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An Innovative Circular Business Model for the Luxury Fashion Industry

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3.1 Introduction and Background

The luxury fashion industry leaders face a crucial challenge: creating luxury products for an increasingly affluent population while minimizing environmental harm (Schmitt et al., 2022). Over the past ten years, research has shown that adopting a circular economy model can effectively maintain the value of energy, labor, and materials by focusing on product designs that prioritize durability, reuse, remanufacturing, and

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recycling. This model helps keep products, components, and materials within the economic cycle for as long as possible, reducing waste and reliance on new resource extraction (Puglia et al., 2024). In 2019, representatives from the luxury brand Burberry recognized that they had incinerated unsold goods worth \$37 million, a practice that exacerbates ecosystem degradation in the fashion sector. This disposal method underscores considerable sustainability challenges, especially in luxury fashion, where unsold items are frequently destroyed to uphold brand exclusivity and prevent discounts (Joy, 2022).

The main challenges that luxury faces when dealing with a more sustained and embedded level of sustainability in their value chains, as we notice in the work of Franco et al. (2019), which denounces a poor integration of sustainability practices for luxury firms beyond the more programmatic use of corporate social responsibility (CSR) report, to showcase superficial and unfocused practices. Although CSR practices aim to improve organizational reputation, such criticisms are common (Komodromos, 2015, 2017). Porter and Kramer (2011) described shared value advocacy against the odds of a superficial use of CSR for reputational risk management. This premise indicates where the industry is currently situated and, equally, the research gaps this paper aims to investigate (Ozdamar-Ertekin, 2019; Weber, 2019).

This chapter explores how luxury fashion brands can shift to sustainable business models while maintaining their competitive edge. It highlights the gaps and challenges in embracing circular strategies by analyzing the disparity between luxury leaders' vocal support for sustainability and the need for more progress in their business models.

This research employs an integrative literature review methodology to systematically examine existing studies regarding circularity and sustainability in luxury fashion. It underscores the urgent need for luxury brands to enhance their commitment to sustainable practices beyond superficial

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corporate social responsibility (CSR) efforts. The review emphasizes the shift towards a circular economy and pinpoints opportunities for further research and managerial practices.

The analysis begins by establishing a conceptual framework based on pertinent literature. It subsequently examines the hurdles the luxury industry encounters in embracing circularity and provides practical suggestions for leaders and policymakers. In this way, the chapter aims to enhance the ongoing dialogue on sustainable development in luxury fashion, delivering valuable insights for academia and industry professionals.

3.2 Conceptual Framework

This integrative literature review is grounded in two key concepts related to the profitable transition of luxury fashion from a linear to a circular business model to increase sustainable luxury consumption in mature markets. The first concept is Donato et al.'s (2020) framework of sustainable luxury consumption, which emphasizes the growing consumer demand for sustainability in luxury goods. The second is Chiaroni and Urbinati's (2017) model of adopting a circular business approach, which critiques traditional linear models' dependence on large quantities of accessible resources and energy, making them increasingly unsustainable in today's global context (p. 1).

Sustainable Luxury Consumption. Donato et al. (2020) describe sustainable luxury consumption as a growing trend affecting the competitive strategies of luxury brands and consumer buying choices. This idea is based on Carroll's (1979, 1991) corporate social responsibility (CSR) framework, which Donato et al. adapt by connecting CSR's internal and external aspects to how luxury products are perceived. They mainly highlight how CSR can boost the ethical attractiveness of luxury brands (Komodromos, 2017). According to Donato et al. (2020), Carroll's CSR model is a beneficial base for future studies on luxury consumption, emphasizing its ability to shed light on the changing dynamics between sustainability and luxury in consumer preferences.

Customers have intuitively perceived luxury brands as incompatible with sustainability (Achabou & Dekhili, 2013; Hiipakka, 2024). As the original meaning of lux indicates ‘shine’ in Latin, the perception of luxury products is associated with excess, visibility, and superficiality (Nueno & Quelch, 1998). This challenges the notion of CSR as an ethical form of corporate engagement with society (Karaosman et al., 2018).

