasser	81
Figure 30 - La Ruche Plant In Chartres, France.....	82
Figure 31 - Guerlain's Electric Supply Truck In Front Of The Flagship Store 68 Champs - Elysees, Paris.....	83
Figure 32 - Limited Terracotta Make Up Case In Sustainable Wood Packaging	84

Figure 33 - Crafting Recycled It-Bags From Former La Petite Robe Noire Advertisement Posters	84
Figure 34 - Workers In Tianzi Harvesting Orchids.....	85
Figure 35 - Black Honeybee Preservation With Guerlain's Support At The Ouessant Island .	86
Figure 36 - Parfumeur Thierry Wasser At The Vetiver Plantation In Coimbatore.....	88
Figure 37 - Guerlain's Pursued Activities Ensuring SR.....	89
Figure 38 - Guerlain's Testimonial Natalia Vodianova Inaugurating The La Ruche Plant	90
Figure 39 - Natalia Vodianova And Guerlain's CEO Laurent Boillot At The Charity Marathon For The Naked Heart Foundation In Paris, 2014	90
Figure 40 - LVMH/Guerlain's Activities As Luxury And SD's Social Equity Overlap	91
Figure 41 - LVMH Profits/Revenues Since The Launch Of The LIFE Program In 2012	91

LIST OF ACRONYMS

BCs	Beauty Consultants Of Guerlain
CDP	Carbon Disclosure Project
CSR	Corporate Social Responsibility
HQE	High Environmental Quality
LIFE	LVMH Initiatives For The Environment
LVMH	Louis Vuitton – Moët – Hennessy
Maison	Company Of The LVMH Group
NGO	Non-Governmental Organization
NPO	Non-Profit Organization
PEFC	Program For The Endorsement Of Forest Certification
RJC	Responsible – Jewelry – Council
RQ	Research Questions
SD	Sustainable Development
SR	Social Responsibility
WCED	World Commission On Environment And Development

1 INTRODUCTION

In 2007, the non-governmental organization (NGO) WWF released the first thorough report on the luxury good industry's social and environmental impact.

Analyzing the big players of the industry, no luxury brand or group was assessed with a better grade than C+:¹

Luxury's main players published little transparency on ethical and environmental activities; codes of ethics, which were already integrated in most other consumer industries at that time, were missing and the world's leading luxury group Louis Vuitton-Moët-Hennessy (LVMH) was even excluded from the influential sustainability index FTSE4 Good Index due to supply chain controversies (Bendell and Kleanthous, 2007).

Meanwhile, a growing interest in Sustainable Development (SD), and therefore responsibility in terms of social and environmental issues, emerged on governmental, societal and corporate level:

More and more countries signed the environmentally responsible Kyoto agreement (Kapferer 2010), a rising amount of consumers valued their purchases on social and environmental dimensions and eventually companies realized they could boost their performance by acting sustainable (Tang and Tang, 2012).

Thus, wasn't it also time for the luxury industry, which is traditionally a pioneer in establishing trends and selling dreams (Bendell and Kleanthous, 2007), to also sell aspirations in terms of sustainability?

This thesis analyzes the synthesis of SD and luxury and furthermore outlines how luxury companies can implement SD into its activities and strategy, by basing it on their particular business context, ensuring ethical compliance along its entire value chain and eventually still remaining their exclusivity.

¹ On a scale from A to F

Thus, three research questions (RQ) are being addressed:

- RQ1: The fusion of sustainability and luxury: Do both concepts share a common ground?
- RQ2: What critical organizational dimensions enable a luxury company to a) react to sustainable concerns, which address the particular business environment of the company and b) implement SD along its entire value chain?
- RQ3: Communication and Marketing of Sustainable Luxury: How can a luxury company, shown at the example of Guerlain, address its SD activities to customers in order to maintain its exclusivity?

In answering these questions, this study first of all presents findings on sustainable luxury within the literature and then follows a case study approach in order to outline applied examples within the luxury industry.

Hence, I am enabled to transfer the practices and structures from a real life business setting on the literature findings in eventually answering the research- and teaching questions.

In employing a case study approach, the luxury goods group LVMH is analyzed on its SD approach as to the industry's macro perspective.

LVMH, as the world's leading luxury group with its 70 iconic brands (Maisons), is chosen because of its representativeness for the luxury industry as it is the only group in the industry engaging in all main segments of luxury.

Therefore, the case of LVMH covers a wide range of companies and individual luxury sub – industries.

In order to analyze such a luxury sub – industry on its sustainability compliance, namely the luxury Perfumes & Cosmetics industry, LVMH's company Guerlain is chosen for the micro perspective.

This micro perspective also enables a critical analysis of how standards, determined at group level, are shaped at company level.

Eventually, this interplay between group and company level is representative for the luxury goods industry, in which most of the companies are consolidated within three major groups² and therefore also outlines managerial implications to other luxury players, particularly in the Perfume & Cosmetics market, in fostering a meaningful SD program, aimed at a company's particular business context.

The analysis of Guerlain's SD-communication approach, taking into consideration the literature findings on consumers' perceptions of how particular luxury companies should communicate their sustainability programs, furthermore also outlines managerial implications to Guerlain itself in showing how the brand can efficiently market its SD program, without losing its exclusivity.

This case study presents the fusion of SD and luxury based on a company rather than customer perspective and therefore expands the academic literature findings as customers' perceptions on sustainable luxury have already been thoroughly analyzed, however literature on a luxury company's implementation of SD is rare.

Lastly, the topicality of this case study is highly relevant to the analysis of sustainable luxury as major SD initiatives at group- and brand level have only been implemented recently and are –to my knowledge- not covered by the literature yet.

² Deloitte Global Powers of Luxury Goods 2015 Report

2 LITERATURE REVIEW

This chapter presents the findings within the literature of SD in luxury goods industries. Outlining the basic understanding of this thesis' topic, definitions and literature findings on the terms of SD and luxury are presented first of all.

Contrasting both terms with each other, I will present findings on possible contradictions and accordance between both concepts.

In order to further explore the topic of SD in luxury industries, literature findings on both, the customer and the industry will be highlighted.

2.1 Sustainable Development

Ever since the World Commission on Environment and Development (WCED) report *Our Common Future* defined SD in 1987 as *development that meets the needs of the present without compromising the ability of future generations to meet their own needs* (WCED 1987, p. 43), sustainability has gained significance on a corporate level.

According to Bansal (2005), a company pursuing SD is one, which integrates environmental integrity, social equity and economic prosperity into its strategy.

Guidelines such as sustainability metrics, which most industries have to comply with nowadays, and the growing interest of shareholders in the creation of long-term value (Carcano, 2013), lead companies to the integration of SD strategies as essential means to be competitive (Kiron et al., 2012).

By introducing eco – friendly processes into the value chain and basing its business operations on social and ethical fundamentals, a company's SD strategy aims at improving social and ecological standards within the environment a company operates in.

Therefore, a company's ultimate SD goal is to preserve their environment throughout the long-term (Cervellon, 2013).

2.2 Luxury

The term luxury has its base in the Latin term *Luxus* which stands for *extravagant living and indulgence* (Oxford Latin Dictionary, 1992).

First explanations of luxury date back to the Greek philosopher Plato describing luxury as a rare, desired and status revealing good. Often linked to high status consumers, luxury is used as a source to express one's power and status-laden identity (Godart and Seong, 2014).

Due to luxury's impact on society, luxury traditionally has an impact on sociological issues such as social stratification, differing perceptions of value and choices regarding the allocation of wealth. These concerns turn luxury into a socially controversial issue. Thus, a society's understanding and judgment of luxury eventually defines what luxury stands for (Kapferer, 2009).

2.3 Possible Contradictions Between Luxury And Sustainability

Whereas luxury's core values are deeply inherited in hedonism, expense and affluence (Berry, 1994), sustainability's base is shaped by the opposing values of altruism, restraint and moderation. This contrast highlights how the concept of luxury and SD may potentially interfere with each other (Carrier and Luetchford, 2012).

As a luxury product is based on using superior resources, employing highest skilled craftsmen, selecting the most exquisite retail places and servicing the customer in the most careful way in order to bestow him with utmost prestige and glamour, luxury is deeply connected with excess.

Contrasted to the ethical values of frugality and self-restraint in order to grant the next generations' contentment, luxury's excess seems to find its counterweight in SD (Kapferer, 2010).

Further contradicting findings are found by Beckham and Voyer (2014), who notice consumers associate the term luxury with unsustainability rather than sustainability.

The literature states luxury as a societal transgression in both old and new luxury markets: Particularly in Europe luxury has traditionally evoked states of social and moral tensions (Berry, 1994).

In luxury's new emerging markets, e.g. in China, luxury is considered as a cradle of inequality and thus does not presumably imply SD's equal social dimension.

Societies within emerging markets are often characterized by the co-living of the extremely-poor and rich, with the latter being convicted of overexploiting scarce collective resources by, for instance, driving highly gas consuming luxury cars.

According to literature findings, this kind of luxury consumption is not a cause for social inequality but rather a consequence of the incumbent Chinese political party, which motivated its own people to become rich and successful in an attempt to stimulate entrepreneurial forces and therefore evoke imitating-action. As a result, social inequality between the urban and rural population has grown.

Due to this social disparity, a rarely sold Bentley with a 6.5l engine as opposed to a less gas consuming but widely more distributed mass car's engine is negatively evaluated in an SD context. Luxury's high visibility and symbolic power rather than its actual impact on the environment's resources, resemble the supposed contradiction between luxury and SD here (Kapferer, 2010).

Possible opposing concerns are also raised in luxury's fashion industry:

By pursuing the SD approach of using recycled materials, the luxury industry is at risk of losing its influence of driving systematic and regular bi-annual change.

Materials, already seen on previous runway shows, are now recycled and replace a luxury brand's typical changing of styles.

The change driven influence becomes abandoned and thus, the difference between a mass fashion brand, known for copying luxury brands' styles rather than introducing change in designs, is no longer given (Godart and Seong, 2014).

2.4 Why SD And Luxury Can Go Hand In Hand

Although common belief may decline the synthesis of SD and luxury, Bendell and Kleanthous (2007), refute the myths about a possible non-compliance between both concepts: Whereas luxury is supposed to be about conspicuous personal indulgence and therefore is supposed not to incorporate SD's core value of moral, superiority as luxury's prime character is depicted as a common value of SD and luxury.

A luxury product, which has a negative impact on the environment, is no longer considered to be superior in its class by the more sustainably oriented luxury consumers of today.

Also the common belief that luxury consumers in new emerging markets are only interested in the status power of a brand's logo and do not integrate ethical or environmental concerns into their decision making finds its opposition in the influence of western societies on emerging markets' consumers.

As emerging markets mature, their affluent customers orientate their purchase behavior on that of their western counterparts where sustainability concerns are now widely established.

Further literature findings depict the synthesis between SD and luxury by highlighting the overlapping values of timelessness, uniqueness and soul with the latter involving meaning, heritage and story (Pascaud, 2012).

Just as our environment is timeless and durable so are luxury products, which are built to last over generations passing any fashion trends (Kapferer, 2010; Bendell and Kleanthous, 2007). In fact, a luxury good's value often rises in time and therefore sets the ground for sustainable resource management in order to assure highest quality and a long product life cycle (Godart and Seong, 2014; Hennigs et al, 2013).

Due to luxury's timelessness, products are built to transfer a brand's rich heritage into the future. The fact that ninety per cent of all Porsches ever manufactured are still to be found on the roads indicate that durability and timeless heritage are at the core of luxury just as it lies within SD (Kapferer, 2010; Bendell and Kleanthous, 2007).

Luxury and SD's overlap in terms of exclusivity is particularly based on rarity. Whereas rare materials and rare craftsmanship are at the core of luxury, the preservation of these rare resources and skills is at the core of SD (Kapferer, 2010).

In an analysis of the Tuscan native wools industry, luxury finds its root in the rare and exclusive resource of native wool. By conserving rare sheep breeds threatened with extinction, and further processing these breeds' wool, the sustainable nature of native wool attaches luxury to the products produced from this resource. Therefore, sustainability in form of preserving rare resources links as the source of luxury (Guercini and Ranfagni, 2013).

Whereas the aforementioned parallels of luxury and SD concern environmental issues, luxury also has a significant impact on the social regards of SD.

Since the French luxury industry does not delocalize its production and therefore manufactures its products in its home market, a production-outsourcing to low labor cost countries in which exploitation frequently surrounds working conditions, is avoided.

Localized production in its home country, leverages the luxury industry's uniqueness and establishes an ethical environment, as work conditions in the western hemisphere are strictly regulated and thus less likely imply exploitation (Kapferer, 2010).

Also the non-French luxury industry's involvement in low labor cost countries has converged towards more ethically accepted conditions lately.

After public attacks on former unethical working environments in Africa and Asia, the diamond industry with De Beers, being the world's main supplier of diamonds, adapted programs establishing ethical conditions along its supply chain (Cross, 2011).

Linking to SD's core values of rarity and ethical conformity, De Beers introduced its highly precious Forevermark diamonds, which can only be labeled so if they come from highest environmentally and ethically committed sources.

With only less than one percent of the world's diamonds being qualified as Forevermark, this good resembles the overlap between SD and luxury in the form of extreme rarity and socially committed standards (Kendall, 2010).

Also on an organizational basis, luxury maintains SD's social aspects as detected in the Tuscan native wool supply chain in which involved actors engage on a voluntarily basis on the creation of a sustainable production.

The actor's unique shared technical skills in the production process are not only characteristic for the luxury model but furthermore also lead to the exclusivity of sustainable luxury products, which are based on the conservation of rare resources (Guercini and Rafagni, 2013).

Thus, sustainable luxury involves a common social project, shared among producers and end customers, who identify with the sustainable nature of luxury products (Guercini and Rafagni, 2013.)

2.5 Who Is The Sustainable Luxury Customer And What Drives The Decision Making Process?

In the wake of pre subprime-financial crisis and accompanying easy access to credits, luxury goods became available to a broader customer basis (Kendall, 2010).

Simultaneously, some of the top luxury brands distributed lower priced accessories, which fueled the broader availability of the so-called *masstige* luxury; Products between broad availability and exclusive appeal (Silverstein and Fiske, 2003).

At the upper continuum of the luxury product assortment, brands instantaneously introduced bespoke and highly exclusive product lines in order to serve the very upper top of society.

With the financial crisis arriving and the supplementary critical evaluation of status symbols in times of crisis, customers between *masstige*- and highly exclusive luxury products, picked up on the rising popularity of the socially conscious customer movement and became interested in deeper levels of luxury.

Particularly younger generations of luxury customers became interested in a product's background and wanted a luxury product to reflect societal responsibilities (Kendall, 2010).

As the environmentally concerned *green customer* is generally characterized as of having a high educational background and a higher than average household income (Chan, 2000), similarly is also the sustainable luxury customer characterized, whose affluence is rooted in a strong education and a global mindset (Bendell and Kleanthous, 2007).

Further characterization of the sustainable luxury customer can be found in what is known as the *liquid society* and relies on the uncertainty of today's society (Baumann, 2005).

As a result of western societies' over contentment with their standard of living, these consumers permanently question their own place and their contribution to today's quickly evolving society (Beard, 2008).

Luxury retro products sold at second hand stores relief this ever questioning and anxious customer, as the recycled item links to a previous time, that is considered as easier and less concerned. Therefore, the desire for nostalgic moments in today's hectic life is met.

Eventually, the current trend of vintage luxury clothing responds to consumers' ethical concerns, by purchasing a recycled rather than new item and also satisfies the demand for exclusive luxury, as former collections are not to be found in a brand's currently available collection (Beard, 2008).

A further driver of sustainable luxury consumption can be found in the relief of guilt (Atsmon, Pinsent and Sun, 2010; Cervellon and Shammas, 2013), which serves as a *retail therapy* to customers who feel guilty when buying luxury (Kendall, 2010).

This extent to which consumers feel guilty when buying luxury is dependent on a customer's culture (Cervellon and Shammas, 2013):

Whereas luxury acts as a socially accepted reward for hard work in Calvinist cultures, the consumption of luxury evokes feelings of guilt in Christian cultures (Morand, 2004).

Driving a Porsche Cayenne is perceived as a reasonable reward for high effort in the U.K. or Northern America.

In Italy driving the same car is related to negatively perceived show-off motifs and accompanying feelings of guilt for driving an environmentally polluting car.

However, if its more sustainable counterpart, a Porsche Cayenne Hybrid, replaces this car this version actually relieves the same Italian consumer's guilt in driving a showy car (Cervellon and Shammas, 2013).

Driving a sustainable luxury car furthermore enhances the owner's altruism by benefiting rather than polluting the environment. The owner signalizes to his peers both, the willingness to drive a car benefiting his environment, and at the same time his capability of bearing the costs for driving a high priced luxury car.

Thus, status is attained within a group as the owner's self sacrificing personality in favor of the group highlights the owner's social personality and furthermore evokes prestige by indicating the owner's fortune through the purchase of an expensive item.

This consumer behavior, which is described as *going green to be seen* (Griskevicius, Tybur and Van den Bergh, 2010) is influenced by a consumer's location of shopping.

If an item is purchased privately, consumers tend to buy the less environmentally friendly but more luxurious version. However if an item is bought in public, consumers prefer to buy the greener version of the luxury item. In this setting, a consumer gets observed by his peers and therefore desires to enhance his status with a costly but social purchase (Griskevicius, Tybur and Van den Bergh, 2010).

Just as rarity enhances the desire for luxury products (Kapferer and Bastien, 2009), so does rarity also enhance the desire for sustainable luxury.

Thus, the less recharge stations there are in one's environment, the higher the prestige of driving an electric luxury car (Griskevicius, Tybur and Van den Bergh, 2010).

2.6 Consumer Perception On Sustainable Luxury

The academic literature on actual consumer perceptions of the fusion between SD and luxury presents mixed findings.

If luxury brands are explicitly labeled as of sustainable origin, consumers perceive these products as less luxurious (Beckham and Voyer, 2014).

