



Department of Business and Management

Course: Financial Reporting and Performance Measurement

Implementation of a Corporate Social Responsibility (CSR) strategy  
in the cosmetics industry: the case of Shiseido Group

LUISS Supervisor  
Prof. Francesco Paolone

LUISS Co-supervisor  
Prof. Saveiro Bozzolan

Dauphine Supervisor  
Colette Depeyre

Candidate:

Student No.: 700671 / 21400475

Lucia Cervera Lafita

## Abstract

The increasing importance of Corporate Social Responsibility (CSR) and the strategies used for its implementation in a business model is generating many debates. Due to exponential growth of the market for cosmetic products and the increase of information available to consumers, this polemic is at the heart of many companies in the cosmetic industry. This study analyses the development and implementation of CSR in general and more specifically in the cosmetic industry, providing evidence of the sustainable consciousness that consumers have, as well as a framework to successfully implement a CSR strategy in a cosmetic business. This can only be fully achieved through integrated reporting, which is basic to make the strategic approach holistic and systematic. The case study of a company that has successfully implemented CSR in their strategy and its comparison to two of its competitors, leads to a deeper understanding of the use of CSR in the path for financial and extra-financial performance.

# TABLE OF CONTENTS

<b>Abstract</b> .....	<b>1</b>
<b>1. Introduction</b> .....	<b>4</b>
<b>1.1. Background</b> .....	<b>4</b>
<b>1.2. Definition of scope of the thesis</b> .....	<b>5</b>
<b>1.3. Outline</b> .....	<b>5</b>
<b>2. Theory section</b> .....	<b>6</b>
<b>2.1. CSR and its evolution</b> .....	<b>6</b>
2.1.1. Evolution of CSR.....	6
2.1.2. Carroll’s four-part theory .....	7
<b>2.2. CSR established in the cosmetics industry</b> .....	<b>9</b>
2.2.1. Consumer behavior .....	10
2.2.2. Regulations .....	11
2.2.3. Dimensions of CSR in cosmetics.....	12
<b>2.3. Integrated reporting and performance</b> .....	<b>15</b>
2.3.1. Sustainability and integrated reporting .....	15
2.3.2. Improvement in performance.....	16
<b>2.4. Synthesis</b> .....	<b>17</b>
<b>3. Research section</b> .....	<b>19</b>
<b>3.1. Research Method</b> .....	<b>19</b>
<b>3.2. Research Material</b> .....	<b>20</b>
3.2.1. Quantitative Method .....	20
3.2.2. Qualitative Method .....	21
<b>3.3. Limitations of methods used</b> .....	<b>22</b>
3.3.1. Quantitative research limitations .....	22
3.3.2. Qualitative research limitations .....	22
<b>4. Results and analysis</b> .....	<b>24</b>
<b>4.1. Consumer behavior towards sustainability</b> .....	<b>24</b>
4.1.1. Demographic information .....	24
4.1.2. General consumer behavior for cosmetic products.....	25
4.1.3. Sustainability of the products.....	26
<b>4.2. CSR strategy and Sustainability Reporting</b> .....	<b>33</b>
4.2.1. Building a CSR strategy.....	34

4.2.2.	CSR Strategy for cosmetic companies.....	36
4.2.3.	Mistakes to avoid .....	37
<b>4.3.</b>	<b>The case of Shiseido Group.....</b>	<b>39</b>
4.3.1.	Sustainability at Shiseido.....	40
4.3.2.	Shiseido’s sustainability plan.....	42
4.3.3.	Performance .....	45
<b>4.4.</b>	<b>Other companies.....</b>	<b>47</b>
4.4.1.	L’Oréal.....	47
4.4.2.	Chanel .....	50
<b>5.</b>	<b><i>Discussion and conclusion</i> .....</b>	<b>53</b>
<b>6.</b>	<b><i>Appendixes</i> .....</b>	<b>56</b>
<b>7.</b>	<b><i>Summary</i> .....</b>	<b>60</b>
<b>7.1.</b>	<b>Introduction .....</b>	<b>60</b>
<b>7.2.</b>	<b>Theory Sections .....</b>	<b>60</b>
<b>7.3.</b>	<b>Research Section.....</b>	<b>62</b>
<b>7.4.</b>	<b>Results and analysis.....</b>	<b>62</b>
7.4.1.	Consumer behavior towards sustainability .....	62
7.4.2.	CSR strategy and Sustainability reporting .....	64
7.4.3.	The Case of Shiseido Group .....	66
7.4.4.	Other companies .....	68
<b>7.5.</b>	<b>Conclusion.....</b>	<b>69</b>
<b>8.</b>	<b><i>Sources</i>.....</b>	<b>71</b>

# 1. Introduction

## 1.1. Background

“Corporate Social Responsibility (CSR) is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” *Lord Holme and Richard Watts*.