Besides the fundamental philosophy of sustainability and luxury being both about symbolic value over time, Donato et al. (2020) suggest a new way to look at the positive side of the marriage between sustainability and luxury, and they brought forward their work based on Carroll’s (1979, 1991) framework. At this review stage, it is worth exploring one of sustainability’s foundational authors and contributors to the field, Archie Carroll. Carroll’s work is considered seminal in the area, and particular relevance can be found in the four dimensions of CSR that can also be applied now when looking more specifically at the typology of consumers. The four dimensions, the economic, the legal, the ethical, and the philanthropic dimensions, can be classified into two groups based on the visibility to consumers: internal (financial and moral dimensions) being less visible and external ones (legal and philanthropic dimensions) associated with higher visibility (Carroll, 1979).

To expand Carroll’s theory and study the influence of specific dimension-related sustainability acts on consumer behavior, Donato et al. (2020) borrowed findings from several kinds of literature on luxury customer consumption, which separate externalized consumption from internalized one in the context of intrinsic motivations (Han et al., 2010; Nueno & Quelch, 1998). Externalized luxury customers tend to buy products with higher noticeability for others, whereas personal preferences and feelings motivate internalized customers to consume. The case study Donato et al. conducted demonstrates that the determinants of value appreciation can be found beyond just a nominal value of the various sustainability initiatives.

What emerges with meaningful significance from their case study is a clear orientation (Donato et al., 2020). Donato et al. (2020) concluded that the orientation of luxury customers with internalized consumption is towards the premises of internal dimensions of sustainability,

economic and ethical dimensions, while others with the externalized motivation of consumption tend to be more oriented towards external sustainability dimensions, legal and philanthropic dimensions. The work of Donato et al. (2020) exceeds the more conventional dimensions of consumers versus sustainability from a luxury perspective because of its integrative approach, which re-instates Carroll's dimensions within the scope of the study the authors have carried out. Under this new lens of analysis, expanding the theory of Carroll and Donato et al.'s work provides a clear direction on where luxury firms may want to direct their messages on sustainability rather than if all consumer bases perceive value symmetrically.

Adopting a Circular Business Model. Chiaroni and Urbinati (2017) define adopting a circular business model as transitioning from the traditional linear model, which follows a “make-and-dispose” process, to a more sustainable approach to establishing closed-loop supply chains through collaborative partnerships with external stakeholders. Their framework for adopting a circular business model is rooted in the value network. It connects critical network elements—such as circular collaborative business models, circular communication, and circular awareness (Lieder & Rashid, 2016)—to creating value within closed-loop supply chains. Chiaroni and Urbinati's research concludes that shifting from a linear to a circular economy (CE) significantly impacts value network dimensions, leading to sustainable, closed-loop supply chains that promote resource efficiency and reduced waste.

While there is a clear consensus that enlarging the measurement of the bottom line to a pluralistic model of the bottom line, such as a Triple Bottom Line (TBL), is suitable for sustainability (Gimenez et al., 2012; Winkler, 2011), the integration of the same inside existing value chains renders it untenable and problematic to sustain (Linder & Williander, 2017). Sustainability operates from a perspective of attaining goals differently from how operations under linear business models have been set. It requires a radical transformation, and the integrated elements of a production system cannot be changed overnight. The challenges of implementing the circular economy are visible on multiple fronts. The literature seems to represent both the aspirational side (Chandra & Kumar, 2000) and the operational side (Kleindorfer et al.,

2005; Parkinson & Thompson, 2003), but there is no clear direction towards conclusive evidence.

Regardless of the conundrum of transformation towards circular business models, its implied economic benefit to society and the economy is well acknowledged by decision-makers in private sectors and policy-makers (Andersen, 2007). The value of the circular business approach can appeal to businesses seeking ways to deal with increasing societal demands to be more ethical in their operations, which has also become a breakthrough for the resource-based operating model and its limitations (Ghisellini et al., 2016). Although both practitioners and researchers have tried to find a balance between the desire to meet social demand and economic sensemaking in moving away from the dominating industrial linear business model (Rosa et al., 2020), little has been focused on the systematic approach towards successful integration of the circular business model and the implications of its adoption (Linder & Williander, 2017). Therefore, this allows the work of Chiaroni and Urbinati to have significance in understanding the value network, a crucial element in the closed-loop supply chain management and its adoption.