However, favorable perceptions of sustainable luxury products are attained if the sustainability claim of a product enhances one's own social status as going green, rather than displaying global benefits for the common good (Steinhart, Ayalon and Puterman, 2013).

Furthermore, consumers' opinions are dependent on the environmental context in which sustainable luxury products are presented:

Perceptions of a sustainable background of luxury products are particularly evoked if luxury brands are presented right next to high street brands, with the latter then perceived as less sustainable (Beckham and Voyer, 2014).

In a further attempt to study consumers' opinions on the inclusion of SD in luxury products particularly if compared to commodity products, Davies, Lee and Ahonkhai (2011) notice consumers' overall little interest in the ethical background of luxury products:

The little significance of SD, which consumers place on their luxury product purchase is explained by the lack of information and availability of ethical luxury products.

Whereas publicity promoting the ethical source of commodities is widely available, there is only little such information about luxury products obtainable.

As a consequence, consumers assume that sustainable luxury products would be too expensive.

If directly compared to ethical commodities, luxury products, which are only occasionally purchased, are believed not to have as much of an impact as products bought on a daily basis. Furthermore, it is believed ethical- commodities rather than luxury products are more powerful in solving ethical dilemmas, as the likes of Fair Trade coffee are believed to impact larger and more scrutinized supply chains (Davies, Lee and Ahonkhai, 2011).

In what is called *the fallacy of clean luxury* (Davies, Lee and Ahonkhai, 2011), consumers presume luxury goods to be produced under ethically acceptable conditions, which do not incorporate exploiting work conditions as these are more often related to the production of commodities.

Therefore, consumers' interest in sustainable luxury is of less significance and eventually neither involves a negative nor positive assessment.

Similarly, in an attempt to capture consumers' opinion on sustainable luxury in one of luxury's birthplaces, France, Kapferer (2012) discovers no clear consensus on consumers' perception whether luxury and SD can go hand in hand, with luxury's presumed value of waste and SD's opposing value of austerity, being the main clash between both concepts.

Also, a luxury brand's origin respectively perceived image has a significant impact on consumers' perceptions about sustainable luxury.

The more luxury a brand is considered, the more sustainable it is expected to be.

Slow manufacturing processes and careful craftsmanship are considered as the synonym for respectful environmental behavior.

Hence, a brand, which is perceived as *making luxury* due to its strong connection to craftsmanship, rare resources and heritage in terms of local production, is expected to incorporate SD into its strategy without explicitly communicating this approach.

Also a brand's geographical heritage can convey a country-of-origin effect in terms of SD; for instance the German luxury car industry's reputation for superior engineering boosts the credibility of BMW or Porsche's SD approaches.

On the contrary, a brand perceived as *showing luxury* due to its heavy portray of logos and large-scale production, is questioned on its SD claim's legitimacy and authenticity.

Although consumers still expect these brands to link their marketing and financial efforts to SD issues, there is still doubt whether these brands merely pursue *greenwashing* (Mohr et al., 2001) with this strategy and therefore exploit cause-related marketing for egoistic commercial reasons (Cervellon, 2013).

Thus, consumers' perception of a brand eventually influences consumers' assessment of a brand's SD approach (Perez, 2009).

2.7 Why Luxury Brands Need To Improve Their Social And Environmental Performance

Public attacks, particularly by non-profit organizations (NPO), on socially and environmentally damaging practices of luxury brands have increased the significance of adapting SD within the luxury industry.

Due to the luxury industry's denouncement for its unethical production practices in the movie *Blood Diamonds* (Godart and Seong, 2014) and further deliverance of poor indictments about SD activities in WWF's *Deeper Luxury Report* (Bendell and Kleanthous, 2007), the luxury industry is scrutinized by the public and is at risk of damaging its equity (Cervellon, 2013).

As a countermeasure, an SD strategy can act as security for reputation damages in confrontational times (Minor and Morgan, 2011).

Also the luxury industry's wide availability in new markets, particularly in Asia, demands an involvement in more socially and environmentally benefiting activities.

As luxury brands are seen as the root of social inequality in these territories and therefore face counteractive restrictions, such as a 114% luxury goods tax in India as well as a ban of advertisement campaigns in Beijing, luxury brands need to create common value for all stakeholders engaged in a brand's supply chain.

An SD program benefiting both social and environmental aspects for all actors involved in the supply chain, could overcome the accusation of only benefiting the wealthy.

By integrating an SD program into its strategy, a luxury brand could also attract more affluent Chinese customers.

The luxury concept in China resembles the notion of personal reputation with the two concepts of *mien-tzu*, displaying wealth and status, and *lien*, describing one's moral standing within society.

As the loss of moral standing hampers one's functioning in Chinese society, a Chinese consumer could maintain his societal acceptance by buying sustainable luxury products, which outline the consumer's dedication to benefit the common good (Bendell and Kleanthous, 2007).

As interests of western luxury consumers mature and Asian consumers tend to follow these drifts, a luxury brand is no longer only considered because of its status-revealing logo. Consumers demand a deeper meaning behind a brand's symbol.

Especially in a world driven by speed, luxury is characterized by going slower rather than going faster (Bendell and Kleanthous, 2007).

Since the most luxurious brands are expected to act sustainable, respectively incorporating slow processes (Cervellon, 2013), establishing an SD program is an opportunity to enhance a brand's luxuriousness and draw a stronger customer basis, which is attracted by a deeper meaning rather than just a logo (Bendell and Kleanthous, 2007).

2.8 How Luxury Brands Can Integrate SD Into Their Business Strategy And Benefit From Improving Their Social And Economical Performance

Luxury brands compete among each other in terms of economic performance and the symbolic value a brand conveys to its own stakeholders. Also a brand's capability to take over a competitor's share of symbolic value determines a brand's competitiveness.

In order to establish symbolic value, a luxury brand bears in mind the social and cultural frame of society.

This frame is not only shaped by customers' concern for high value products that meet at least minimal environmental and ethical standards but furthermore also by stakeholders', and particularly own employees', interests for sustainable activities (Carcano, 2011).

A luxury brand's sustainable activities usually concern the environment a product category is based in. Thus, jewelry brands are more concerned with ethics in sourcing processes whereas champagne brands are more focused on ecological issues (Carcano, 2013).

In developing SD strategies, luxury groups can either outline a centralized approach, in which each brand or business shares the same SD guidelines created at headquarter level, or a decentralized approach, characterized by each brand's autonomous SD program creation.

By decentralizing a group's SD program and therefore letting its brands create SD approaches, which are independent of each other, a brand is enabled to design innovative strategies, which are particular to the business environment it acts in.

On the contrary, interconnected, centralized SD guidelines are shared by all brands of a group and are aimed at pursuing common goals.

The focus of both centralized and decentralized SD programs can either be towards internal issues, such as governance and employees, or more external issues, such as community and

environment. This focus is usually determined by the marketplace a brand engages in: Luxury brands acting in a rather publicly scrutinized environment, such as jewelry or lodging, tend to base their SD programs on an external rather than internal focus (Carcano, 2013).

Besides considerations of shaping an SD program centralized or decentralized and whether to base it on internal or external issues, a brand also has to determine the scope of its SD approach.

By integrating philanthropy into its business or hosting charities, SD is implemented as an outlying part into a company's strategy and can therefore be subject to elimination in times of recession.

SD can also be part of a company's marketing strategy. Hence, a brand explicitly associates a sustainable issue to the sale of a product, just as Versace's *Art Unites* approach outlines. Revenues of bespoke handbags, designed with unique drafts by children, are recouped to children-in-aid foundations.

The most integral implementation into a company's strategy takes place when a company considers SD as its central commercial philosophy and bases its entire supply chain and product range on sustainable fundamentals.

As SD is a core fundament of the business' strategy, cutting costs by restraining its SD program is not an option for a company pursuing a commercial philosophy based on SD.

As an outcome of successful SD implementation, a company's financial results can prosper (Kendall, 2010).

As a mean to communicate the SD approach, a luxury brand can rely on marketing strategies based on testimonials.

In what is called a *win – win – win* situation (Kendall, 2010), all actors involved in a sustainable luxury marketing campaign can benefit:

By using celebrities, who endorse the brand as well as the good cause, a consumer can easily identify with the proposed sustainable lifestyle of the celebrity and thus eventually with the sustainable value proposition of the endorsed brand (Beard, 2008).

If a brand resembles deeper sustainable values behind a logo, a celebrity's reputation for supporting a good cause can be boosted, as is the sustainable issue behind the campaign itself enhanced.

Eventually, the usage of testimonials in sustainable luxury marketing campaigns can achieve desire among customers (Bendell and Kleanthous, 2007).

The benefits of integrating SD into a luxury brand's strategy can be found in fostering customer relationships as brands create deep value for its customers.

Customers are eventually turned into devoted brand ambassadors, which attract further customers to the brand. Hence, a brand extends its customer base and also increases its profits. This boost in profits is also supported by customers' higher willingness to pay for brands, which outline a positive reputation (Kendall, 2010).

By incorporating recyclable materials and reducing waste within the production process, a brand can furthermore reduce its costs and therefore optimize its supply chain (Godart and Seong, 2014).

Chances for consumers' acceptance of SD are depicted in the luxury fashion industry, in which brands act autonomously in shaping consumer perceptions of innovative and new designs.

Particularly a luxury brand designer's ethos exerts the power to influence consumer perceptions of innovation, as to be seen by Chanel's creative director Karl Lagerfeld, turning presumably unfashionable rescue jackets into accepted fashion items.

Similarly, also sustainable fashion can be established as the new norm through a luxury brand prominent designer's symbolic power (Godart and Seong, 2014).

With luxury brands generally being in the pole position of turning new styles and products en vogue (Kendall, 2010), also sustainable luxury brands can become a leader:

By leveraging a luxury brand's traditional capability of turning products into dreams, sustainable luxury products can be turned into aspirations with brands providing the luxury consumer, who is traditionally seeking a reference point, with an identity based on social and environmental dimensions (Joy et al., 2012).

3 METHODOLOGY

The following case study is based on:

Qualitative and quantitative secondary data from:

- The standalone Social Responsibility (SR) and Environmental Data Reports of LVMH
- The Sustainable Development Report and Etre Guerlain magazine of Guerlain
- Information published online both on LVMH and Guerlain's websites

Qualitative primary research has been conducted with a structured interview questionnaire (see Appendix 1) with an SD Manager from Guerlain's headquarter in Paris.

4 CASE STUDY

4.1 Macro Perspective: LVMH

4.1.1 Business Scope

LVMH was founded in 1987 by CEO Bernard Arnault and has become the world's leader in luxury.

Being present with 70 brands (Maisons) in the segments of Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry and Selective Retailing (see Appendix 2 for list of brands), LVMH is the only luxury group with a presence in all major luxury segments.

Operating on a worldwide basis with headquarters in Paris, France, the company presently employs 120,000 people and generated revenues of 30.6 Billion Euros in 2014.

4.1.2 Social Responsibility At LVMH

4.1.2.1 Social Responsibility Scope And Management

LVMH's Corporate Social Responsibility (CSR) approach is based on the United Nations' Global Compact statutes and thus is committed to connect its business operations with the ten universal social principles embracing human rights, labor standards, environmental care and combating of corruption (see Appendix 3 for further information).

In order to manifest these principles throughout the entire organization, the group disclosed its own Code of Conduct in 2010 after a Supplier's Code of Conduct had already been published in 2008.

Hence, best practices based on the fundamentals of the Universal Declaration of Human Rights, the international Labor Organization convention and the UN's Women's Empowerment Principles, among others, are shaped internally throughout LVMH's Maisons and also commit the external sourcing value chain to comply to highest social standards.



Figure 1 - LVMH's Four Priority Areas Of SR

(Source: Author adapted from LVMH SR Report 2014)

The management of LVMH's CSR policy and its four priority areas is both decentralized and unified.

Each Maison adapts its own CSR program in accordance to its own needs and in order to react to local challenges, while at the same time embedding its CSR policy into its unique heritage (see Appendix 4 for main SR issues affecting the respective business lines).

However, all Maisons need to comply to the group's Code of Conduct in order to assure unified best practices.

Within each Maison, the CSR program is managed by the Head of Human Resources and has local SR Coordinators at each subsidiary, guaranteeing the local compliance with standards set up at a Maison's headquarter level.

At group level, the Social Development Department assures the adaptation of each Maison's CSR approach with LVMH's Code of Conduct by generating a continuous exchange with the Maison's SR Coordinators.

4.1.2.2 Social Responsibility Disclosure And Stakeholder Engagement

Documentation of a Maison's CSR actions is disclosed via an international reporting system.

At an annual meeting of the group's entire CSR network, these reports are checked upon their past year's performance as a basis for priority formulation for the current year.

As a matter to disclose this performance to external stakeholders, LVMH publishes:

- A standalone CSR report
- Its CSR activities in the annual report and the reference document
- Internally, employees are informed about the group's social actions through the group's intranet, Voices, and a standalone CSR newsletter (some Maisons such as Dior Parfums have even their own CSR newsletters)

LVMH's stakeholder engagement and way of communication on social issues is not only dependent on the kind of stakeholder the group interacts with (see Appendix 5 for relationship styles with stakeholders) but also depends on the business line, the Maison and the geographical sphere operations take place in.

Fostering its social commitment, the group furthermore upholds strategic partnerships with non-governmental bodies in order to pursue its commitments towards its CSR policies (see Appendix 6 for LVMH's main partnerships).

In the following the pursued activities for LVMH's four priority areas (Figure 1) of SR are highlighted:

4.1.2.3 Social Activities For (Prospective-) Employees

Although LVMH naturally entices professionals interested in the luxury goods industry due to its brands' international popularity, the group still focuses on the development of talents and skills in order to assure its next generation's profoundness with the luxury sector.

Thus, the group holds luxury management chairs, such as at the French ESSEC Business School, granting the development of prospective luxury managers.

Further educational promotion is driven by an increasing attempt to attract future engineers to the luxury industry by cooperating with technical chairs at renowned French Engineering Universities.

LVMH also strongly invests into the maintenance of craftsmanship skills.

The shoemaking Maison Berluti teaches and recruits the next generation of shoemakers and leather workers at its *Academy of Expertise*, whereas the Maison Loewe even offers leather crafts workshops for its suppliers to promote an exchange of knowledge on restoring unique skills.

4.1.2.4 Social Activities In The Workplace

In order to assure its employees’ quality of life in the workplace, LVMH and its Maisons pursue activities promoting health, safety and ergonomic benefits:

	Promoting Health	Promoting Safety	Promoting Ergonomic Benefits
Activities at LVMH	<p>The LVMH Watches & Jewelry Business Line organizes workshops on coping with stress at the workplace at its Chinese subsidiaries</p> <p>Berluti offers employees weekly gym and yoga sessions</p>	<p>Scottish Whiskey Distiller Glenmorangie follows a strict zero-accident policy at its production sites</p> <p>Tag Heuer provides its sales staff with stress reducing safety techniques for armed robbery scenarios</p>	<p>Dior Perfumes improves the ergonomics of workstations used by its mobile sales force and point of sale staff</p> <p>Moet Hennessy Spain offers free massages during the busiest times of the year</p>

Figure 2 - LVMH's Key Workplace Social Issues And Respective Activities

(Source: Author based on LVMH SR Report 2014)

In order to manifest satisfaction at the workplace, a dialogue with employees is enforced by the group’s Works’ Council which includes international employee representatives and senior management.

Tracking employees’ feedback on working conditions, employee attitude surveys are distributed throughout all Maisons among further direct initiatives by individual Maisons to encourage a dialogue with employees:

Hence, Fendi holds monthly meetings at its Asian – Pacific subsidiaries in order to foster team building measures and improve contentment of its employees.

4.1.2.5 Individuality Promotion And Prevention Of Discrimination

The group's decision making and particularly relationship to employees is embedded in the promotion of individuality and thus exclusion of discrimination (see Appendix 7 for LVMH's pursued activities fostering individuality promotion).



Figure 3 - LVMH's Key Issues: Individuality Promotion/Discrimination Prevention

(Source: Author adapted from LVMH SR Report 2014)

Starting right from the recruitment stage on, the Maisons' recruiters are obliged to follow LVMH's Recruitment Code of Conduct, which is accompanied by a mandatory workshop on discrimination prevention and a constant execution of discrimination assessment by an independent company.

4.1.2.6 External Social Responsibility Focus

Besides the aforementioned social activities, which mainly affect LVMH's internal employees, the group also provides social support to local communities.



Figure 4 - LVMH's Key Issues Fostering Local Community Support

(Source: Author adapted from LVMH SR Report 2014)

Fostering their national identity, some Maisons share historical bonds with regions in France, which resemble a luxury product's exclusive heritage.

Thus, the Maisons Veuve Cliquot and Moët exclusively produce their products in Champagne, whereas Hennessy only produces in Cognac.

Due to this resilient relationship, these Maisons are not only supporting these local regions with the provision of employment but are furthermore engaged in cultural and educational activities dedicated exclusively to these communities.

LVMH's commitment to deliver support to local communities also transcends those areas, which exclusively link as the geographical origin of a Maison or a product.

Hence, the group and its Maisons engage in activities (see Appendix 8 for examples), which are aimed at benefitting disadvantaged and underprivileged communities as well as social entrepreneurs, engaging in the local development of these communities.

Providing support to local communities, LVMH and its Maisons cooperate closely together with NGOs and NPOs, which specialize on particular aspects of helping communities in need of infrastructural and educational support (see Appendix 9 for full list of partnerships).

4.1.3 Environmental Responsibility At LVMH

4.1.3.1 Commitment

LVMH's environmental responsibility has been an integral part of the company's strategy for more than twenty years.

Maisons such as Louis Vuitton employ uniquely skilled craft workers who turn scarce resources such as cotton, leather and wood into exclusive high quality items, which are passed on throughout generations.

Thus, the preservation of these raw materials resembles a priority for the group, which considers environmental responsibility as a basis for its competitiveness and claims the luxury industry with its creation of dreams and beauty, as an exemplary industry to also pursue aspirations in terms of natural preservation.