In the last few decades, we have been able to witness an enormous change in the world. The development of the global culture and the transformation of the way consumers and business act has had a great effect on this change. Although today’s society owes a lot globalisation, and we can enumerate many advantages that come from it, there are also many issues that have risen from such a radical and important evolution. The governments, international organisations, companies and populations are facing the challenge of overcoming the effect of such changes, and urgent solutions had to be found for problems that nobody even think would actually exist.

At the start of mass production and capitalism, the world wasn’t aware of the negative implications that this would have of the planet, its population and society as a whole. From the industrial revolution to the relocation of factories, many steps have been taken to improve the products and the prices offered in the market without thinking of the impact of these actions. The lack of public awareness in the face of these unsustainable practices kept such business models away from polemic debates. At the time, consumers where just happy about the competitive products and prices in the market and didn’t even wonder about the origin or production methods of these products. Governments and regulation agents, on the other hand, didn’t have any legal frame to condemn these new and unregulated practices.

Luckily, the picture has changed a lot in the last few years. The increase in information available and the social and legal pressure in general, have led to the development of a social consciousness. Companies are now expected to deliver socially responsible results, regarding the environment, their employees and the methods used for business. These ethical results are legally and socially required for most companies, and in particular for cosmetic firms, that are putting a lot of effort into the rebuilding a positive reputation among the population. Cosmetic companies have had to adapt to a more responsible new business model and implement a solid CSR strategy, to be able to address the demands of regulatory bodies and customers. Looking at the cosmetic industry is enlightening as it is an industry that has changed enormously in the last years and that has been subject of debate due to controversial matters such as animal testing, harmful ingredients for the consumer or unethical business practices from the sourcing and factories. All of these public attacks on the companies’ reputation have managed to lead the industry towards a more responsible path, having CSR at the heart of their actions. The wave of Corporate Social Responsibility (CSR) has now reached most countries and sectors, and it aims to achieve a morally correct business model that will also contribute to the increase in performance and shareholder value in the long term.

## 1.2. Definition of scope of the thesis

The notion of CSR and the business practices that lead to its implementation have been subject of many studies over the years. There are also previous researchers that have studied sustainability in the cosmetic industry and green-cosmetics, since it has become increasingly popular among consumers. However, there isn't a single study published that generates a generic frame of action for cosmetic companies for implementing a CSR strategy, relying on coherence and integrated reporting, and aiming to achieve an overall financial and extra-financial performance.

The scope that this project covers includes: the understanding of CSR and its development in the cosmetic industry, through past research; literature knowledge on sustainability reporting and performance related to CSR and finally original research on consumer behavior, the implementation of CSR in a cosmetic company to achieve effectiveness and success, based on the study of the Japanese cosmetic group Shiseido.

The first objective is to obtain deep knowledge on CSR, the cosmetic industry and the sustainability practices that this industry has developed. Secondly, to prove increasing importance of CSR for consumers and to link CSR with performance and reporting, which is an essential purpose of this study, as it is only through performance, that the company will be able to fulfill the obligations that it has towards society. Finally, it aims to achieve further plausibility by covering a real-life business case and cross-checking it with some of its competitors.

Overall, the research covers a factual and practical study of consumer behavior and the main mechanisms that cosmetic companies should use to implement their CSR strategy, focusing on the reporting as the main tool to achieve success.

## 1.3. Outline

The thesis is structured in eight chapters. The chapter that follows the introduction is a theoretical study of CSR in the cosmetic industry and sustainability reporting. This chapter provides knowledge on the topic on which the research is based. In chapter 3, the research methods used for the study are presented and explained, as well as the methodology used to collect the data. Chapter 4 reveals the results obtained in the qualitative and quantitative studies, analyzed and interpreted to be useful for future use. Chapter 5 concludes on the findings exposed and provides an overview how the study can be used as well as its limitations and the axis for future research. Chapters 6 and 8 are dedicated to the presentation of the appendixes and the sources used for the research and chapter 7 ten-page summary of the study.

## 2. Theory section

### 2.1. CSR and its evolution

In the reality we are currently facing, corporations are no longer expected to exclusively make profits. Making a positive impact on society, respecting the environment and human right are some of the requirements that consumers, employees and even the law are increasingly demanding from firms. Although these used to be voluntary actions, the increase in awareness and the environmental and social problems that society is facing, have changed that quite drastically. Since it appeared, the notion of CSR has been widely studied; in this section, we will look at the theoretical studies carried on CSR in general, its evolution and its importance in the cosmetics industry, which we will be particularly focusing on later in the research.