In the transformation of a business model, a new paradigm of value assessment emerges, which does not reside just in the conceptual positioning of the closed-loop model of the circular economy but in its value network (Chiaroni & Urbinati, 2017).

The value network concept is that closed-loop systems change and transform their ecosystem rather than changing the operations of a single firm (Ünal et al., 2019). According to the authors' case study, exploring the supply chain aspects of collaboration—such as proximity, communication, and engagement—offers promising avenues. When examining the value of a single firm, the numerous stakeholders within a coordinated system aimed at circularity reveal a much more robust practice (Chiaroni & Urbinati, 2017).

3.3 Research Method and Design

Building knowledge with research is an activity that creates a block of all academic research activities, and therefore, academics should prioritize accuracy (Snyder, 2019). In light of this perspective, the literature review is an effective research method to create an accurate and firm foundation for advancing knowledge by collecting and synthesizing previous research (Baumeister & Leary, 1997; Webster & Watson, 2002). Integrative literature review particularly fits this notion as “integrative literature reviews systematically trace much (or maybe even all) of the literature on a selected topic back to its roots” (Callahan, 2010, p. 301). It is crucial to note that the literature review method has been utilized in recent research examining circular economy business models in the fashion industry, such as that of Alim et al. (2022), Gautam (2024), Gazzola et al. (2024), Heo (2024) and Sarker and Bartok (2024).

The choice of Google Scholar is determined and inferred by multiple reliability factors such as coverage, indexing speed, and ease of use among various multi-disciplinary scientists and scholars (Dana et al., 2024). The research topics integrated into this review tried to capture two aspects of the research question within the limitations of the literature. At first, the propensity of luxury brands should have considered the translation of their sustainability practices into practical business models centered around circularity. Consequentially, the question posits how these same models can mature to a deeper level of embeddedness of the business models within the sustainability predicament.

Figure 3.1 shows the conceptual model, representing the relationship between current practices and aspiring practices to represent maturity. Many studies show that the luxury industry’s endeavors to pursue a sustainable future still need to be successfully translated into reality, and society still criticizes the industry (Fernandez, 2024; Gazzola et al., 2024; Hiipakka, 2024).

The figure presents two approaches found in the literature. One implies that sustainability efforts based on traditional thinking have a limited transformative effect, referred to as ‘linear’, because they

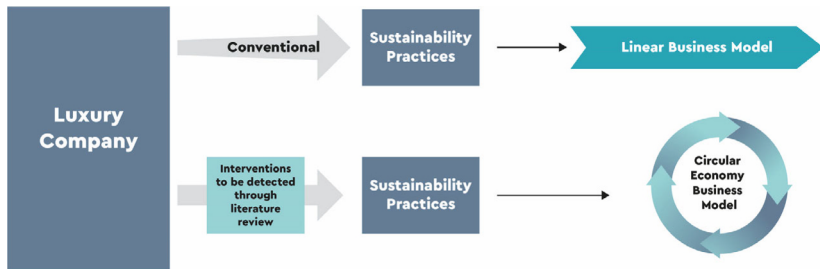


Fig. 3.1 Conceptual model

must adhere to a circular value chain. Conversely, other sources highlight sustainable practices that promote circularity, which will form the foundation for the business model typology discussed in this paper.

Table 3.1 categorizes critical articles by citation number, ranking, author, year of publication, and initial publication venue. Aksnes et al. (2019) suggest that citations serve as a proxy for research impact and quality. Additionally, citations confer scientific prestige and value to readers (Bahadoran et al., 2020). Thus, citation numbers reflect the seminal value of the article based on concept heuristics.