Hence, LVMH strongly promotes values and practices of environmental responsibility, which incorporate all of its stakeholders into its culture and furthermore included the investment of 16.6 Million Euros³ in pro-environmental initiatives in 2014.

In order to foster highest levels of environmental responsibility within all of its operations, the group launched:

- An environmental charter in 2001
- An environmental code of conduct for suppliers in 2008 and for its own employees in 2009
- The LIFE (LVMH Initiatives For The Environment) program: Incorporation of environmentally beneficial practices on a Maison-wide level
- An internal carbon fund in 2015: Investments in several initiatives to reduce greenhouse gas emissions

³ Investments do not include further environmental expenses such as trainings, quality standards of buildings and environmental corporate sponsorship

4.1.3.2 Structure Of The Environmental Program

Although all Maisons share the common goal of prioritizing consumers' health and reducing its energy consumption, individual environmental concerns and measures taken by each Maison are highly dependent on the business line and thus the particular environmental footprint a business line leaves behind (see Appendix 10 for business lines' main environmental concerns).

Hence, LVMH's internal environmental responsibility area is decentralized, however united in cross – divisional measures, which are granted through the LIFE program and the Environmental Charter.

These initiatives are controlled and executed by LVMH's Environmental Department, which relies on a network of 50 employees at individual Maisons and develops guidelines, practical tools and internal audits in favor of environmental compliance.

4.1.3.3 LIFE Program

Scope

LVMH's LIFE Program resembles the group's longtime commitment to environmental performance. The program sets requirements to each Maison and manages the individual environmental measures taken by each Maison in one unified approach.

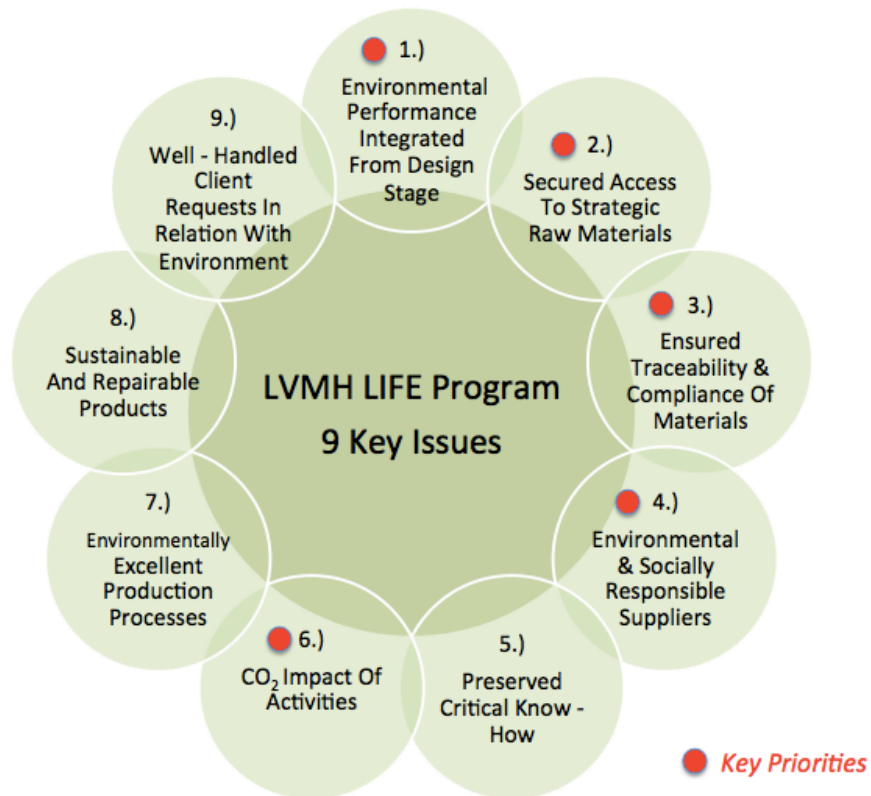


Figure 5 – The 9 Key Issues Of LVMH's Environmental LIFE Program

(Source: Author adapted from LVMH Environmental Report 2014)

Each Maison is required to tackle those particular environmental challenges of the LIFE program, which are the most concerning to their business activities.

Thus, Maisons such as Sephora which are strongly engaged in selective retailing and therefore face high energy consumption in stores prioritize minimizing their CO₂ impact, whereas Maisons operating in the perfume industry, such as Acqua di Parma, stress the protection of ecosystems and therefore highlight the secured access to natural resources.

After a Maison has selected its own challenges of the LIFE program, a matching action plan and indicators, which keep track of the progress achieved by the actions, have to be presented to LVMH's Environmental Department.

Assessment Of Environmental Performance

Internally, a Maison's environmental performance has already been assessed even before the launch of the LIFE program with a reporting instrument whose data is controlled by constitutional auditors ever since 1998.

As a matter of public disclosure, the group presents its consolidated environmental performance in its standalone Environmental Report and also individual Maisons such as Loewe, Sephora and Louis Vuitton publish SD reports and information on their websites.

Externally, Maisons are checked by independent third parties, covering 34% of all group's facilities in 2014, with the ISO 14001 Certification being the most applied form of rating.⁴ Furthermore, performances are rated by the main public indices based on environmental responsibility.⁵

LVMH also discloses its environmental data to the Carbon Disclosure Project (CDP), a non-profit international organization, which evaluates the group's influence on the environment.⁶

⁴ 42% of all group's facilities were ISO 14001 (environmental management standards) certified in 2014

⁵ FTSE4 Good Global 100, EuroNext Vigeo Eurozone 120, ESI Europe

⁶ LVMH's performance was rated with 88/B (out of 100) in 2014, after being rated 67/C in 2013

Pursuit Of Environmental Performance

In order to foster the action plans towards the LIFE indicators, Maisons implement various monitoring and training standards into their business.

Hence, Dior Parfums includes an environmental marker into its profit-sharing agreement in order to remind its staff of their environmental responsibility, whereas Marc Jacobs trains its staff on SD, and Louis Vuitton's training handbook for its craftsmen features an eco-design guideline.

Further pursuit of environmental responsibility takes place in the construction and renovation of facilities accordingly to highest SD standards.

Around 30 sustainable facilities have been newly constructed throughout the last decade, with Louis Vuitton's Foundation in Paris being the latest large project towards environmental protection as outlined by its rainwater retrieval systems leading to geothermal power to warm and cool the building.

Partnerships With Regulating Authorities And Governmental Bodies:

Development towards sustainable activities is granted with membership in the networks of:

- Business for SR: The world's leading institution for corporate sustainable issues
- The Responsible Ecosystems Sourcing Platform: A luxury goods platform committed to the traceability and sustainability of raw materials
- Various governmental authorities:

Thus, the group's efforts towards the protection of biodiversity made them a winner of the National Biodiversity Strategy award of the French government.

Further cooperation with governmental and regional initiatives on a global basis is achieved in Argentina, where the Maison Bodegas Chandon sets up responsible wine production plans along with the government and in Poland, where the Maison Belvedere created an Environmental Protection Foundation with the city of Zyrardów and local farmers in order to eliminate waste from water sources.

The Maison Tag Heuer uses its environmental partnerships in order to demonstrate both, its heritage in motor sports and its commitment to nature.

Therefore, the brand is not only the founding associate of the FIA Formula E, the championship for entirely electric cars but also implements sustainable initiatives at its own Swiss sites such as the installation of the biggest solar system in Western Switzerland.

The following sections outline LVMH's nine concerns of the LIFE Program (Figure 7) and the activities pursued for each respective concern:

Environmental Performance Integrated From Design Stage

Establishing eco-design, and thus reducing the environmental waste throughout a product's lifecycle, is the major priority of the LIFE program.

Special software⁷ aims at minimizing waste within a product's packaging right from the development stage on.

Linking as a source of innovation, eco-design is also used as a basis for new product development as to be found in Veuve Cliquot's *Naturally Cliquot 2* packaging, which is made of an iso-thermal case made of potato starch and therefore resembles the world's first fully decomposable champagne box (see Appendix 11).

Secured Access To Strategic Raw Materials

Due to the Maisons' processing of rare resources, preservation of these materials is strongly focused with procurement strategies.

Hence, Louis Vuitton's wood selection for its products, store layout and communication materials comes from sustainable wood sources.

Similarly, for its raw material selection in perfumes and makeup, Dior created the *Jardins of Dior*, which resemble strip of lands known for their exclusive soil, on which rare flowers are cultivated and protected in sustainable manners.⁸

Ensured Traceability And Compliance Of Materials

All of the group's Watches & Jewelry Maisons cooperate with the Responsible-Jewelry-Council (RJC) in securing their entire supply chains' SD compliance and thus are RJC certified after annual assessments by independent auditors (see Appendix 12 for further information on the RJC).

Furthermore, LVMH's Perfume & Cosmetics Maisons grant compliance to ethical standards in their development of products by establishing an animal testing ban ever since 1989.

⁷ Sima Pro Life Cycle Analysis Software assesses the Environmental Performance Index and Greenhouse Gas Emissions, which are generated by packaging

⁸ The *Jardins of Dior* are located in Switzerland (Cultivation and Preservation of Edelweiss), Burkina Faso (Hibiscus), France (Rose of Granville) and Madagascar (Longoza)

Environmentally & Socially Responsible Suppliers

All Maisons are obliged to integrate social and environmental benchmarks when selecting their partners.

In order to achieve compliance with environmental standards throughout their entire value chains, the Maisons also audit their suppliers without advanced announcement on their adaptation to the Supplier's Code of Conduct.⁹

Preserving Critical Know-How

The pursuit of craftsmanship, dealing with rare resources, is one of the key components of LVMH's luxury production.

Thus, the completely handmade jars in which the cognac of the Maison Hennessy is matured is a result of unique craftsmanship skills, which have been passed on throughout generations for the last 250 years.

In preserving these skills, Hennessy also engages in the processing of sustainable resources by only using sustainably sourced French oak.¹⁰

CO₂ Impact Of Activities

The minimization of carbon footprint is a universal priority for all of the group's Maisons (see Appendix 13 for changes in Greenhouse Gas Emissions).

Hence, in reducing its energy consumption, 60% of the retail stores in the U.K. of the Maison Thomas Pink are run on energy-saving LED lighting.

Similarly, in order to maximize its energy efficiency (see Appendix 14 for the group's changes in energy consumption), Bvlgari's Italian and Swiss head offices run exclusively on renewable energy (e.g. solar panels), which granted them the award of several green certificates.

Hennessy, having 90% of all freight delivered by sea and railway- rather than the emission-heavy air transportation, undertakes actions in order to reduce transportation emissions.

⁹ In 2014, 925 audits were executed at 787 suppliers throughout the entire group's value chain. 90% of these audits were executed by independent regulatory agencies

¹⁰ The oak stems from the French Limousin forests and is certified by the Program for the Endorsement of Forest Certification (PEFC)

Accordingly, 30% of Louis Vuitton's finished goods are transported on the seaway for international deliveries. Also, the less emission absorbing passenger- rather than freight aircrafts are used, while local transportation is only carried out with electric trucks.

Environmentally Excellent Production Processes

Several initiatives in order to improve the environmental protection throughout the Maisons' production processes are rolled out.

While Moët is particularly concerned with its decrease of water consumption¹¹ (see Appendix 15 for the group's water consumption), Hennessy optimized its usage of distillation tanks, resulting in a strong decrease of methane and propane consumption.

Efforts towards recycling are particularly pursued within production processes of the Maisons. The CEDRE platform¹² facilitates many of the Maisons' recycling processes by sorting and recovering waste (see Appendix 16 for percentage of waste recovery).¹³

Sephora could double the recycling of its perfume bottles through the CEDRE platform by encouraging its customers to return empty bottles in return of a 20% price discount for the same perfume.

Sustainable And Repairable Products

Maximizing a product's life cycle is a key aspiration of the Maisons' luxury product development.

Thus, products are developed which overcome generations, in not only granting highest quality and material selection but also with the provision of after sales services.

Loewe and Louis Vuitton provide international maintenance and repair services for all products ever manufactured in their long lasting history.

¹¹ A program with the goal of reducing water consumption by 25% (60.000 m³) between 2013 – 2018 has been implemented at all Moët facilities. By 2014 water savings already summed up to 23.000 m³

¹² CEDRE stands for Packaging Removal and Environmentally-friendly Recycling Environmental Center

¹³ Waste, processed by the CEDRE platform, includes packaging items, expired alcoholic products, promotion materials, perfume/cosmetics testers used in stores, empty packaging returned by customers

Well-Handled Client Requests In Relation With Environment

The individual Maisons disclose information on their environmental performance to all stakeholders either through information in stand-alone reports, their websites or the consolidated environmental group report.

Whereas Bvlgari has established a team solely committed to customer demands, most Maisons aim at training every employee to be an expert on a Maison's environmental performances by incorporating trainings and handbooks.

Also the sales staff in the Maisons' stores is trained to be able to respond to environmental requests, particularly concerning RJC-issues in the Watches & Jewelry Maisons.

4.2 Micro Perspective: Guerlain

4.2.1 Company Description

Founded in 1828, the prestigious French company Guerlain was owned by its founding family for more than a century (see Appendix 17 for the history of Guerlain), before the company was sold to the luxury goods conglomerate LVMH in 1994.

Guerlain's product portfolio consists of three main segments:

- Fragrances
- Make Up
- Skin Care

Linking on its luxurious sensual experience, Guerlain also runs spas and beauty salons in exclusive locations such as the Waldorf Astoria Hotel in New York City or the Dubai Mall.

Although Guerlain's products are sold throughout the world and find core markets in emerging markets in Asia, the Middle East and Russia, the brand leverages its strong national heritage with 68 Champs – Elysées, the world's biggest Parfumeur flagship store, which is located in the heart of Paris. Furthermore, Guerlain only produces its products exclusively in France.

4.2.2 Sustainable Development At Guerlain

In 2007, a carbon footprint audit made Guerlain's top management realize its commitment to be a responsible company that meets the future needs of its clients, which in fact already prevailed at that time, could only be met by minimizing its environmental impact.

Therefore, driven by CEO Laurent Boillot, Guerlain's traditional commitment to sustainable - rare resources, which goes back to the company's foundation in 1828, became a strategy in 2007 and received the name *In The Name Of Beauty*¹⁴.

By addressing environmental and social challenges, the Maison's SD program is aimed at driving responsible innovations, sustainable growth, inspiring individual SD initiatives at subsidiaries and eventually becoming a leader in SD within the perfume and cosmetics industry.

¹⁴ The name stems from Guerlain's *beauty* business market and resembles the Maison's commitment that its beauty products, based on natural resources, can only be maintained in the long term by acting sustainable

Working closely together with its mother group on SD issues, Guerlain was not only one of the seven Maisons, which initiated LVMH's LIFE program, but also constantly still exchanges ideas and approaches with LVMH's Environmental Department.

4.2.2.1 Structure Of The SD Program

Guerlain's SD Program is driven by a centralized approach.

An SD steering committee of 15 cross – divisional representatives determines an internal communication plan annually and furthermore creates an international SD agenda every two years.

Based in Guerlain's headquarters in Paris, the SD committee reports to both the CEO and the HR Director (in terms of SR).

Although the SD key issues are determined by the French headquarters, each international subsidiary has a local SD manager and designs a local action plan, based on the head quarter's priorities, and therefore responds to local challenges.

Upon commencement of tasks on the job, each new employee is educated on sustainable issues and every three years, employees are obliged to participate in an extensive SD training. In order to permanently reinforce the SD awareness of its employees, the SD committee publishes emails and hosts workshops throughout the year and furthermore assesses every new development with an Environmental Performance Indicator.

4.2.2.2 Key Issues Of Guerlain's SD Program

Guerlain prioritizes six issues, aimed at improving its environmental and social performance, within its centralized SD program.

Internal Key Performance Indicators and ISO 14001 requirements determine whether those issues are within scope.

Depending on the relevance for its local activities, each worldwide subsidiary is supposed to pursue these key issues which affect their operations the most.

Thus, the French subsidiary is particularly concerned with the preservation of biodiversity as all products are exclusively made in France and securing access to raw materials through the preservation of rare flowers is of utmost importance to particularly the French production team.

Although individual key issues may concern some subsidiaries more than others, all six key issues are still communicated to each subsidiary worldwide, with the goal of ensuring the same level of awareness and training to all of Guerlain's employees.

In the following, the six key issues are outlined:

Eco-Friendly Acting To Limit Environmental Impact:

Guerlain sets up several initiatives in its sites in order to optimize its environmental compliance:

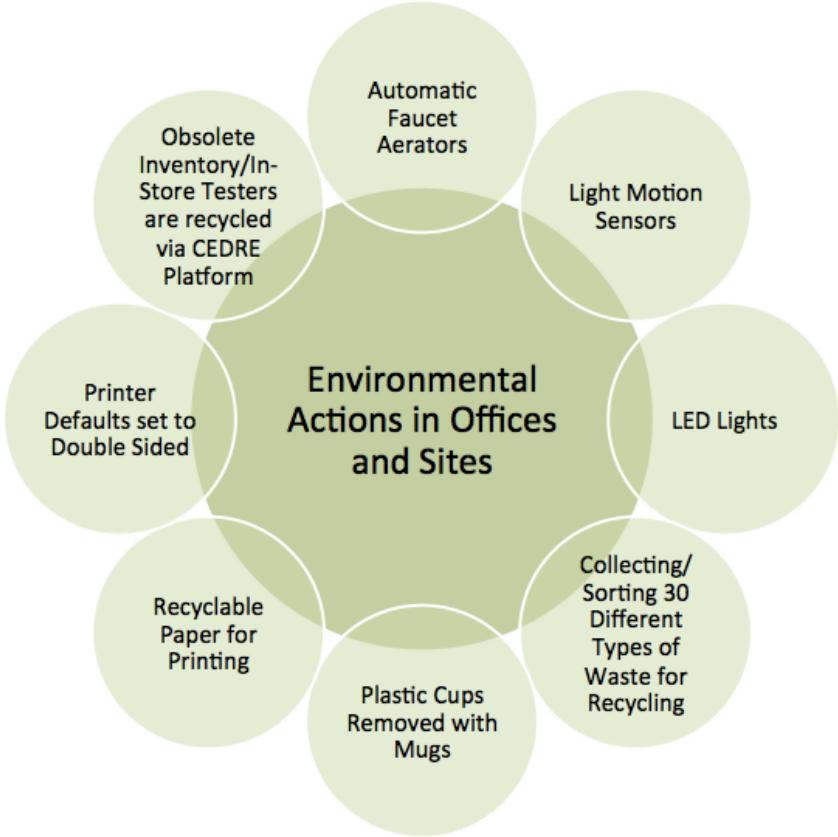


Figure 6 - Guerlain's Actions Fostering Environmental Compliance In Offices/Sites

(Source: Author based on Etre Guerlain 48)

Due to these environmental measures, among others, Guerlain became one of the few companies in France being ISO 14001 certified among its entire organizational sites. International subsidiaries are following this path, with the German and Belgium sites to already be certified as well.

