

# Ethical Issues in the Luxury Fashion Industry



Italy's competition authority is investigating luxury brands Armani and Dior for potentially misleading consumers and exploiting workers at their suppliers. Prosecutors in Milan found underpaid, often illegal immigrant workers producing leather bags for Armani and Dior at a fraction of retail prices. Chinese-owned suppliers of these brands are under investigation, and commissioners have been appointed to oversee supply chain corrections. Dior and Armani claim to cooperate with authorities and deny the allegations. The Italian antitrust authority is examining the discrepancies between the brands' luxurious marketing messages and the harsh reality of worker conditions. Breaches of Italy's Consumer Code can result in substantial fines.

Source: <https://www.reuters.com/>

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# Questions

- (a)** Define what is meant by "ethical issues" in a business context. [2 marks]
- (b)** Identify two ethical issues that Armani and Dior are facing according to the investigation. [2 marks]
- (c)** Explain how the conflict between profits and ethics is illustrated in the case of Armani and Dior. [4 marks]
- (d)** Discuss two potential short-term and two long-term consequences for Armani and Dior if they fail to address these ethical issues. [6 marks]
- (e)** Evaluate how Armani and Dior might react and respond to these ethical issues to balance profits and ethics. Consider the implications for different stakeholders. [6 marks]

# Suggested Answers

(a) Ethical issues in a business context refer to moral challenges and dilemmas that arise when a company's actions or practices conflict with societal values and ethical standards, such as fairness, honesty, and respect for individuals and the environment.

(b)

1. Worker exploitation: Underpaid and often illegal immigrant workers producing leather bags for a fraction of the retail price.
2. Misleading consumers: Marketing their products as ethically produced and of high craftsmanship while allegedly using suppliers that violate labor standards.

(c) The conflict between profits and ethics is illustrated by Armani and Dior's use of suppliers who exploit workers to minimize production costs and maximize profit margins. This practice contrasts with their marketing messages that emphasize luxury, craftsmanship, and ethical standards, misleading consumers about the true nature of their supply chains.

(d) **Short-term consequences:**

1. **Negative Publicity:** Immediate negative media coverage damaging the brand image and reducing sales.
2. **Legal Penalties:** Potential fines and sanctions from regulatory bodies affecting financial performance.

**Long-term consequences:**

1. **Loss of Consumer Trust:** Erosion of consumer trust leading to long-term declines in brand loyalty and market share.
2. **Investor Withdrawal:** Decreased investor confidence and potential divestment due to perceived ethical risks and instability.

(e) Armani and Dior might react to these ethical issues by implementing stricter supplier audits, improving transparency in their supply chains, and terminating relationships with unethical suppliers. They could also enhance their CSR initiatives and engage more actively with stakeholders to rebuild trust. This response can balance profits and ethics by maintaining consumer and investor confidence while ensuring fair labor practices. For workers, this could mean better wages and conditions. However, it might increase short-term operational costs and require significant changes in supply chain management.