Table 3.1 illustrates the existing journals that publish research on the sustainability of luxury brands within the circular economy context. While keywords associated with sustainability and the circular economy are becoming more prominent (Thrassou et al., 2024a), their relevance to luxury brands still needs to be expanded due to inconsistent or unverified data that might pertain to different research fields. There is a pressing need for further studies on sustainable models promoting circularity and additional literature to enhance the discourse on this subject.

The geographic focus in selecting articles was systematic; however, specific patterns or aggregate datasets still needed to be included. The study was conducted with a homogeneous group of scholars, primarily from North America and Europe, reflecting a mature field of research. There is a clear need for documented sustainable practices in developing economies (Thrassou et al., 2024c). As a result, geographical coding does not contribute value to this literature review. After the paper, a summary

Table 3.1 Representative literature on circular economy and sustainability in luxury industry selected for review

| Rank | Title | Year | Author(s) | Source | Type of document | Citation |
|------|--|------|--|---------------------------------------|------------------|----------|
| 1 | The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders | 1991 | Carroll, A. B. | Business Horizons | Journal article | 15,257 |
| 2 | Sustainable operations management | 2005 | Kleindorfer, P. R., Singhal, K., & Van Wassenhove, L. N. | Production and Operations Management | Journal article | 2180 |
| 3 | The Mass Marketing of Luxury | 1998 | Nueno, J. Luis., & Quelch, J. A. | Business Horizons | Journal article | 1135 |
| 4 | An introductory note on the environmental economics of the circular economy | 2007 | Andersen, M. S. | Sustainability Science | Journal article | 954 |
| 5 | Circular business model innovation: Inherent uncertainties | 2017 | Linder, M., & Williander, M. | Business Strategy and the Environment | Journal article | 723 |
| 6 | Luxury and Sustainable Development: Is There a Match? | 2013 | Achabou, M. A., & Dekhill, S. | Journal of Business Research | Journal article | 375 |
| 7 | Circular economy business models: The state of research and avenues ahead | 2020 | Ferasso, M., Bellaeva, T., Kraus, S., Claus, T., & Ribeiro-Soriano, D. | Business Strategy and the Environment | Journal article | 163 |

(continued)

Table 3.1 (continued)

| Rank | Title | Year | Author(s) | Source | Type of document | Citation |
|------|--|------|--|--|------------------|----------|
| 8 | Behind the runway: Extending sustainability in luxury fashion supply chains | 2018 | Karaosman, H., Perry, P., Brun, A., & Morales-Alonso, G. | Journal of Business Research | Journal article | 80 |
| 9 | Sustainable luxury : Current status and perspectives for future research | 2020 | Kunz, J., May, S., & Schmidt, H. J. | Business Research | Journal article | 31 |
| 10 | Luxury fashion and sustainability : Looking good together | 2019 | Franco, J. C., Hussain, D., & McColl, R. | Journal of Business Strategy | Journal article | 22 |
| 11 | Can luxury fashion provide a roadmap for sustainability ? | 2019 | Ozdamar-Ertekin, Z. | Markets, Globalization & Development Review | Journal article | 13 |
| 12 | Key success factors to be sustainable and innovative in the textile and fashion industry: Evidence from two Italian luxury brands | 2022 | Bernardi, A., Cantù, C. L., & Cedrola, E. | Journal of Global Fashion Marketing | Journal article | 7 |
| 13 | The circular fashion framework—The implementation of the circular economy by the fashion industry | 2020 | Vecchi, A. | Current Trends in Fashion Technology & Textile Engineering | Journal article | 6 |

| Rank | Title | Year | Author(s) | Source | Type of document | Citation |
|------|---|------|---|------------------------------|------------------|----------|
| 14 | Sustainable luxury : The effect of corporate social responsibility strategy on luxury consumption motivations | 2020 | Donato, C., De Angelis, M., & Amatulli, C. | Palgrave | Book | 3 |
| 15 | Sustainability and luxury fashion products: Factors that influence purchase decisions of Chinese consumers | 2017 | Direction, S. | Emerald Publishing Limited | Journal article | 2 |
| 16 | The effect of sustainable product innovation on the consumer- luxury brand relationship: The role of past identity salience | 2022 | Hemonnet-Goujot, A., Kessous, A., & Magnoni, F. | Journal of Business Research | Journal article | 2 |
| 17 | Can fashion be circular ? A literature review on circular economy barriers, drivers, and practices in the fashion industry's productive chain | 2021 | Hugo, A. D. A., Nadae, J. D., & Lima, R. D. S. | Sustainability | Journal article | 2 |