A milestone in environmental performance has been the construction of Guerlain’s La Ruche plant (see Appendix 18 for further information) in Chartres, France, which began operations in 2014 and is High Environmental Quality (HQE) certified, with the highest rating *Excellent*.

The Maison's aforementioned modifications at its French sites led to several achievements in favor of the environment:¹⁵

- 30% less electricity consumption
- 20% less paper usage
- 72% of the production sites' waste is recycled and reused

Reduction Of CO₂ Emissions Due To Transport

Guerlain's environmental actions are strongly aimed at limiting its carbon footprint.

Thus, more than 60% of international transportations for end products are already executed on the less emission absorbing sea- rather than air way.

Additionally, supply deliveries from the warehouse to boutiques in Paris are only transported via special delivery vans, which are based on an exclusive cooperation with Renault and run entirely on natural gas and only operate at night in order to limit traffic congestion (see Appendix 19).

Due to these actions, among others, Guerlain's worldwide CO₂ emissions could be reduced by 7% since the launch of the SD program in 2007.

Involve Suppliers In The Approach

In order to assure its sustainability adaptation along the entire value chain, only suppliers complying with LVMH's Supplier's Code of Conduct and Guerlain's own Sustainable Procurement Charter are selected.

The Maison obliges every supplier to sign these contracts along with compliance to the SA 8000¹⁶ standard.

Audits of suppliers are executed without advanced notification.

¹⁵ All results concern the time frame 2009 - 2012

¹⁶ SA8000 is an auditable certification standard that encourages organizations to develop, maintain, and apply socially acceptable practices in the workplace

Consolidate Eco-Design In Products

By integrating ecologically benefiting features into its products, Guerlain limits its products' environmental impact throughout the product lifecycle.

Thus, besides its regular steering SD committee, the Maison also established a sustainable innovation committee, which gathers the Marketing and Production department each quarter in order to enforce actions regarding eco-design.

As part of eco-design approaches, not only sustainable raw materials are incorporated into the actual products, but also the packaging is designed accordingly to limiting environmental pollution, thanks to the Simapro software.

Hence, the size of perfume boxes could be reduced by 15% and more recyclable materials are used, enabling the Maison to save 35 tons of cardboard boxes and 230 pallets per year.

Furthermore, the packaging for Guerlain's key makeup product line *Terracotta* comes in a limited edition with a case made of wood from sustainably managed forests and solvent free protective varnish (see Appendix 20).

Other eco-design initiatives include:

- Recycled It-Bags, clutches and notebooks crafted from advertising banners and posters of the perfume line *La Petite Robe Noire* by a company that employs handicapped people (see Appendix 21).

All proceeds are donated to the Guerlain Support Fund, financing several publicly benefitting initiatives.

- Guerlain's prestige skincare cream *Orchidée Imperiale* and all *Maison* perfumes can be refilled in the Parisian boutiques.

While the container is recycled and refilled, customers receive a customized service such as a makeup application or sustainably sourced tea.

Take Part In Protecting Biodiversity

Rare and highest quality raw materials have traditionally linked as a source for inspiration and innovation for Guerlain.

Thus, by protecting biodiversity and its resources, the Maison aims at enhancing the longevity of its products and preserving these resources for future generations.

Guerlain particularly engages in three projects, which aim at both the preservation of its product's key ingredients and providing local communities with support (see Appendix 22 for detailed description of the projects):

- Preservation of Orchids; rainforest areas and provision of economic development in Tianzi, China
- Preservation of Black Honeybees, financial and legal support to the local community of the Ouessant Island, France
- Preservation of Vetiver, establishment of a social supply chain to the marginalized community of Coimbatore, India

All three projects rely on ten-year sponsorships with the local population and therefore last longer than any of Guerlain's corporate supplier partnerships.

Strengthen SR

Besides its environmental focus, Guerlain's SD program also aims at enhancing its SR by focusing on the promotion of diversity, employee welfare on the job, transmission of savoir-faire and community spirit enhancement (see Appendix 23 for examples for SR promotion activities).

Therefore, Guerlain's social actions concern internal social measures aimed at its own employees as well as social measures aimed at enhancing the Maison's external commitment to communities in need of support.

4.2.2.3 SD Budget

Guerlain's SD activities are financed by a stand-alone budget, which is exclusively devoted to environmental and social impact activities, such as the Maison's sponsorships of projects in terms of biodiversity protection or the ISO 14001 Certification implementation.

Expenses, which are not exclusively limited to SD activities per se, are financed by the respective department's budget. Therefore eco-design initiatives are covered by the Marketing and Production budget and environmentally benefiting transportation approaches are covered by the freight budget.

4.2.2.4 Communication Of The SD Program

Guerlain communicates its SD activities online with an explicit section on its website and runs campaigns on Facebook.

Furthermore, the following publications communicate the Maison's sustainable activities to the public:

- Standalone annual SD- and Carbon Footprint Report
- LVMH's Social and Environmental Reports
- Guerlain's own magazine *Être Guerlain*
- Leaflet given to consumers in Parisian stores

Reaching out to customers in stores, Guerlain's Beauty Consultants (BCs)¹⁷ are trained to be the Maison's main mean of SD expression to customers.

In stores, customers are asked to bring back their empty containers in order to engage in recycling.

Furthermore, the products from the *Abeille Royale* and *Orchidée Imperiale* skincare product lines communicate Guerlain's SD activities by outlining information on the SD Sponsorship in the explanatory leaflet and since 2015, the FSC logo is printed on all of the Maison's cardboard.

Guerlain's main testimonials Natalia Vodianova (see Appendix 24) and Michele Yeoh endorse the Maison's SD activities by engaging in charity events hosted by the testimonial

¹⁷ Sales staff exclusively employed by Guerlain, with deployment in own stores and multibrand retail stores

and Guerlain; inaugurations of the environmentally friendly La Ruche plant and furthermore by giving interviews, which are mainly used internally within group level.

Despite Guerlain's public disclosure on its SD activities, the Maison's main communication objective is to inform internally rather than externally about sustainable activities in order to engage all of its employees in the approach.

Closing Remark

After a survey among customers was recently conducted, Guerlain noticed its customers' growing interest in sustainability and at the same time their little knowledge about Guerlain's own SD program.

Therefore, internal considerations of boosting the SD communication have been drawn at the Parisian headquarter lately.

However, with one of luxury's key markets, China, currently facing a recession and LVMH's consolidated Asian revenues already down by 6%,¹⁸ is a larger and hence costlier Marketing and Communication budget, aimed at communicating Guerlain's SD approach in a stronger way, the right strategy in these volatile times?

In general, is a continuation of the group's and Maison's extensive SD program, involving high costs, the right way to tackle decreasing revenues when Louis Vuitton, as one of LVMH's flagship brands, already closed first stores in China due to decreasing sales on luxury's key market?

¹⁸ -6% change in Asian revenues for the first 9 months of 2015

5 TEACHING NOTES

5.1 TQ 1: What Are The Critical *Activities* Enabling A Luxury Company, Shown At The Example of LVMH And Guerlain, To Pursue An SD Strategy?

By pursuing environmental integrity, social equity and economic prosperity, a company implements SD into its strategy (Bansal, 2005).

The following table shows the activities regarding the three dimensions which, LVMH, as the world's leading luxury group, and its prestige Maison Guerlain, implement in order to integrate SD into its strategy:

	Environmental Integrity	Social Equity	Economic Prosperity
LVMH	<p><i>External Focus</i></p> <ul style="list-style-type: none"> • Sustainable sites • Eco – Design • Renewable energy investments • Recycling platform CEDRE • Establishment of cultivation plantations • Animal testing ban 	<p><i>Internal Focus</i></p> <ul style="list-style-type: none"> • Transmission of craftsmanship skills • Workplace social activities and prevention of discrimination <p><i>External Focus</i></p> <ul style="list-style-type: none"> • Educational initiatives in universities • Supporting marginalized and disadvantaged communities 	<ul style="list-style-type: none"> • Financial all-time record result 2015 • Increasing revenues since LIFE Program
Guerlain	<p><i>External Focus</i></p> <ul style="list-style-type: none"> • New developments assessed with an Environmental Performance Indicator • Eco - friendly operations • Eco – Design • Preservation of resources 	<p><i>Internal Focus</i></p> <ul style="list-style-type: none"> • Transmission of craftsmanship skills • Workplace social activities and prevention of discrimination <p><i>External Focus</i></p> <ul style="list-style-type: none"> • Disadvantaged community initiatives • Social supply chains: <ul style="list-style-type: none"> ➢ Economic development ➢ Legal/Infrastructural support ➢ Transmission of skills 	<ul style="list-style-type: none"> • 30% less electricity-, 20% less paper usage, 72% of production's waste recycled <ul style="list-style-type: none"> ➢ Less costs ➢ Higher profitability

Figure 7 - Summary Of LVMH's And Guerlain's SD Activities

(Source: Author based on LVMH Environmental/SR Report 2014, Etre Guerlain 48, Interview)

In shaping an SD program, a luxury company can either pursue internal (employees, governance) or external (community, environment) activities, depending on the marketplace a company operates in (Carcano, 2013).

LVMH's environmental activities are focused at external issues due to the nature of environmental integrity, which is aimed at protecting the environment a company operates in.

However, due to LVMH's and its 70 Maisons' heterogeneity in business contexts, social activities are aimed at both internal and external objectives.

On Maison level, Guerlain also strongly pursues external environmental actions and furthermore outlines a slight dominance in terms of external social activity focus.

Due to the Perfume & Cosmetic industry's dependence on resources, Guerlain does not only ensure the preservation of the actual resources (environmental focus) but furthermore incorporates local populations into its business activities by providing them with social aid, just as the transmission of skills and legal protection.

Thus, high quality human capital besides high quality resources ensures the sustainability and exclusivity of Guerlain's products.

5.2 TQ 2: Communication And Marketing Of Sustainable Luxury: How Can Guerlain Address Its SD Activities To Customers In Order To Maintain Its Exclusivity?

Although Guerlain discloses thorough information on its SD activities to its stakeholders, such as for instance a standalone SD report, the Maison only communicates little about its sustainable approach directly to its customers.

Thus, only few products contain implicit information on their sustainable sourcing, only very few contact points with Guerlain's SD program can be found at their stores and furthermore BCs are only addressing SD issues upon request.

According to the literature findings (Cervellon, 2013), Guerlain's implicit SD communication fits right into the perceived opinion consumers place on brands, which are perceived as *making* rather than *showing* luxury, and therefore are expected to act sustainable without explicitly communicating about it.

Such brands are characterized by the following attributes and are met by Guerlain's practices:

- Craftsmanship: Guerlain passes on more than 50 different techniques of skills
- Rare resources: Threatened Black Honeybee and Indian Vetiver preservation
- Heritage: Pursuing the French *savoir faire* luxury model since 1828

Hence, Guerlain's approach of not explicitly labeling its products as of sustainable origin enables the brand to be perceived as luxurious, which could be lost in case of over communicating the SD approach (Beckham and Voyer, 2014).

Also Guerlain's Marketing practices, such as advertisements, are almost not outlining any hint at the Maison's SD approach.

However, the brand uses its testimonial Natalia Vodianova in what is called a *win – win – win* situation (Kendall, 2010) in order to promote good causes.

Thus, Guerlain and Vodianova promote the good cause of helping children by raising funds through their participation in a marathon.

Eventually consumers are not only able to identify themselves with the social lifestyle of Vodianova but also connect with the understated sustainable profile of Guerlain, which is endorsed by the admired testimonial.

Although the currently pursued implicit approach of SD communication enhances Guerlain's exclusivity, the Maison actually plans to communicate more about its sustainable practices.

In what is known as *green to be seen* (Griskevicius, Tybur and Van den Bergh, 2010) customers particularly buy sustainable luxury products in public locations in order to show both, their altruism for society and their financial power.

Guerlain's sought more explicit communication strategy could indeed increase the Maison's performance, as *green to be seen* customers would particularly buy the potentially explicitly labeled green products then.

Since Guerlain's exclusive products, such as the *Maison perfumes*, can only be bought in public- and not private settings (online), the customer who wants to be seen while buying green, would particularly be targeted with explicit sustainability claims on these products.

Although Guerlain has to be careful in not over communicating its sustainable profile, a more explicit SD communication strategy could be enforced by Thierry Wasser, whose ethos as the Maison's Parfumeur is comparable to that of a fashion brand's designer and is therefore able to influence tastes on innovations (Godart and Seong, 2014) and thus, could also establish Guerlain's sustainable products as the new exclusive luxury format.

5.3 TQ 3: What Critical *Organizational Dimensions* Enable A Luxury Company To a) React To Sustainable Concerns, Which Address The Particular Business Environment Of The Company And b) Implement SD Along Its Entire Value Chain?

5.3 a)

LVMH and its Maison Guerlain are strongly interconnected in terms of their standards of SD implementation, through the environmentally concerning LIFE Program and the socially responsible Code of Conduct.

However, the pursuit of respective SD activities is structured differently on group- and Maison level:

	Group Level: LVMH	Maison Level: Guerlain
Organizational SD Structure	Decentralized	Centralized
Head of SD Approach	CEO Bernard Arnault	CEO Laurent Boillot
Execution of SD Approach	<i>Social:</i> Social Development Department <i>Environmental:</i> Environmental Department: Network of 50 employees at individual Maisons	<i>Social:</i> Head of Human Resources <i>Environmental:</i> Steering Committee of 15 cross – divisional representatives and a Sustainable Innovation Committee
Main SD Guidelines	<i>Social:</i> Employee Code of Conduct <i>Environmental:</i> LIFE Program, Environmental Charter	<i>Social and Environmental:</i> Definition of six key SD guidelines
Scope of SD Program	Commercial Philosophy: Entire supply chain based on SD Exclusive budgets and funds for SD activities	Commercial Philosophy: Entire supply chain based on SD Exclusive SD budget, independent of financial performance
Assessment of SD Program	Internal Reporting Tool (control: statutory auditors) Audits by independent 3 rd parties ISO 14001 Audits Regulating authorities/governmental bodies Main public environmental/sustainable performance indices	Environmental Performance Indicator for every new product ISO 14001 Audits
Financial SD Resources	Investments of 16.6 Million Euros on pro environmental initiatives in 2014 Internal Carbon Fund Establishment in 2015: 5 Million Euros for carbon footprint minimizing investments	Dedicated exclusive SD budget Other departments' budgets concern SD activities
Autonomy of Designing the SD Program	High (regarding its Maisons)	Medium (regarding its international subsidiaries)

Figure 8 - Corporate SD Structures At LVMH/Guerlain

(Source: Author based on LVMH SR/Environmental Report 2014, Interview)

Due to LVMH’s decentralized SD structure, the group’s individual Maisons have high autonomy in shaping their own SD programs and therefore enable the Maisons to create innovative approaches that are based on their particular business environment (Carcano, 2013).

Although all LIFE issues are of concern to Guerlain, the Maison particularly selects these issues of LVMH’s LIFE Program, which concern its business within the Perfume and Cosmetics industry the most:

LIFE Issue	Selected by Guerlain
Environmental performance integrated from design stage	✓ <i>Environmentally friendly packaging</i>
Secured access to strategic raw materials	✓ <i>Protecting biodiversity</i>
Ensured traceability & compliance of materials & substances	
Environmentally & socially responsible suppliers	✓ <i>Sustainable supplier relationships</i>
Preserved critical know-how	
CO ₂ impact of activities	✓ <i>Transportation emission reduction</i>
Environmentally excellent production processes	✓ <i>Recycling of products, La Ruche plant</i>
Sustainable and repairable products	
Well – handled clients’ requests in relation with environment	

Figure 9 – LVMH LIFE Program’s Issues Adopted By Guerlain

(Source: Author)

Being granted autonomy in its SD program creation, Guerlain highly aims at the preservation of the environment and biodiversity and hence, rare raw materials, as these resources are the nature of Guerlain’s products.

In order to foster these priorities within an international scope, Guerlain’s SD program is managed in a centralized approach from its headquarters in Paris.

Thus, the Maison ensures all subsidiaries follow the same objective of Guerlain’s *roots-*, (preserving its heritage of exclusive resource crafting) *and wings* (innovating its products and activities in a sustainable way) philosophy.

Due to external ratings and assessments, LVMH is able to define benchmarks to its Maisons accordingly to the consolidated group performance and eventually the individual Maison is able to implement these benchmarks based on its particular business context.

5.3 b)

In order to maintain sustainable practices along its entire value chain, both LVMH and Guerlain, outline the following actions and documents, which require suppliers to comply with SD standards:

	Group Level: LVMH	Maison Level: Guerlain
Documents	LVMH Suppliers’ Code of Conduct (based on international human rights/ethical sourcing documents)	LVMH Suppliers’ Code of Conduct Guerlain Sustainable Procurement Charter SA 8000 Social Certification Standards
Actions	Audits of suppliers without prior announcement: 90% of audits by independent agencies	Audits of suppliers without prior announcement by independent agencies
Partnerships	NGO Partnerships Responsible Jewelry Council Member	Social supply chain partnerships with local communities

Figure 10 – Organizational Structures And Tools Ensuring SD Compliance
(Source: Author based on LVMH SR/Environmental Report 2014, Etre Guerlain 48)

In accordance to LVMH’s decentralized structure, each Maison adapts business context-particular auditing criteria for its supply chain besides group-wide standards.

Thus, all Watches & Jewelry Maisons are RJC-certified, which enables for instance these Maisons, engaging in the diamond industry, to overcome its public denouncement for unethical sourcing practices (Godart and Seong, 2014).

Guerlain’s direct engagement in its upstream by creating social supply chains furthermore enables the Maison to control sourcing processes themselves and therefore establish sustainable standards on their own.

5.4 TQ4: The Fusion Of Sustainability And Luxury: Do Both Concepts Share A Common Ground?

With the preservation of unique savoir – faire, in passing on more than a century old skills to the next generation of craftsmen and the conservation of rarest resources such as Orchid and Vetiver plantations in Asia, Guerlain resembles superiority in terms of both, exclusive social sourcing techniques, and exclusive preservation of resources, which is outlined as the common characteristic, SD and luxury shares (Bendell and Kleanthous, 2007).

The case study furthermore presents LVMH’s and Guerlain’s approaches in pursuing the overlapping concepts of SD and luxury on the dimensions of Timelessness, Uniqueness/Rarity and Heritage (Pascaud, 2012):

	Timelessness	Uniqueness/Rarity	Heritage
LVMH/ Guerlain	<p>Louis Vuitton and Loewe After-Sales-Service for all products ever made:</p> <p>A long product life cycle is ensured through the repair service, which turns products timeless</p>	<p>Guerlain’s Abeille Royale product line is sourced from the rare and threatened Black Honeybee of the Ouessant Island</p> <p>Dior’s <i>Jardins of Dior</i> cultivate rare flowers in sustainable manners, used for exclusive products</p>	<p>Craftsmanship savoir faire at Hennessy is passed on throughout the generations for more than 250 years</p> <p>Guerlain’s traditional role as an innovator (first synthetic perfumes, first bullet shaped lipstick) is passed on to eco-design innovations</p>

Figure 11 – Luxury’s And SD’s Overlapping Dimensions: LVMH/Guerlain

(Source: Author based on LVMH Environmental Report 2014)

Accordingly to SD’s definition of meeting the needs of today without compromising those of tomorrow, luxury follows a similar path:

By using sustainably sourced finest materials and offering repair services, a Louis Vuitton bag can be inherited with the same exclusivity throughout generations as the bag meets the desires of today’s owner, without compromising its luxuriousness to the next generation, as the bag’s value will not be diminished tomorrow due to its sustainable nature.

Just as detected in the analysis of the Tuscan luxury wool industry (Guercini and Rafagni, 2013), sustainability in form of preserving rare resources also links as the source of luxury for Guerlain.

Thus, it is the preservation of the rare Black Honeybee, threatened with extinction, and the therefore sustainable nature of its honey, which attaches luxury to the Maison’s Abeille Royale product line.

Also, in terms of social aspects, luxury meets a common ground with SD (see Appendix 25 for LVMH/Guerlain's activities meeting SD's social equity dimension), particularly shown at the example of Guerlain's social supply chain in India.

By providing economic aid and savoir-faire skills to a marginalized community, Guerlain outlines how a common social project shared among producers attaches sustainability to luxury (Guercini and Rafagni, 2013) and therefore, besides the above - mentioned environmental dimensions, sets the ground for a common basis for both sustainability and luxury.

6 CONCLUSION

Although luxury is often equated as being excessive and therefore supposedly opposes SD's core value of frugality, the case study employed shows how LVMH, as the world's leading luxury group, and its Maison Guerlain, actually employ excess in terms of high sustainable standards: Unique craftsmanship skills, ethically- and environmentally friendly resource sourcing, preservation of eco-diversity and direct establishments of social supply chains, all outline evidence that luxury is no longer only about the best in terms of monetary value, but also has converged towards highest standards in terms of environmental and social compliance.

Since LVMH's expelling from the powerful sustainable index FTSE4 Good in 2007, the luxury leader is back in the index of the global 100 most sustainable companies by implementing SD as an integral part of its strategy in less than a decade and leveraging its sustainable approaches, such as eco – design, in order to maintain its heritage of being a constant innovator.

Analyzing the luxury industry from its micro perspective, the example of Guerlain shows that SD is no longer a remote part of a luxury company, which is used for marketing purposes and is subject to removal in terms of decreasing revenues.

Pursuing sustainable actions is considered as a continuation of the company's rich history.

Guerlain feels no need to explicitly market its products with sustainability claims on its labels, as acting sustainable is the natural way for the company to provide the same value to tomorrow's generation as to today's one.

Furthermore, customers even expect a luxury company such as Guerlain, which is based on the maintenance of craftsmanship and rare resource selection, to integrate SD into its practices without explicitly communicating these efforts.

The selection of rare resources, crafted by unique savoir-faire, is in fact the recipe turning Guerlain's products into eventual luxury products.

Thus, it is no surprise Guerlain's pursued activities underline the company's commitment to SD:

With environmentally responsible production and transportation processes; partnerships with social supply chains, involving marginalized communities, which last longer than any

corporate supplier partnership, Guerlain understands that the preservation of scarce raw materials and craftsmanship is the only way to lead the brand's luxuriousness into the future.

Due to LVMH's decentralized SD approach for its heterogeneous Maisons, the group enables a Maison such as Guerlain to adapt its own innovative sustainability approach accordingly to its very own business context, which is then enforced on Maison-level in a centralized way, ensuring all of Guerlain's subsidiaries to rigorously follow the same objectives regarding social and environmental issues.

This dissertation outlines in both, the literature findings and the case study that luxury and sustainability indeed go hand in hand as they share the same fundamentals in timelessness, rarity, heritage and superiority.

Both, LVMH and Guerlain have adapted all these overlapping concepts on social and environmental dimensions, without losing their exclusivity and at the same time being capable to pursue economic prosperity.

Furthermore, this dissertation shows that the negatively perceived excess, which often surrounds luxury, may be due to luxury's strong visual power and former unethical practices, however the excess, produced by LVMH and Guerlain, has turned within less than a decade into highest respect for the environment and the people affected by their businesses.

Finally, the analysis of the literature, case study and teaching notes demonstrates that, despite currently decreasing revenues on luxury's key market in China, a continuation of the SD program is essential to the survival of a luxury player:

Besides the actual preservation of resources and hence a brand's own exclusivity, only sustainable approaches can draw the attention of the increasingly sustainable-interested luxury customer, who is demanding a deeper meaning behind the mere symbolic value of a luxury brand.

Thus, Guerlain's approach of maintaining a dedicated SD budget despite of its financial performance should also be manifested on group level and therefore enable LVMH as the world's leading luxury group to leverage its traditional crafting of dreams to also create aspirations in terms of sustainable luxury.

Critical Remarks

Although Guerlain manufactures recycled It-Bags with NGOs employing handicapped people in order to raise funds for good causes, the actual products stemming from these partnerships are usually remote from the Maison's core product lines.

Hence, whereas social engagement is indeed demonstrated, a luxury brand's traditional power to influence perceptions also on sustainable luxury may actually be reduced as the offered products resemble limited, charity products rather than long term sustainable core offerings, which would resemble a deeper commitment to SD.

Thus, by selling cosmetics in a recycled container, crafted with handicapped people, Guerlain could both, highlight stronger commitment to sustainable luxury and expand its portfolio with products that really matter to the company's core business.

Regarding its adaptation to environmental standards in production processes, Guerlain complies with external ISO 14001 certifications in all of its production sites.

However, on group level, LVMH has only 34% of all of its facilities assessed by (independent) auditors. In order to demonstrate a stronger commitment to the environment, the group should increase its amount of facilities to be audited, boosting the group's transparency.

Similarly, the transparency also increased if the group would not only release the amount of its suppliers' audits but would also release information on the total amount of its suppliers so that the actual ratio of suppliers' audits could be assessed.

Limitations And Future Research

Even though LVMH as the world's leading luxury group and its more than 70 brands resemble a wide portion of the luxury industry, the analysis of both, LVMH and Guerlain's SD activities should not be generalized on an industry-wide level.

As the amount of literature findings on sustainable luxury from a company perspective is limited, future research could particularly be pursued on the SD program of other perfume and cosmetics luxury brands, which are not part of the LVMH group and therefore do not share the underlying LIFE Program concerns.

Such research could be contrasted to this analysis of Guerlain's SD program and therefore outline possible parallels and deviations of luxury brands acting in the same industry.

Further research could also be conducted with further Guerlain employees on the topic of SD, to not only see how sustainable activities are shaped at an executive level, as this dissertation portrays, but also how employees, outside of the SD department, contribute to the SD approach.

Although LVMH's economic prosperity (Appendix 26) is shown on the dimensions of revenues and operational profits and the group informs about the value of environmental investments, no exact data on its financials regarding the entire SD approach is disclosed.

As Guerlain's financial data is only presented in the consolidated group annual report as part of the entire Perfumes & Cosmetics segment, there is no information, on neither SD- expenses nor economic prosperity accessible.

Thus, inferences about the financial impact of both LVMH and Guerlain's SD programs were not possible within this thesis.

REFERENCES

Literature Review

Articles and Books:

Bansal, P. (2005). Evolving sustainably: A longitudinal study of corporate sustainable development. *Strategic Management Journal*, 26(3), 197-218.

Bauman, Z. (2005). *Liquid life*. Cambridge, UK: Polity Press.

Beard, N. (2008). The branding of ethical fashion and the consumer: A luxury niche or mass-market reality? *Fashion Theory: The Journal of Dress, Body & Culture*, 12(4), 447-468.

Beckham, D., & Voyer, B. G. (2014). Can sustainability be luxurious? A mixed-method investigation of implicit and explicit attitudes towards sustainable luxury consumption. *Advances in Consumer Research*, 42, 245-250.

Berry, C. (1994). *The idea of luxury: A conceptual and historical investigation*. Cambridge: Cambridge University Press.

Carcano L. (2011). *Diversification strategies in symbol-intensive industries* (Ph.D Dissertation Thesis, Università di Lingue e Comunicazione). Milan: Università di Lingue e Comunicazione.

Carcano, L. (2013). Strategic management and sustainability in luxury companies: The IWC case. *Journal of Corporate Citizenship*, 2013(52), 36-54.

Carrier, J. G., & Luetchford, P. (2012). *Ethical consumption: Social value and economic practice*. New York: Berghahn Books.

Cervellon, M. C., & Shammas, L. (2013). The value of sustainable luxury in mature markets: A customer-based approach. *Journal of Corporate Citizenship*, 2013(52), 90-101.

Cervellon, M.C. (2013). Conspicuous conservation: Using semiotics to understand sustainable luxury. *International Journal of Market Research*, 55(5), 695-717.

Chan, K. (2000). Market segmentation of green consumers in Hong Kong. *Journal of International Consumer Marketing*, 12(2), 7-24.

Cross, J. (2011). Detachment as a corporate ethic: Materializing CSR in the diamond supply chain. *Focaal - Journal of Global and Historical Anthropology*, 60(1), 34-46.

Davies, I. A., Lee, Z., & Ahonkhai, I. (2012). Do consumers care about ethical-luxury?. *Journal of Business Ethics*, 106(1), 37-51.

Godart, F., & Seong, S. (2014). Is sustainable luxury fashion possible? In M. Gardetti & A. Torres (Ed.), *Sustainable luxury: Managing Social and Environmental Performance in Iconic Brands* (pp. 12-27). Sheffield, UK: Greenleaf Publishing.

Griskevicius, V., Tybur, J., & Bergh, B. (2010). Going green to be seen: Status, reputation, and conspicuous conservation. *Journal of Personality and Social Psychology*, 98(3), 392-404.

Guercini, S., & Ranfagni, S. (2013). Sustainability and luxury: The Italian case of a supply chain based on native wools. *Journal of Corporate Citizenship*, 52(2013), 76-89.

Hennigs, N., Wiedmann, K., Klarmann, C., & Behrens, S. (2013). Sustainability as part of the luxury essence: Delivering value through social and environmental excellence. *Journal of Corporate Citizenship*, 52(2013), 25-35.

Joy, A., Sherry, J., Venkatesh, A., Wang, J., & Chan, R. (2012). Fast fashion, sustainability, and the ethical appeal of luxury brands. *Fashion Theory: The Journal of Dress, Body & Culture*, 16(3), 273-296.

Kapferer, J., & Bastien, V. (2009). *The luxury strategy: Break the rules of Marketing to build luxury brands*. London: Kogan Page.

Kapferer, J. N. (2010). All that glitters is not green: The challenge of sustainable luxury. *European Business Review*, 40-45.

Kashmanian, R., Wells R., & Keenan, C. (2011). Corporate environmental sustainability strategies. *Journal of Corporate Citizenship*, 44(11), 107-130.

Kiron, D., Kruschwitz, N., Haanaes, K., & von Streng Velken, I. (2012). Sustainability nears a tipping point. *MIT Sloan Management Review*, 53(2), 69-74.

Matten, D., & Moon, J. (2008). 'Implicit' and 'Explicit' CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review*, 33(2), 404–424.

Minor, D., & Morgan, J. (2011). CSR as reputation insurance: Primum Non Nocere. *California Management Review*, 53(3), 40-59.

Mohr, L.A., Webb, D.J. & Harris, K.E. (2001) Do consumers expect companies to be socially responsible? The impact of corporate social responsibility on buying behavior. *Journal of Consumer Affairs*, 15(1), 45–72.

Morand, P. (2004). Luxe, religions et cultures. In O. Assouly (Ed.), *Essais sur la Fabrique de l'Ostentation* (pp. 255 – 289), Institut Français de la Mode: Edition du Regard.

Oxford Latin Dictionary (1992). Oxford: Oxford University Press.

Pascaud, L. (2012). Could sustainability be the future of luxury? *Market Leader*, 2(2012), 16-17.

Perez, R.C. (2009). Effects of perceived identity based on corporate social responsibility: the role of consumer identification with the company. *Corporate Reputation Review*, 12(2), 177–191.

Silverstein, M., & Fiske, N. (2003). *Trading up: The new American luxury*. New York: Portfolio.

Steinhart, Y., Ayalon, O., & Puterman, H. (2013). The effect of an environmental claim on consumers' perceptions about luxury and utilitarian products. *Journal of Cleaner Production*, 53, 277-286.

Tang,Z., & Tang, J. (2012): Stakeholder-firm power difference, stakeholders' CSR orientation, and SMEs' environmental performance in China. *Journal of Business Venturing*, 27(4), 436 – 455.

World Commission on Environment and Development (WCED). (1987). *Our Common Future*. Oxford: Oxford University Press.

Web:

Atsmon, Y., Pinsent, D., & Sun, L. (2010). *Five Trends That Will Shape the Global Luxury Market*. Retrieved October 23, 2015, from <http://www.mckinseyonmarketingandsales.com/five-trends-that-will-shape-the-global-luxury-market>

Bendell, J., & Kleanthous, A. (2007). *Deeper Luxury: Quality and Style When the World Matters*. Retrieved October 20, 2015, from <http://www.wwf.org.uk/deeperluxury>

Kendall, J. (2010). Responsible Luxury: A report on the new opportunities for business to make a difference. Retrieved October 23, 2015, from http://www.cibjo.org/download/responsible_luxury.pdf

Case Study

Interview Questionnaire

Interview with Marion Oudin, Sustainable Development Manager at Guerlain France, Interview questionnaire obtained on Nov 18th, 2015

Reports

Deloitte. *Global Powers Of Luxury Goods Report: Engaging The Future Luxury Consumer*. (2015). Retrieved December 11, 2015, from <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cb-global-power-of-luxury-web.pdf>

LVMH. *Environmental Data Report*. (2014). Retrieved December 8, 2015, from http://r.lvmh-static.com/uploads/2015/05/lvmh_environment2014en.pdf

LVMH. *Social Responsibility Report*. (2014). Retrieved December 8, 2015, from http://r.lvmh-static.com/uploads/2015/05/rapport-rse-2014_eng.pdf

LVMH. *First Half Financial Report*. (2015). Retrieved December 8, 2015, from http://r.lvmh-static.com/uploads/2015/07/lvmh_2015-half-year-results.pdf

LVMH. *Q3 Revenue Report*. (2015). Retrieved December 8, 2015, from <http://r.lvmh-static.com/uploads/2015/10/q3-2015-revenue-va.pdf>

Responsible Jewellery Council. *Code Of Practices* (2013). Retrieved December 8, 2015, from http://www.responsiblejewellery.com/files/RJC_Code_of_Practices_2013_eng.pdf

Internal Documents:

Guerlain. *Rapport Développement Durable*. (2014)

Guerlain. *Bilan Des Emissions De Gaz A Effet De Serre*. (2014)

Guerlain. *Etre Guerlain Magazine No.48*. (2013)

Web

Guerlain. (2015). Retrieved December 8, 2015, from www.guerlain.com

LVMH. (2015). Retrieved December 8, 2015, from www.lvmh.com

Martin, W. (2015). *China is dragging the entire luxury brand business into its own recession*. Retrieved Dec 2, 2015, from <http://uk.businessinsider.com/louis-vuitton-forced-to-close-several-stores-in-china-2015-11>

Reference For Business. (2015). Retrieved November 27, 2015, from <http://www.referenceforbusiness.com/history2/1/Guerlain.html>

Reuters

Wendlandt, A. (2012). *Analysis: Burberry smells a chance in fragrance business*. Retrieved Nov 3, 2015, from <http://www.reuters.com/article/2012/10/15/us-burberry-licence-idUSBRE89E06L20121015>

APPENDICES

Appendix 1

Interview Questionnaire With Marion Oudin, Sustainable Development Manager At Guerlain:



Dear Marion,

As I am currently writing on my master thesis at Católica Lisbon School of Business and Economics and I research on the topic of "Sustainability in Luxury Goods Industries", information on sustainable practices at Guerlain would be of extremely high value to me. The main focus of my thesis is about the fusion of luxury and sustainability and thus my research aims to analyze how major luxury companies integrate sustainable development into their strategy.