(continued)

Table 3.1 (continued)

| Rank | Title | Year | Author(s) | Source | Type of document | Citation |
|------|--|------|--|---|--------------------|----------|
| 18 | Adopting a circular business model: Opportunities and challenges for the supply chain management | 2017 | Chiaroni, D., & Urbinati, A. | 4th International EurOMA Sustainable Operations and Supply Chains Forum (SOSCF) | Paper presentation | 1 |
| 19 | Sustainability in fashion and luxury marketing: Results, paradoxes, and potentialities | 2022 | Akrout, H., & Guercini, S. | Journal of Global Fashion Marketing | Journal article | 0 |
| 20 | Omni-personal luxury: How to transform your luxury business for the digital age | 2022 | Schmitt, R., Rossi, A., & Bensoussan, A. | Palgrave Macmillan | Book | 0 |

Notes The citation data are based on Google Scholar search results (collected on July 21, 2022)

of the limitations of existing literature reviews will be provided to inform future research.

3.4 Integrative Literature Review Findings

Developing the Modern Concept of Luxury

The luxury fashion industry is projected to hit \$84.04 billion by 2025 (Grand View Research, 2023). It has historically offered customers exclusivity and status. This industry drives consumption, prioritizing desire over functionality (Schmitt et al., 2022). Luxury brands capture consumers' imagination yet often overlook everyday issues like sustainability and recycling. Their market positioning separates them from traditional competition, focusing on perceived value and purpose (Elzinga et al., 2020).

In *The Theory of the Leisure Class*, Veblen (1899) argued that wealthy individuals engage in conspicuous consumption to signal their social class (Bagwell & Bernheim, 1996). Rising demand and prices enhance exclusivity, justifying high costs. While not essential, luxury significantly boosts social status (Bochanczyk-Kupka, 2019) and reinforces cultural norms around its exclusive use (Tortajada et al., 2024).

Kahneman and Tversky (1982) indirectly address luxury by highlighting how behavioral economics understands the emotional needs in luxury purchases, where experiences, social acceptance, and emotions dictate value. Customers' perceptions significantly challenge the supply-demand principle, favoring personalized expectations uniquely valued as luxury. Christiansen's concept of "JTBD (job to be done)" simplifies needs based on their specific purposes, suggesting luxury firms align with JTBD principles. Ugglå's work (2017) illustrates luxury's divergence from other industries due to an inverted price-demand curve.

Research indicates that acquiring luxury goods centers on wants rather than needs, often fulfilled by experiences in opulent boutiques or the social exclusivity these goods provide (Schmitt et al., 2022). Historically, scholars have argued that luxury reflects self-perception more than the perceived value of items, as shown in Dubois and Laurent's (1995)

seminal work, which presents luxury as an elevated perceived need. This is further supported by the connection between owning luxury items and our future aspirations (Hiipakka, 2024). Consumerism has significantly influenced this, with identity being tied to ownership and the value of possessions (Gautam, 2024).

Sustainable Luxury Consumption and Circularity

McDonough and Braungart (2002) suggest a significant and transformative shift in the production paradigm that transcends simple supply chain efficiencies. Their research advocates for a holistic approach, promoting production models that regenerate resources and minimize environmental impact, aligning with circular economy principles. This approach challenges conventional production systems by encouraging sustainability and integrating closed-loop processes, focusing on resource renewal rather than waste creation. Traditionally, production has been viewed as a linear process, like an assembly line model, where some reusability is assumed.

The pressure to rethink the production value chain, mainly due to heightened sustainability concerns, demands a new approach to resource management that promotes value creation. This contribution offers a new view of the circular economy aimed at value production instead of improving efficiency. Debates in the literature focus on the conflict between 'cradle-to-cradle' principles and traditional efficiency views in the circular economy. Kleindorfer et al. (2005) further explore the challenges of transforming systems versus enhancing existing models. Various studies reveal this tension and its enrichment of existing ideas.