With your valuable information, I am able to present a practical example of how a leading luxury beauty brand, such as Guerlain, shapes sustainability within the luxury industry.

All of your information will be treated highly confidential and only an academic committee of official professors of the Católica Lisbon University will get access to my thesis.

I will provide you with an official copy of my thesis upon completion.

If you should have any doubts or you should need any further clarifications regarding the objective of my research, please do not hesitate to get in touch with me.

I would like to sincerely thank you for your cooperation as it is of utmost help to me.

Maximilian Heimig

Origin of Sustainability:

- What led to the implementation of sustainability practices at Guerlain?
(e.g. Public concerns, strong philosophy of the group/CEO, internal initiatives by employees)

The initiative is led by Laurent Boillot, CEO, and a Steering Committee comprising 15 people representing every department in the company.

We created this sustainable development strategy in 2007 because, as a responsible company, we are firmly convinced that we have to protect the beauty of the world.

At that time, this implementation permitted to show the actions already implemented and demonstrate our commitment as a responsible company, to build a corporate project and to inspire individual initiatives, to anticipate the consumer needs from tomorrow (these needs are confirmed today) and to drive smarter innovations and sustainable growth.

Today, our approach is one of our strategic projects and structured thanks to the ISO 14001 standard. In this regard, all our activities in France are certified ISO 14001 since 2012 and we implement this standard also in our European subsidiaries.

Structure of the overall Sustainability Program:

- What is the focus of the Sustainability Program (rather social or environmental approaches)?

We work on 6 main issues:

- Eco-responsibility: waste, water, energy, paper...
- Transport
- Suppliers
- Eco-design
- Biodiversity
- Social responsibility: wellbeing at work, health and safety, diversity and solidarity

- What are the main activities pursued within the Sustainability Program?
 - Internal activities (affecting employees and governance)
 - External activities (affecting communities and the environment)

All our activities are concerned by this Sustainability Program. It means the activities forms our factories, our headquarter and our Boutiques in France and we're implementing gradually this approach in our European subsidiaries.

Regarding external activities, we involve our suppliers in our approach in select and assess them thanks to our approach of responsible purchase.

Related to our issue "biodiversity", we implement SD sponsorship with area where we supply our raw materials to protect biodiversity locally and/or participate to local development. It is the case with the "Association Conservatoire de l'Abeille Noire d'Ouessant" (protection of black bees and financial support which allowed to employ a beekeeper), with Tianzi in China (to protect orchids and reforest) and in India (with a sustainable vetiver plantation (equivalent to an initiative of fair trade).

In relation to our issue "social responsibility", we have programs with communities. The first one is a sponsorship program with Montfermeil, a disadvantages neighborhood of Paris, to support cultural diversity and talent development. The other one concern our solidarity program: we support several associations for example for women with breast cancer (Look Godd Feel Better), for men (Movember), or for disadvantage people (Restos du Coeur).

- How is the Sustainability Program driven?
 - Driven by a centralized approach (Paris headquarters to determine sustainable activities for worldwide subsidiaries)
 - Driven by a decentralized approach (Subsidiaries have a lot of freedom in shaping own sustainable activities)

The SD program is driven by a centralized approach but each site has a SD project manager and a local action plan.

This centralization permit to define priorities related to our corporate approach and the local work permit to adapt this approach to the local specificities and/or activities.

- How does sustainability influence the optimization of the supply chain (cost reductions through recyclable materials, waste reduction/less packaging)

A lot of our main issues concern the supply chain:

- Eco-responsibility: with objectives to reduce and recycle our waste, reduce our consumption of energy and water used for our products
- Transport: we try to use at most sea freight (54% in 2014) to send our products over the world. This sea freight permit to reduce air emissions and save money.
- Suppliers: with selection and assessment of our suppliers
- Eco-design: reduction of our packaging, refillable products,...
and less packaging
= less freight (more products in one truck for exemple)
= less money
= less waste

- What percentage of overall brand expenditures is approximately devoted to sustainability and is the sustainability budget bound on fluctuating revenues (e.g. could be reduced in times of decreasing revenues)?

Regarding the SD Direction, we have a dedicated budget but I can't communicate it. It permits to finance our SD sponsorship (biodiversity, solidarity) and environmental actions (Eco-responsibility, ISO 14001 implementation). We are fortunate that this budget is maintained event during this period of decreasing revenues.
The other projects are financed directly for the other Directions. For example, an eco-designed product is financially supported by Supply Chain, the same is true for freight .

- How are sustainability practices being supervised (Key Performance Indicators, ISO Certification/Regulatory Authorities etc.)?

We supervise our approach thanks to KPI regarding all our issues: energy consumption, waste production, SD sponsorship, etc.
We use the ISO 14001 standard to structure our approach thanks to annual objectives. It permits to improve us continuously and to insure an external assessment of our approach. In addition, we measure annually our Carbon footprint (it's also a legal regulation).

Structure of Sustainability Departments:

- What are the hierarchies within the sustainability department of Guerlain?
 - Who is reporting *what* to *whom*?
 - How do all employees (outside of the sustainability department) get trained on sustainable issues?

Our SD Direction report to our CEO, Laurent Boillot. In addition, we have a double report to our HR Director regarding the Social Responsibility. We have a Steering Committee comprising 15 people representing every activities in the company and SD project managers in subsidiaries. All our employees are trained on sustainable issues when they arrive at Guerlain and every 3 years with a SD training. In addition, we lead an internal communication plan dedicated (e-mailing, workshops...)

Global Sustainability:

- In what kind of sustainable activities do subsidiaries have the freedom to shape their own guidelines?

We define global guidelines centrally but we work with the local specificities. So, our subsidiaries can shape their own guidelines if it's relevant and linked to our corporate program. For example, all subsidiaries aren't concerned by our 6 main issues: biodiversity concern particularly our activities in France because we create our products and purchase our raw materials there.

- Are sustainability approaches marketed/communicated differently among world markets?

As our actions could be different according to the area, the approached issues and actions could be different. We try however to keep our global structure and to break down our approach in issues regarding everybody, everywhere. Even if a subject doesn't concern a subsidiary, we decide to communicate about it to our employees. Our objective is that all our employees have the same level in term of training and information.

- In what kind of ways are suppliers and their sourcing of raw materials controlled in terms of compliance with sustainable standards?

We apply the international and local regulations regarding sourcing of raw materials. These requirements are explained in our contracts, Code of conduct, and in our Sustainable Procurement Charter. All our suppliers have to sign these documents and they are audited regarding the conformity with our requirements, legal regulations and SA 8000 standard.

Sustainability and Consumers:

- How do consumers express their interest in sustainability towards Guerlain?

The main mean of expression for our consumers is our BC's in stores.
We recently did a survey regarding SD and our clients.
In fact, a few consumers know that Guerlain is a responsible company with a sustainable program but they think that is an important issue and they're interested. So, we decide to more communicate with our consumers regarding this subject.

- How does the consumer get aware of the sustainability practices of Guerlain?
 - Implicit: Website, Annual Reports
 - Explicit: Sustainable claims on product labels, point of sale, flagship store Champs-Élysées

We have a dedicated page in our website which explain all our approach and where we can download our SD engagement, our SD annual report, our Carbon footprint report.
In addition, we have a dedicated article in our Guerlain magazine which is sent to our consumers in Paris and to our subsidiaries in the world for local declension.
A leaflet is also given to our clients in our Paris Boutiques and every BCs are trained to answer to the different questions.

- If there are sustainable claims on a product label, do these claims enhance a *consumer's personal benefit* or do they represent *global benefits for a better world*?

There is little sustainable claims on our products. The two only products concerned are Abeille Royale and Orchidée Impériale: our SD sponsorship are explained in the explanatory leaflet.
We propose to our clients to bring back their empty products in our stores to take part in recycling.
At last, since this year, the FSC logo is marked on all our cardboard.

Communication of the Sustainability Program

- How does sustainability influence the marketing of the products/the brand?
 - Are celebrities (testimonials) used for sustainability campaigns?
 - Are good-cause/charity events sponsored?
 - Do the brands' Designers/Parfumeurs influence or communicate the sustainability approach?

Celebrities were used by LVMH for the 20th anniversary of Environment Direction. In that capacity, Natalia Vodianova and Michele Yeoh gave an interview last year to speak about Guerlain's SD approach. But these interviews had been used only for this internal event.

We participate to charity events in France but also in our subsidiaries in Europe: runs for good-cause, sponsorship with associations... and we communicate about some of those as the run Odyssea or Movember on Facebook for example. But our objective is to involve all our employees in these events, not necessary communicate about it.

Our Parfumeur is very involved in our approach because he works directly with his suppliers. So, Thierry Wasser caused our SD sponsorship in India with the new vetiver plantation.

Sustainability and Luxury's core values

- Is the sustainability program linked to the brand's (national) heritage or to the values of the founders of Guerlain?

Yes of course!

Our CEO says often that Guerlain is in a sustainable way since our creation in 1828. In fact, since 1828, the sustainability is an evidence for Guerlain, and it's became a strategy in 2007. Nature, people, beauty of the world have always been sources of inspiration and know-how for Guerlain. Protecting the beauty of the world is natural for us and is linked with the values of the founder: "Make good products, never cheat over the quality, have simply ideas and apply them scrupulously" In summary: have common sense and what is sustainable development expect common sense?

- How does the sustainability program reflect luxury's core values of timelessness, durability, rarity and exclusivity?

For me, our SD approach reflects luxury's core values.

It's not easy for our products because we don't made "sustainable" products (when they're empty, we have to throw and replace them), but all our actions reflect our objectives to protect the environment, our know-how, to preserve biodiversity and rare raw materials ant to take care people who need it. For example, our SD sponsorship are sustainable (10 years = much more than a sourcing contract), aim at protecting rare raw materials and biodiversity and preserving specific know-how (beekeeper, vetiver growing, jungle farming).

Appendix 2

				
Wines & Spirits	Fashion & Leather Goods	Perfumes & Cosmetics	Watches & Jewelry	Selective Retailing
<ul style="list-style-type: none"> • Chateau D'Yquem • Dom Pérignon • Ruinart • Moët & Chandon • Hennessy • Veuve Cliquot • Ardbeg • Chateau Cheval Blanc • Glenmorangie • Krug • Mercier • Wenjun • Chandon Argentina • Cape Mentelle • Chandon Do Brasil • Chandon California • Newton Vineyard • Cloudy Bay • Chandon Australia • Belvedere • Bodega Numanthia • Terrazas De Los Andes • Cheval Des Andes • Chandon China 	<ul style="list-style-type: none"> • Loewe • Louis Vuitton • Berluti • Loro Piana • Fendi • Céline • Dior • Emilio Pucci • Givenchy • Kenzo • Donna Karan • Thomas Pink • Marc Jacobs • Nicholas Kirkwood • Edun 	<ul style="list-style-type: none"> • Guerlain • Acqua Di Parma • Parfums Christian Dior • Givenchy Parfums • Perfumes Loewe • Benefit • Make Up For Ever • Kenzo Parfums • Fresh • Nude 	<ul style="list-style-type: none"> • Chaumet • Tag Heuer • Bvlgari • Zenith • Fred • Hublot • De Beers 	<ul style="list-style-type: none"> • Le Bon Marché Rive Gauche • Franck Et Fils • La Grande Epicerie De Paris • Starboard Cruise Services • DFS • Sephora

Figure 12 - LVMH List Of Brands

Source: Author based on lvmh.com



Figure 13 - LVMH Founder And Chairman Bernard Arnault

Source: lvmh.com

Appendix 3

The United Nation's Global Compact association is the world's largest corporate sustainability initiative.

In order to comply with ethical standards regarding human rights, labor, environment and anti – corruption, Global Compact has set up ten universal principles for all of its member companies:

Human Rights

- 1.) Companies are obliged to comply with internationally established human rights
- 2.) Companies are obliged to prevent any kind of human rights abusing action

Labour

- 3.) Companies have to grant freedom of association and grant the right for collective bargaining
- 4.) Companies have to eliminate all kinds of forced labor
- 5.) Companies are obliged to prevent any kind of child labor
- 6.) Companies are obliged to eliminate any kind of discrimination in terms of employment

Environment

- 7.) Companies should base their decision making approaches on environmentally protecting fundamentals
- 8.) Companies should adapt efforts to promote stronger environmental responsibility
- 9.) Companies should implement environmentally protecting technologies

Anti Corruption

- 10.) Companies have to eliminate all kinds of corruption, including extortion and bribery

Source: Author based on globalcompact.org

Appendix 4

Main Social Responsibility Issues



Figure 14 - LVMH's Business Lines And Their Main Social Responsibility Issues

Source: LVMH Social Responsibility Report 2014

Appendix 5

Relationship styles with stakeholders (excluding partnerships)

Stakeholder type	Regularly throughout the year	Occasionally (depending on plans and requests)
Internal stakeholders		
	<ul style="list-style-type: none"> ▪ Relationships and dialogue with employee representative bodies, i.e. European Works Council, Group Works' Council and individual company Works' Councils. ▪ OHSC. ▪ Special employee networks (e.g. EllesVMH). 	<ul style="list-style-type: none"> ▪ Collective agreements on specific subjects. ▪ Satisfaction surveys and measuring employee engagement.
External stakeholders		
States, multi-lateral institutions, government departments, local authorities and supervisory bodies.	<ul style="list-style-type: none"> ▪ Relationships resulting from Group companies' many interactions relating to international, national and local regulations of all kinds. ▪ Relationships with regulators (the AMF - French financial markets regulator, etc.). ▪ Various reporting requirements (workplace accidents and illnesses, taxes, etc.). 	<ul style="list-style-type: none"> ▪ Signature of undertakings (on diversity, apprenticeships, etc.). ▪ Trialling best practices. ▪ Involvement in projects connecting various parties within a given locality.
Investors, shareholders, and extra-financial ratings organisations.	<ul style="list-style-type: none"> ▪ AGM and shareholders' club. ▪ In conjunction with the Financial Communication Department: <ul style="list-style-type: none"> - roadshow attendance (financial and extra-financial analysts); - answering rating agencies' ESG (Environmental, Social and Governance) questionnaires. 	<ul style="list-style-type: none"> ▪ Sporadic requests from investors, asset managers and assessment organisations (in conjunction with the Financial Communication Department). ▪ Involvement in conferences, working parties and public debates.
Other external stakeholders		
- contractual (See also the "Partnerships" table)	<ul style="list-style-type: none"> ▪ Monitoring customer relationships. ▪ Relationships with suppliers, subcontractors and commercial partners. ▪ Statutory financial auditors and others. ▪ Certification bodies. ▪ Membership of expert and academic groups. ▪ Membership of industry and local federations (employers, trade associations, etc.). 	<ul style="list-style-type: none"> ▪ Handling customer complaints. ▪ Supplier and sub-contractor questionnaires and audits.
- non-contractual	<ul style="list-style-type: none"> ▪ NGOs, general interest associations. ▪ Consumer associations. ▪ The media. 	<ul style="list-style-type: none"> ▪ Occasional or subject-based NGO and consumer association campaigns. ▪ Relationships with local community organisations, depending on site/facilities plans.