While many scholars highlight the conflict between luxury and sustainability, some argue otherwise. A positive synergy can emerge by integrating sustainability into luxury firms' strategies under certain conditions (Gautam, 2024). The luxury industry's influence on consumers exemplifies its potential to foster sustainability, mainly as luxury customers are loyal and hold considerable brand equity (Kunz et al., 2020).

Before discussing luxury brands' sustainability, it is vital to note that luxury products are often seen as symbols of sustainability (Kunz et al., 2020). They embody craftsmanship, quality, and lasting appeal (Hiipakka, 2024), aligning with sustainable principles. The blend of luxury and sustainability creates lasting, transgenerational value, especially in specific luxury goods (Kirezli & Tuzcu, 2024). This feature underscores the differentiation in the conceptual framework (Carroll, 1979), indicating that luxury products' perceived value stems more from their attributes than their age, reinforcing transgenerational desirability.

Despite the luxury industry's positive relationship with sustainability, it faces criticism and pressure to change (Fernandez, 2024). It must balance environmental obligations with inherent practices like short fashion cycles and high-carbon material imports. Following the Covid-19 crisis, the sector has rebounded and expanded its market size (Fan et al., 2025; Spencer, 2022), notably in fast-growing economies like China. This drives the need to change the traditional linear business model that consumes more resources (Kunz et al., 2020). In addition, Ferasso et al. (2020) state that many studies focus on both academic and practical relevance, with various scholars suggesting that this literature review addresses issues in specific research fields. These range from innovation and sustainable practices to marketing and consumer behavior, linking to conventional strategic discourse on value (Kunz et al., 2020).

The Cradle-to-Cradle principle introduced the circular economy, transforming resource and waste management. It shifts the linear business model to a circular one, tackling greenwashing and redefining productivity. Researchers have investigated sustainable pathways with closed-loop production and technologies enhancing these systems. This is crucial for luxury firms adopting sustainable practices and clarifying their responsibility.

Can Luxury Fashion Be Circular?

According to Salvador et al. (2020), the "circular business model seeks to maintain resource value at its maximum for as long as feasible, eliminating or reducing resource leakage by closing, slowing, or narrowing

resource flows” (p. 3). Therefore, it can be seen to limit the threat of excessive waste (Ayub et al., 2024). From a more economic perspective, the circular economy initiates its reflection from the sunk cost analysis of waste and its redundancies across the value chain (Esposito et al., 2018).

Circular economy business models are divided into circular strategies, categorized in an “R-framework” based on waste prevention (Suarez-Visbal et al., 2024). The classic 3 Rs—reduce, reuse, and recycle—are frequently mentioned (Papamichael et al., 2023). Subsequent additions include rental, repair, resale, remanufacture, and redesign-reduce (Abdelmeguid et al., 2024). Recent research shows the rental strategy is notably effective, extending product lifecycles by eight times when paired with repair and resale (Suarez-Visbal et al., 2024).

Recycling plays a vital role in reducing the material waste produced by industries, especially regarding plastic bottles and bags. However, many fashion brands need to adopt more circular strategies to enhance their environmental contributions (Abdelmeguid et al., 2024). Frequently, these brands follow processes that closely resemble traditional linear production methods, like recycling plastic bags (Bertassini et al., 2021). Furthermore, many encounter difficulties in reintegrating materials into the supply chain, underscoring the critical need for improved research and effective measures to bolster circular systems (Suarez-Visbal et al., 2024).

Vecchi documented timid progress in her work on a circular fashion framework (2020), highlighting the circularity principles applied to promising asset classes. This includes resources, production, design, retail, consumption, and end-of-life aspects, discussing how the fashion industry can break free. Though grounded in academic contribution, much-cited work originates from consultative practices or think tanks, like the Ellen MacArthur Foundation, highlighting the limited scope of circularity in fashion and the noticeable literature gap. Future research has numerous options for empirically driven contributions to understand better when the fashion industry will adopt this trend. We are still seeking specific elements indicating this is occurring at the same rate as other industries.

Adopting an Innovative Circular Business Model in the Luxury Fashion Industry

The luxury fashion industry recognizes its role in causing harm and works towards better management and responsibility through sustainable initiatives. However, it still lags other sectors, like food (Suarez-Visbal et al., 2024). Studies show that fashion leads to pollution due to high energy and water use, waste, and resource mismanagement, including raw materials (Marques et al., 2020).

Not only is the fashion industry the second biggest polluter among all industries, but it is also ranked as the second-highest user of water (Shrivastava et al., 2021; United Nations News, 2019). The fashion industry generates production waste that accounts for 20% of global waste, with more than 2.1 billion tons of annual waste (Vecchi, 2020). These overwhelming figures invalidate the fashion industry's argument to be successfully 'green' and paralyze its endeavor to be part of building a sustainable future together with other sectors, especially in front of customers.

Supply chains are crucial for circular economy practices in luxury fashion (Puglia et al., 2024). Alternatives to linear models include narrow-loop, slow-loop, and closed-loop supply chains. Narrow-loop improves production efficiency by reducing water, toxic chemicals, and material usage to prevent waste (Rehman et al., 2024). This lowers greenhouse gas emissions. The slow-loop extends garment life through rental services, repairs, and consumer reuse initiatives (Gazzola et al., 2024). A closed loop reduces waste by cycling materials throughout a product's lifecycle (Puglia et al., 2024).

Existing research on circularity in the luxury fashion industry notes that adverse environmental outcomes can be avoided if sustainable and recycled materials can be used as an alternative to non-renewable fabrics (Suarez-Visbal et al., 2024). These sustainable materials include bio-based materials, organic cotton, hemp fibers, and recycled polyester. Nevertheless, concerns remain about the amounts of waste generated during manufacturing, from water waste to fabric scraps (Franzè et al., 2024).

Sustainable waste flow management is an emerging area that aims to address significant waste during the manufacturing and production process of luxury fashion items. Scholars have noted that greater integration of waste flow management methods is required to achieve sustainable manufacturing outcomes over the long term (Puglia et al., 2024). KPIs also play an essential role, allowing organizations to monitor sustainability metrics by combining advanced analytics and real-time data gathered during manufacturing. These analytics and data can aid organizations in transitioning towards closed-loop supply chains (Sarker & Bartok, 2024).

Although such practices benefit the environment and business performance, they must be universally adhered to by luxury fashion companies (Seidu et al., 2024). Policy is critical in facilitating the systemic adoption of circular economy practices, ensuring compliance, and establishing incentives and best practices for luxury fashion companies transitioning to a circular business model. Governments can foster industry-wide transformation through regulatory frameworks that support sustainable production methods, incentivize closed-loop supply chains, and promote resource efficiency. These policies offer essential guidance and create economic incentives for companies to incorporate circularity into their operations, aligning luxury fashion with sustainability objectives while reducing environmental impacts. Thoughtful policies establish a conducive institutional environment that bolsters both the demand and supply aspects of circular economic practices, signaling a significant, systemic shift in business operations (López et al., 2023; Puglia et al., 2024; Tortajada et al., 2024).

For instance, the European Union recently launched the 2022 EU Strategy for Sustainable and Circular Textiles to regulate circular economy practices in the fashion sector (European Commission, n.d.). This strategy encompasses economic tools, direct regulations, recommendations, and voluntary initiatives to enhance information and education. However, the implementation of this strategy varies among member states, and the EU needs to have significant policies that penalize linear economy practices like the destruction of unsold goods (Puglia et al., 2024).

3.5 Critique of the Extant Literature to Identify the Future of Practice and Policy

Circular economy models have emerged to tackle the significant waste the fashion industry generates through sustainable practices like repurposing, recycling, and reusing (Seidu et al., 2024). These align with global initiatives for a more sustainable society, including the UN 2030 Agenda and the European Green Deal (Sarker & Bartok, 2024). While research on luxury fashion and circular economy models is extensive, some areas still require study (Gautam, 2024).