Figure 15 - LVMH's Relationship Styles With Stakeholders

Source: LVMH Social Responsibility Report 2014

Appendix 6








Main LVMH Group partnerships		
CSR (Corporate Social Responsibility).	LVMH is a member of ORSE (<i>Observatoire sur la Responsabilité Sociétale des Entreprises</i> - France's Study Centre for CSR)	
Non-discrimination	LVMH has been a member of AFMD (French Association of Diversity Managers) since 2013 and on the board since 2014. ▶ See "③ PREVENTING DISCRIMINATION" (pp.30-35).	
Disability	AGEFIPH Agreement (French agency to promote private sector employment of those with disabilities) (LVMH, Parfums Christian Dior, Veuve Clicquot). Group companies are involved in the LVMH EXCELLhancE project - LVMH, Parfums Christian Dior, Veuve Clicquot, Benefit Cosmetics, Le Bon Marché, Berluti, Louis Vuitton, Make Up For Ever and Chaumet. LVMH chairs the ARPEJEH charity (which supports the study aims of pupils and students with disabilities).	 
Suppliers	Member of Sedex (Supplier Ethical Data Exchange).	
Developing skills and preserving expertise	Partnership with a number of specialist schools and educational establishments. ▶ See "④ DEVELOPING TALENT AND SKILLS" (pp.18-22).	
Workplace integration of the disadvantaged in employment.	Clichy-sous-Bois/Montfermeil partnership	 

Figure 16 - Main LVMH NGO/NPO Partnerships Fostering Social Issues

Source: LVMH Social Responsibility Report 2014

Appendix 7

	Promoting Gender Equality	Promoting Handicapped Employees	Promoting Over-50s Employees
Activities at LVMH	UN's Women's Empowerment Principles are the group's key guideline	"Mission Handicap LVMH" Initiative: 30 disability coordinators throughout the entire group foster the recruitment and continuous employment of handicapped individuals (4.1% disabled employees in France)	22 Maisons in France have signed internal contracts obliging them to recruit and promote employees over-50s
	Three Quarters of all group's employees are women		"Generation Contract": Objectives: recruit youngsters, promote over-50s and transmit <i>savoir faire</i> skills throughout the generations
	63% of managerial positions are covered by women/38% of top management positions are held by women	"EXCELLhancE" initiative: Coaching program particularly aimed at disabled individuals to receive expertise in Maisons and the general luxury goods sector:	Domaine Chandon in Argentina offers workshops for over-50s on how to still perform certain job tasks in case of incompatibility due to age
	Coaching sessions(EllesVMH) for women to promote them to top management positions	12 – 24 months program in the areas of sales, logistics and human resources management	Céline offers part-time working, workshops on retirement related issues and ergonomic workstation modifications for its over-50s employees
	Bulgari Asia enforces special initiatives to promote women to management positions: 80% of senior positions covered by women	On group level services are outsourced to associations employing disabled individuals (Services worth €4.9 Million in 2014)	LVMH Fragrances Brand (Givenchy, Kenzo etc.) offers part time working with social security contributions/pension payments calculated on full – time basis
Louis Vuitton China provides workshops on female leadership	Adaptation of workstations for employees with disabilities by the Maisons Moët & Chandon, Hennessy, Berluti, Céline, Donna Karan, Kenzo, Dior Parfums, LVMH Fragrance Brands and Tag Heuer		

Figure 17 - LVMH's Activities Ensuring Individuality Promotion

Source: Author based on LVMH SR Report 2014

Appendix 8

	Promoting Social Entrepreneurship	Promoting the Integration of the Disadvantaged	Promoting Underprivileged Population
Activities at LVMH	RISE (Results in Social Entrepreneurship) Program:	"Priority Education Agreements" Program provides youngsters with educational scholarships	Key Objective: Supporting local underprivileged communities with education
	<p>Engaging LVMH Professionals with social entrepreneurs on the issues of education, environment and women's empowerment</p> <p>LVMH Managers transfer managerial know-how to social entrepreneurs:</p> <p>Managers thrive from exposure to a different environment and enhance their personal development in a business context, in which creativity must be applied to deliver best practices to a social enterprise</p>	<p>LVMH is a board member of the NGO "Nos quartiers ont des talents": 92 LVMH Managers help disadvantaged French youngsters to enter the job market (since 2007, 297 youngsters found work after being mentored by an LVMH employee)</p> <p>"LVMH Fundamentals in Luxury Retail" training program in New York: Recruiting Chinese – American students, speaking Mandarin and English, who struggle to enter the job market</p> <p>Berluti "Academy of Expertise" in the Italian Emilia Romagna region: Providing local development (social, ethical, economic aspects) and jobs in an area, which was severely struck by an earthquake in 2012 and, which is characterized by high unemployment</p>	<p>De Beers is a partner of Women for Women International: Building education centers in war zones in Afghanistan, Kosovo etc.</p> <p>Louis Vuitton is a partner of Spectaculo: Providing artistic, cultural and vocational education to disadvantaged children in Rio de Janeiro</p> <p>Sephora sets up education centers in Cambodia with the proceeds of toys sold in stores around Christmas time, made by Cambodian girls, who are able to attend the education centers eventually</p> <p>Dior Parfums supports the "Free the Children" Initiative with its brand ambassador Natalie Portman: Freeing children from poverty and forced labor through the creation of education centers</p>

Figure 18 - LVMH's Activities Ensuring Local Community Support

Source: Author based on LVMH SR Report 2014

Appendix 9

Partner local authorities, non-profit and other organisations	
Help for those traumatised and in distress	
LVMH initiatives	Group company initiatives
<ul style="list-style-type: none"> ▪ K d'Urgences foundation (The "Committed Companies Dinner") ▪ LVMH North America: the Robin Hood Foundation ▪ Nos quartiers ont des Talents 2014 sponsors: <i>Moët Hennessy, Dior Couture, Moët Hennessy Diageo, Guerlain, Parfums Givenchy, Les Echos, Berluti, Le Bon Marché, Kenzo, Parfums Christian Dior.</i> 	<ul style="list-style-type: none"> ▪ Parfums Christian Dior: Free The Children ▪ De Beers Diamond Jewellers: Women for Women International ▪ Louis Vuitton: Spectaculo ▪ DFS: Hand-in-Hand for Haïti programme ▪ Sephora: Toutes à l'école ▪ Louis Vuitton Turkey: Mother & Child Foundation (AÇEV) ▪ Louis Vuitton Japan: Charities working for the victims of the March 2011 tsunami ▪ Louis Vuitton Benelux: SOS Village Enfant ▪ Thomas Pink: Partner of non-profit Warchild ▪ Le Bon Marché: Partnership with non-profit Kokoro which helps tsunami victims ▪ Fendi: Works with <i>Un avenir pour les enfants</i> helping orphans in Rwanda ▪ Guerlain: Les Restos du Cœur (famous French charity distributing food to the needy) ▪ MH Europe: Missing Children Europe ▪ Bulgari and MH Europe: Save the Children International ▪ Fendi, MH Europe and Guerlain: Naked Hearts Foundation

Figure 19 - Main LVMH NGO/NPO Partnerships Fostering Local Community Help

Source: LVMH Social Responsibility Report 2014

Appendix 10

THE BUSINESS GROUPS' MAIN CONCERNS					
	Wines & Spirits	Fashion & Leather Goods	Perfumes & Cosmetics	Watches & Jewelry	Selective Retailing
Saving energy resources and combating climate change	<ul style="list-style-type: none"> • Packaging production. • Distillation. • Transportation of product shipments. 	<ul style="list-style-type: none"> • Store lighting and air-conditioning. • Transportation of product shipments. 	<ul style="list-style-type: none"> • Packaging production. • Transportation of product shipments. 	-	<ul style="list-style-type: none"> • Store lighting and air-conditioning. • Transportation of product shipments.
Protecting and saving water resources	<ul style="list-style-type: none"> • Water consumption (irrigation of vines in Australia, New Zealand, Argentina and California). • Production of effluents containing organic matter during wine-making and distillation. 	-	<ul style="list-style-type: none"> • Protection and saving of water resources. 	-	-
Protecting ecosystems and natural resources	<ul style="list-style-type: none"> • Especially plant resources (vines) required for production. 	<ul style="list-style-type: none"> • Especially plant resources (textile fibers) required for production. • Exotic leather. 	<ul style="list-style-type: none"> • Especially plant resources required for production. 	<ul style="list-style-type: none"> • Packaging. • Stones and precious metals. • Exotic leather. 	-
Waste recovery	<ul style="list-style-type: none"> • Wine-making and distillation processes. 	-	-	<ul style="list-style-type: none"> • WEEE (waste from electrical and electronic equipment, such as batteries). 	-
Reduction in impact of production and transformation of raw materials, specifically through eco-design	<ul style="list-style-type: none"> • Packaging. 	<ul style="list-style-type: none"> • Packaging. • Cotton and other textiles, leathers. • Tanning. 	<ul style="list-style-type: none"> • Packaging. • Constituents of perfumes and cosmetics. 	-	-

Figure 20 - Main Environmental Concerns For LVMH's Business Groups

Source: LVMH Environmental Data Report 2014

Appendix 11



Figure 21 - Veuve Clicquot's Fully Biodegradable Champagne Case

Source: LVMH Environmental Data Report 2014

Appendix 12

The Responsible Jewellery Council (RJC) is an NPO aimed at establishing ethical, social and environmental practices throughout the entire Diamond, Gold and Platinum supply chain, covering the upstream (mining) all the way to the downstream (retailing).

Being a full member of the ISEAL Alliance, the global association for sustainability standards, the RJC grants assurance of compliance to sustainable practices, for stakeholders of member companies.

Every member of the RJC has to adapt the organization's Code of Practices, which is built on international standards for responsible business practices.

Upon membership and the granting of RJC certification, applying members are audited for a time period of three years to their compliance to sustainable standards, whose scope reads as followed:



Figure 22 - Scope Of Sustainable Standards Of The Responsible Jewellery Council

Source: Responsible Jewellery Council – Code of Practices 2013

An audit consists of three key steps:

- Applying members have to outline a member's self assessment questionnaire and disclose further information on their compliance to ethical standards
- A selection of representative facilities and business activities of the applying member is drawn for assessment
- The member's self assessment questionnaire is checked against actual on – site audits by independent external auditors, at the selected sample of facilities

The time period for which a member can obtain an RJC Certification depends on the results, which are yielded by the audit and can therefore either last for one or three years.

Source: Author based on Responsible Jewellery Council – Code of Practices 2013

Appendix 13

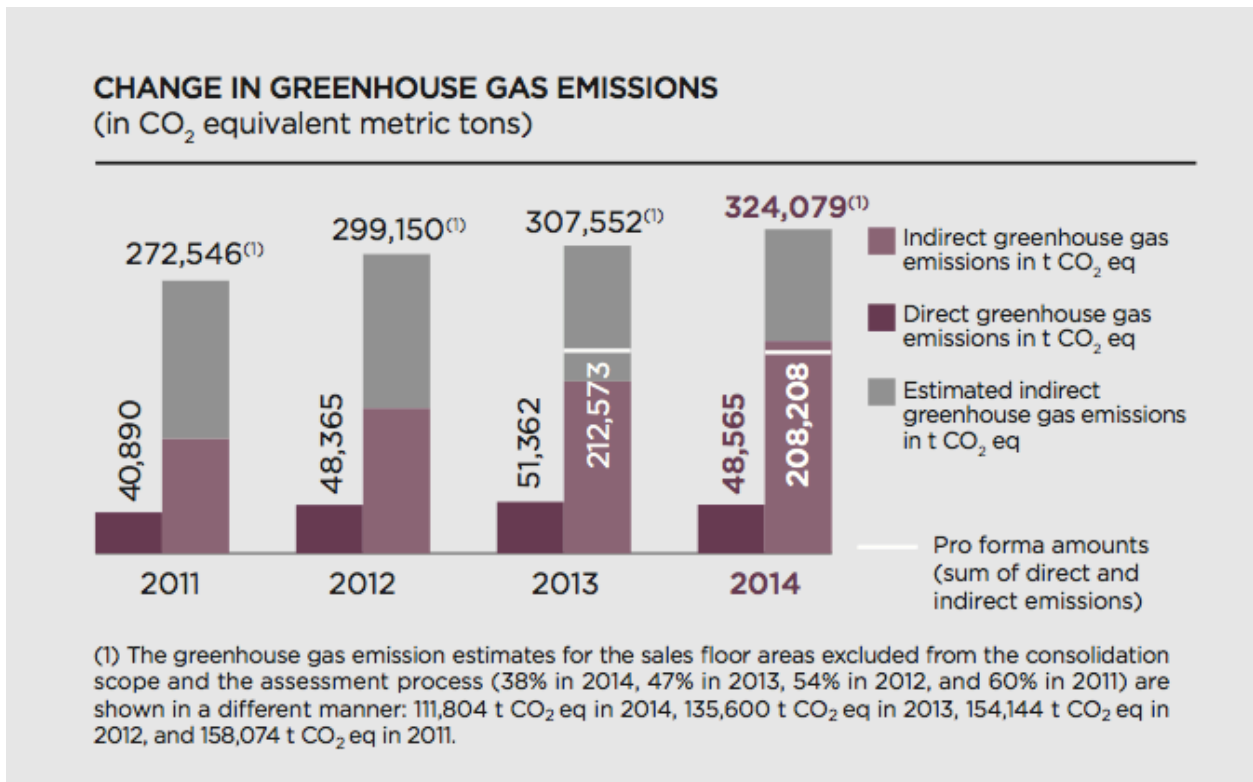


Figure 23 - LVMH's Consolidated Greenhouse Gas Emissions 2011 - 2014

Source: LVMH Environmental Data Report 2014

Appendix 14

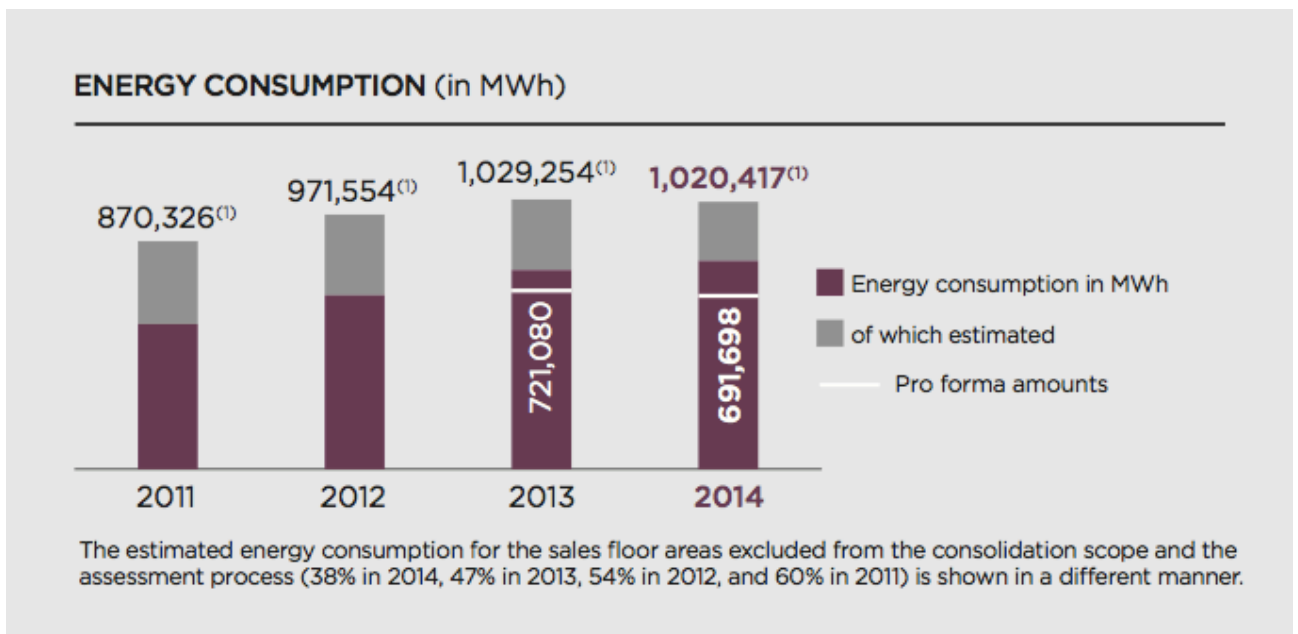


Figure 24 - LVMH's Consolidated Energy Consumption 2011 - 2014

Source: LVMH Environmental Data Report 2014

Appendix 15

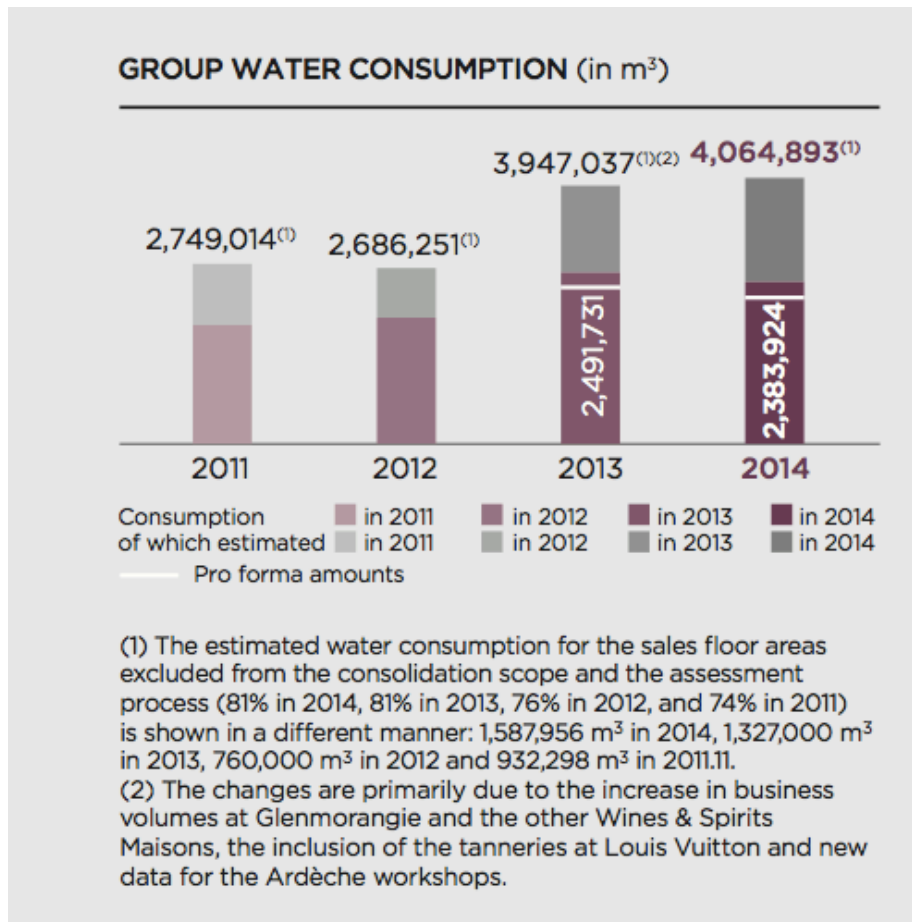


Figure 25 - LVMH's Consolidated Water Consumption 2011 - 2014

Source: LVMH Environmental Data Report 2014

Appendix 16

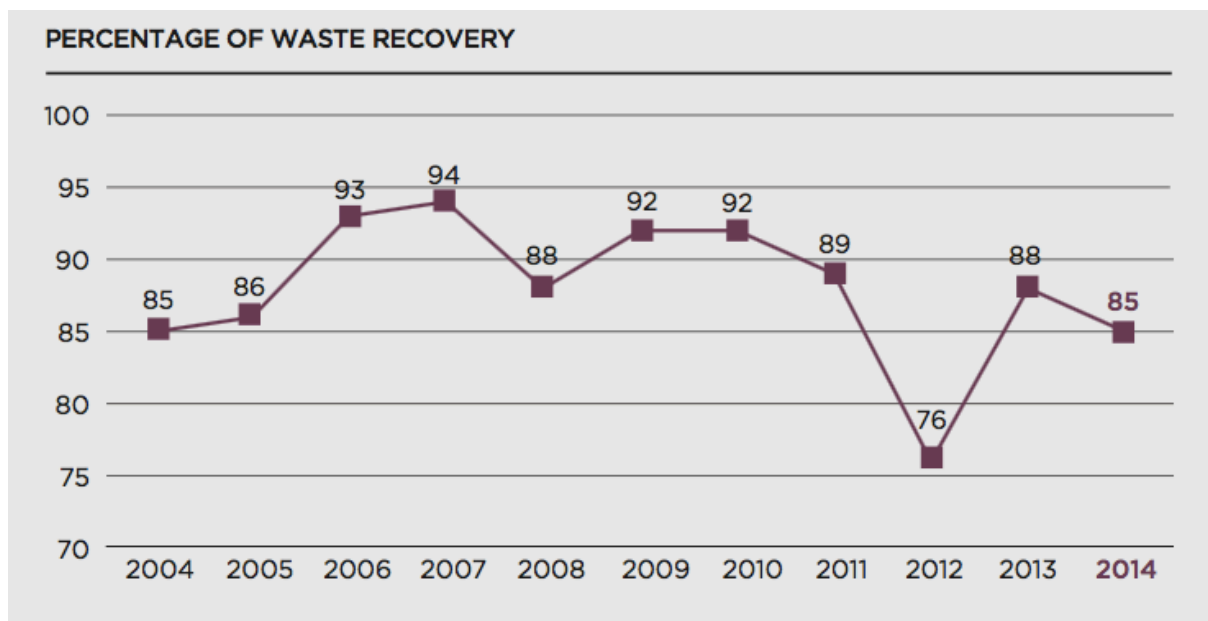


Figure 26 - LVMH's Percentage Of Waste Recovery 2004 - 2014

Source: LVMH Environmental Data Report 2014

Appendix 17

Guerlain was founded by its founder Pierre-Francois-Pascal Guerlain in 1828 and quickly became one of the most renowned perfume houses (Parfumeurs) among the French elite and European royal courts. Ever since its founding year, the brand has released 800 olfactory creations and has furthermore expanded its rich perfume product portfolio with make up and skincare products.

Constantly embracing innovation, Guerlain was the first brand to develop whitening skincare products, the first bullet shaped lipstick and as the first Parfumeur in the world combined synthetic- with natural ingredients in its iconic perfume creation *Jicky* in 1889.

This product launch marked the beginning of modern perfumery.

In order to bestow its bourgeois customers with sophistication and prestige, Guerlain has traditionally drawn inspiration from the arts.

Hence, perfumes such as *L'heure Bleue* were influenced by famous Impressionist painters, whereas perfumes such as *Sous Le Vent* were dedicated to artists such as Josephine Baker.

Guerlain has a long lasting tradition of combining its heritage of exclusive craftsmanship, known as *savoir-faire*, which is deeply rooted in luxury's motherland France, with creative innovations that have traditionally responded to the pulse of times.

Therefore, when civil aviation picked up at the beginning of the 20th century and particularly society's upper class started to travel to exotic destinations, Guerlain created the first oriental fragrance, Shalimar, and provided its customers with sensual impressions from their journeys.

Also in terms of new social state of minds, Guerlain has traditionally met the needs of time: The perfume La Chamade was launched in 1965 as a homage to the eponymous novel by Françoise Sagan, which influenced a whole generation of freely and independently thinking women.

Continuing with its traditional *roots and wings* approach of respecting the brand's heritage and shaping future driven innovations, Guerlain became a pioneer in anti ageing luxury beauty products throughout the 1980s.

In 2008, Thierry Wasser succeeded Jean Paul Guerlain as the first non – family master Parfumeur in the brand's 180-year lasting history.

Today, unlike many brands in the perfume and cosmetics luxury industry, Guerlain remains as one of the few brands, which is solely based on the beauty segment.

Thus, the brand is neither part of a fashion house such as Chanel or Dior's beauty products are, nor licenses its brand name to manufacturing companies, such as Gucci, which has its perfumes produced by Procter & Gamble.

Source: Author based on guerlain.com



Figure 27 - Historic Advertisement For The Perfume Jicky



Figure 28 - Historic Advertisement For The Perfume Shalimar



Figure 29 - Current Guerlain Parfumeur Thierry Wasser

Source: guerlain.com

Appendix 18

Guerlain's production site La Ruche in Chartres, France is the Maison's main production site for its make up and skincare product lines.

Being HQE certified with the highest rating *Excellent*, the plant follows several sustainable actions in favor of minimizing its energy consumption and waste production, maximizing its recyclable processes and also enhancing employees' social welfare.

Even before commencement of actual production operations, the construction of La Ruche was characterized by highest environmental compliance. Therefore, waste was sorted; soil, water and air pollution was strictly controlled; noise, visual and traffic nuisances were minimized and the water and energy were consumed consciously with the objective of minimizing the impact on the environment.

Besides the usage of heat exchangers, the building was constructed in a bioclimatic design so that needs for air conditioning could be decreased. The lighting within the plant is managed by energy saving systems such as motion detectors and light intensity sensors.

In order to limit its water consumption, the plant's sanitary facilities run by recovered rainwater, which is heated by thermal solar panels.



Figure 30 - La Ruche Plant In Chartres, France

Pursuing the above-mentioned measures, among others, Guerlain aims to reduce its carbon footprint, with the construction of La Ruche, by 20% until 2017.

In order to assess this progress; water, energy and steam is supervised by over 600 measurement points, ensuring that the plant's environmental objectives stay within scope.

Besides its environmental aims, La Ruche was also constructed to enhance Guerlain's social responsibility by basing it on environmental actions and therefore improve employees' wellbeing at the workplace.

Therefore, biodiversity is promoted by setting up green spaces, with the planting of 302 trees around the site, in order to create a work atmosphere based on natural pleasantness.

By installing beehives in the plant’s central patio, La Ruche does not only guarantee the preservation of the threatened bees, whose honey belongs to the core resources of Guerlain’s products, but it also provides each employee with one pot of honey once a year.

Furthermore, twenty parking lots are provided with plugs for electrical respectively hybrid vehicles in order to promote alternative energy vehicle usage among its employees and also to provide the company’s own electrical car fleet with energy.

Source: Author based on LVMH Environmental Data Report 2014

Appendix 19



Figure 31 - Guerlain's Electric Supply Truck In Front Of The Flagship Store 68 Champs - Elysees, Paris

Source: Guerlain’s SD Report 2014

Appendix 20



Figure 32 - Limited Terracotta Make Up Case In Sustainable Wood Packaging

Source: Guerlain's SD Report 2014

Appendix 21



Figure 33 - Crafting Recycled It-Bags From Former La Petite Robe Noire Advertisement Posters

Source: Etre Guerlain No.48, June 2013

Appendix 22

Orchids in Tianzi, China

Orchids resemble one of Guerlain's key raw materials and are the main ingredient of its prestige skincare product line *Orchidée Imperiale*.

With the development of an exploratory Orchid reserve (the Orchidarium) in Tianzi, which lies in the southern Chinese region of Yunnan, Guerlain has signed a ten year agreement with the community, which focuses on four main objectives:

- Restoration of former rainforest areas through sustainable forest farming
- Development of a reserve, in which a wide variety of orchids is cultivated.
Thus, Guerlain promotes the cultivation of orchids; also for those orchids, which are not even used in the *Orchidée Imperiale* product line
- Protection of the region's plant and animal life
- Supporting the community's local economic development and transmitting expertise (savoir-faire) of cultivation and harvest skills to the population

First results of preserving the emblematic resource can be found in 10.000 replanted orchids ever since the partnership was signed. The project was awarded with the BIO certification, issued by Ecocert (an organic certification organization) in 2014.



Figure 34 - Workers In Tianzi Harvesting Orchids

Source: Author based on Etre Guerlain Magazine No. 48

Bees on the Ouessant Island, France

Honey extractions from black bees, which are strongly populated on Brittany's Ouessant Island, are the key resource of Guerlain's skincare product line *Abeille Royale*.

In order to preserve the rare and threatened black honeybee and therefore provide future generations with its honey extractions, Guerlain signed a ten-year partnership with the NPO Association Conservatoire de L'Abeille Noire Bretonne, which manages the conservation area on the Ouessant Island for the black honeybees.

Due to the Maison's financial efforts in supporting the NPO, the organization could employ a professional beekeeper, maintaining the islands' 150 beehives.

Furthermore, the organization got sponsored with an electric car, which is used to drive around the island in order to maintain the hives without polluting the environment.

Guerlain's legal department provides support to the NPO by dealing with issues regarding the protection of the beehives on the island.

All these efforts led to the Coup de Coeur SD Sponsorship award by France's Environmental Ministry.



Figure 35 - Black Honeybee Preservation With Guerlain's Support At The Ouessant Island

Source: Author based on Etre Guerlain Magazine No. 48

Vetiver in India

Not only is Vetiver one of the key ingredients of many of Guerlain's scents, it is also the name giver for the Maison's homonymous classic male scent composition. Hence, preserving this raw material is one of the key objectives for Guerlain.

Guerlain's head Parfumeur Thierry Wasser recognized the opportunity of establishing a mutually and socially benefiting value chain while he was on a journey to India in search of exceptional raw materials.

By establishing a social supply chain with the local population of Coimbatore in Southern India, Wasser established a Vetiver farmland with the community, where Vetiver grass is farmed in an environmentally responsible way and at the same time links as a source of employment and hence income for the local community.

The sustainability of Guerlain's Vetiver farming in Coimbatore is evoked by preserving animal- as well as plant life and furthermore provides a marginalized community with economic development:

The grass of the Vetiver plant is used as cattle fodder and therefore ensures the nurturing of cattle, which is an essential source of food and transportation for the local population.

Seeds are used to grow new crops and therefore ensure the preservation of the Vetiver cultivation. Furthermore, the preservation is granted by Vetiver's roots, which reduce erosion, improve soil humidity and therefore increase fertility.

Thus, the roots, which link as a source of distillation for Guerlain's perfumes, could at the same time improve yields from other crops by up to 50%, which eventually maintain the cultivation of the rare resource.

Due to the provision of Vetiver seedlings alongside the transmission of expertise on farming skills, Guerlain provides economic support to the local community of Coimbatore, as the Maison purchases the farmer's crops 18 months after the Vetiver seeds are planted.

Thierry Wasser highlights the importance of the mutual exchange with Coimbatore's population on expertise:

This is all about nurturing close relations with local producers and the raw materials they cultivate – the trees, the flowers, the spices – by being present during harvest, watching the distillation process, helping to select the best essential oils. It's about supporting them and learning from their experience and expertise so that together we can develop solid, sustainable partnerships.

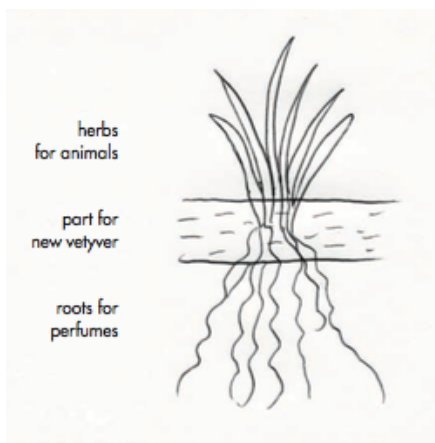


Figure 36 - Parfumeur Thierry Wasser At The Vetiver Plantation In Coimbatore

Source: Author based on Etre Guerlain Magazine No. 48

Appendix 23

Social Key Issue	Promoting Diversity	Employee Welfare on the Job	Transmission of Savoir-Faire	Community Spirit Enhancement
Activities	<p>50% of executive committee members and brand general managers are women</p> <p>Employment for handicapped: Hiring disabled people directly or working with associations for handicapped (La Robe Noire recycled bags)</p> <p>Participation in the job fair of the disadvantaged neighborhood Montfermeil in order to hire employees from diverse backgrounds</p>	<p>Improving workstation ergonomics</p> <p>Work-life quality: Warm up exercises prior to starting work at the production site in Chartres</p> <p>Free provision of fruits in all worldwide subsidiaries</p> <p>Psychosocial risk prevention: Training courses offered</p>	<p>Employee Recruitment focuses on hiring young professionals while helping older employees remaining in the workforce at the same time:</p> <p>Encouraging the transmission of expertise and skills among generations: Older employees to teach younger generations a total of 50 techniques in terms of perfume and cosmetics craftsmanship</p>	<p>Support of initiatives that celebrate the diverse facets of beauty:</p> <p>France: Employees run the Paris Semi Marathon alongside Guerlain's testimonial Natalia Vodianova, with the aim of raising funds for the Naked Heart Foundation (Helping Russian Children in aid)</p> <p>Supporting cultural diversity and talent development in the disadvantaged French neighborhood Montfermeil</p> <ul style="list-style-type: none"> ➤ Inviting students from the city's school to Guerlain's offices and sites to learn about their professions ➤ Casting of young fashion designers to participate on LVMH Runway shows

Figure 37 - Guerlain's Pursued Activities Ensuring SR

Source: Author based on LVMH SR Report 2014/Etre Guerlain 48

Appendix 24



Figure 38 - Guerlain's Testimonial Natalia Vodianova Inaugurating The La Ruche Plant

Source: gettyimages.pt



Figure 39 - Natalia Vodianova And Guerlain's CEO Laurent Boillot At The Charity Marathon For The Naked Heart Foundation In Paris, 2014

Source: gettyimages.pt

Appendix 25

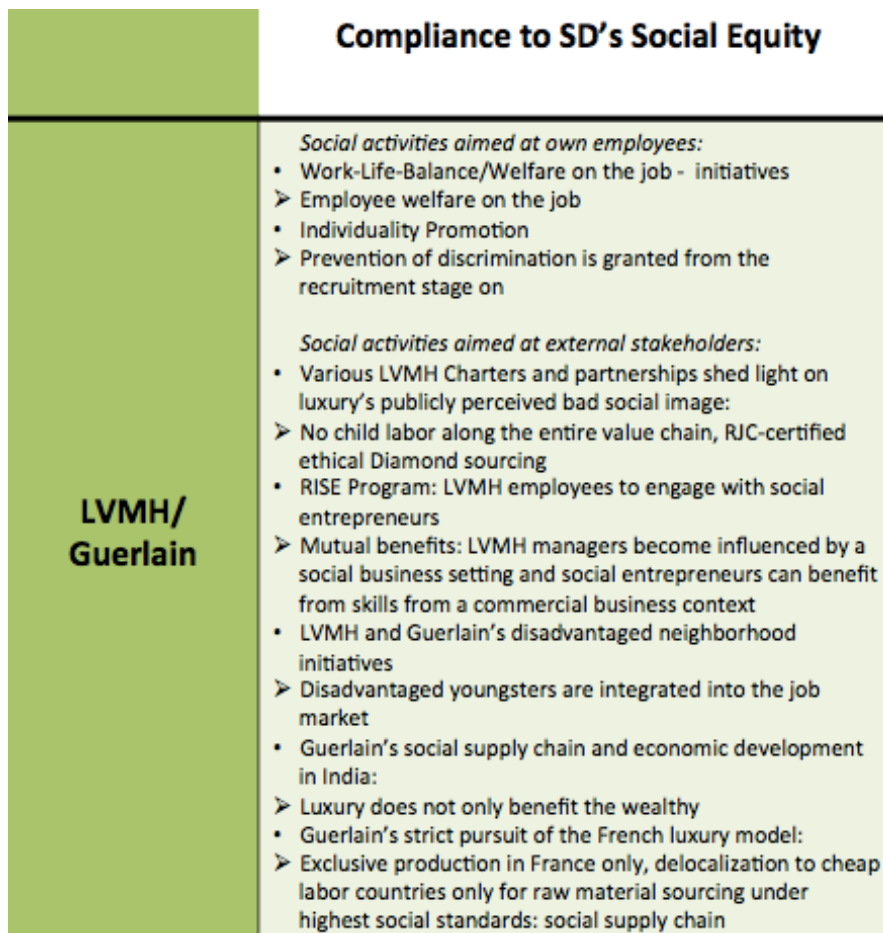


Figure 40 - LVMH/Guerlain's Activities As Luxury And SD's Social Equity Overlap

Source: Author based on LVMH SR Report 2014/Etre Guerlain 48

Appendix 26

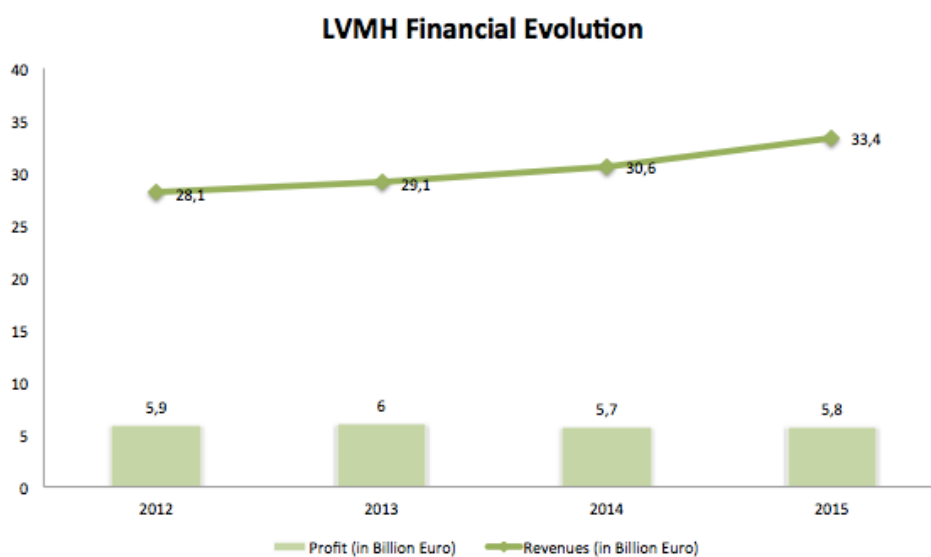


Figure 41 - LVMH Profits/Revenues Since The Launch Of The LIFE Program In 2012

(Revenues/Profits For 2015 Are Forecasted Based On The Results For The First 6 Months Of 2015)

Source: Author based on LVMH Financial Report 2014, LVMH 2015 Q3 Revenue Report