Digitalization and emerging technologies significantly impact the circular economy (Buhalis et al., 2024; Jakpa-Johns & Halkias, 2022). Technologies like virtual and augmented reality, blockchain, IoT, and artificial intelligence integrate into supply chains to reduce waste, enhance manufacturing efficiency, and foster design innovations (Rehman et al., 2024). This context also explores the metaverse (Esposito et al., 2023). Practitioners should further utilize these technologies in luxury fashion supply chains. Most current research focuses on theoretical analyses and frameworks; however, more empirical data is essential to assess their actual use and impact on sustainability in luxury fashion (Suarez-Visbal et al., 2024).

Another area that requires further attention is the issue of local cultural context in adopting circular economy business models in the luxury fashion industry. Most existing literature on sustainability and luxury fashion focuses on these topics from a general perspective without exploring how geographic and socio-cultural factors affect how consumers perceive such products and whether these business models can succeed in markets (Kim, 2024). Local context influences the regulations regarding fashion supply chains and the resources available to implement circular business practices. Socio-cultural factors also play an essential role in how consumers view luxury products and in how sustainable luxury products succeed in specific markets (Alserhan et al., 2014, 2022; Dana et al., 2024; Halkias et al., 2014). Therefore, additional efforts are required to tackle these cultural and regional discrepancies and create

strategies that allow circular economy business models to thrive in local luxury fashion markets.

3.6 Conclusion

The circular economy, introduced by David Pearce in 1990, has recently gained traction, particularly in Europe and Asia. This shift reflects an increasing demand for sustainable value creation methods, especially in resource-intensive sectors like luxury fashion. Traditionally, these industries have adhered to a linear model—extract, produce, utilize, and discard—which has accelerated resource depletion and environmental damage. Overpopulation and consumption-driven economic theories, such as Kuznets' production curve, have further strained the Earth's finite resources. In contrast, the circular economy advocates a cradle-to-cradle approach that promotes sustainability through reuse, repair, and recycling. Academics, practitioners, policymakers, and the general public increasingly embrace this model. Adopting circular practices is crucial for luxury fashion as consumers, governments, and stakeholders demand more sustainable supply chains.

The circular economy challenges traditional production models by promoting the integration of sustainability into business practices (Thrassou et al., 2024b). Future research should expand the understanding of circular strategies to include more than just technical processes, focusing on the significance of human capital and exploring the socio-cultural changes necessary for successful circular transitions. Luxury fashion brands must adopt holistic circular strategies by investing in employee training, enhancing corporate culture, and partnering with circular startups. A systemic overhaul is required to achieve circularity in fashion, which involves streamlining internal processes and fostering collaborations with government organizations and consulting firms.

3.7 Future Research and Implications for Managerial Practice

Research should explore ways luxury fashion brands can enhance circularity without sacrificing their competitive edge. Additionally, future studies must examine how circular economy principles can be incorporated across different industries, emphasizing the roles of education, policy, and innovation in fostering sustainable practices over the long term.

As circular economy models become increasingly popular, luxury companies must implement sustainable practices in their supply chains (Gautam, 2024). Firms must systematically incorporate circularity into their production processes to fully leverage these models. Studies indicate that many companies use limited circular strategies, which constrains their environmental impact (Abdelmeguid et al., 2024). Furthermore, luxury brands often emphasize the technical aspects of circularity while neglecting the necessary human capital and internal systems for successful implementation (Suarez-Visbal et al., 2024).

Effective implementation of circular practices calls for trained personnel, such as corporate social responsibility agents or circularity officers (Bertassini et al., 2021). Training existing employees in the necessary skills and values is essential, which can also be incorporated into business school curricula (Diaz & Halkias, 2021; Diaz et al., 2022; Komodromos, 2017). These programs facilitate broader change management efforts to embed circularity into corporate culture. Additionally, organizations should enhance internal systems to adopt circular processes successfully. This includes improving waste segregation in garment production, incorporating eco-design, and incentivizing employees to advocate for circularity (Suarez-Visbal et al., 2024).

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