#### 2.1.1. Evolution of CSR

It is crucial to have a deeper inside into the development of Corporate Social Responsibility in general and its evolution. The idea of social responsibility might seem like a pretty recent trend, due to the exponential importance that it has gained in the last few years. However, we can come across some authors that started analysing the ethical duty of companies towards the global environment since 1938, and even though the concept has expanded with time, the initial considerations are very similar.

At the begging the attention was primarily set on “the moral/ethical dimensions of individual behaviour in organisations” (E. Joyner & D. Payne, 2002). In their books, Barnard (1938) and Simon (1945) argued that companies should protect the values of the community they’re working with, “beyond the legal limits imposed on them” (E. Joyner & D. Payne, 2002). Later on, Peter Drucker in *The Practice of Management (1954)*, was pioneer in addressing the “social responsibilities of businesses”, leading to a great discussion about CSR. “While he emphatically declared that the organization’s first responsibility to society involved making a profit, he felt it was also most important that management consider the impact of every business policy and action upon society” (Peter Drucker, 1954). Drucker had a fascinating vision about a manager’s responsibility towards the public good and society as a whole, and strongly believed that companies should “advance the basic beliefs of our society, to contribute to its stability, strength, and harmony” (Peter Drucker, 1054).

Values, ethic, morality and CSR, little by little became a central subject of discussion among managers and authors, that coincided in the idea that organisations could no longer have a purely financial objective, but that they should also take part in greater responsibilities. Since then, the evolution of CSR has turned these responsibilities into a social and legal obligation instead of a choice. In 2013, the New Companies Act included the *Clause 135* that obliges companies of a certain value and income to comply with some conditions regarding CSR. For example, these conditions include the constitution of CSR committee and Policy for the company or a contribution of at least 2% of the firm’s net profit to finance the CSR Policy (Nagawat & Singh, 2016).

These are some examples of measures taken in the aim of increasing CSR and the importance that companies give to the implementation of policies that will lead to more sustainable growth. However, legal measures are not the only way to improve the companies' behaviour, the shift in the mentalities, of managers, consumers and governments, has also had a great effect on the obligations of firms, that no longer include shareholders exclusively, but also consumers, employees, the environment, the communities and society. This is the most important and effective path to achieve a sustainable and efficient implementation of CSR among all companies, no matter the sector, the turnover or the size of the company.

### 2.1.2. Carroll's four-part theory

As the researchers weren't able to agree upon a real definition for the concept since the 1950s, B. Carroll published an article giving a more concrete frame to the concept. In the article "The pyramid or Corporate Social Responsibility: toward the moral management of organizational stakeholders, 1991" are described four categories that embody the responsibilities that companies hold, which are economic, legal, ethical and philanthropic (Figure 1). "This set of four responsibilities creates a foundation or infrastructure that helps to delineate in some detail and to frame or characterize the nature of businesses' responsibilities to the society of which it is a part" (B. Carroll, 2016). In the article, he explains how, for the shareholders and directors to be able to understand the importance of CSR and accept it, the concept had to be framed together with the other responsibilities that they were already familiar with. Although the four categories always existed, it is not until the end of the 20<sup>th</sup> century, that companies started taking a real interest in the top components of the pyramid, the ethical and philanthropic one. The initial theory on Carroll's pyramid of CSR was published some time ago, so I will also focus on the author's article from 2016, "Carroll's pyramid of CSR: taking another look", in which he takes a further interest in his previous research and readdresses some of the concepts and gives a more modern view of the theory.



Fig. 1 – Carroll's pyramid of CSR (Source: Carroll, 1996)



### *Economic responsibility*

The base of the pyramid of responsibilities according to B. Carroll, is the economic one, that will allow companies to continue with their business operations. “At first, it may seem unusual to think about an economic expectation as a social responsibility, but this is what it is because society expects, indeed requires, business organizations to be able to sustain themselves and the only way this is possible is by being profitable and able to incentivize owners or shareholders to invest and have enough resources to continue in operation” (*B. Carroll, 2016*). The original concept of business organizations was to provide the society with goods and services and therefore cover their needs. In exchange for this and in order to incentivize it, the business organization were allowed to take a profit, that would allow them to sustain the companies. Unfortunately, “at some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since” (*B. Carroll, 1991*). As surprising as it may be, the fact remains that companies are required to make economic profit if they are to address their legal, ethical and philanthropic responsibilities towards society.

### *Legal responsibilities*

As it is expected, companies have the responsibility to act within a legal frame that will allow them to operate while ensuring that safety and fairness is always respected. The legal requirements that firms have are implemented by the international and local institutions and are constantly evolving to address the new legal complications that might arise overtime. In the last years, compliance officers have gained a crucial position in the organizations to ensure that the legal standards are in line with the general legal requirements.

### *Ethical responsibilities*

In addition to the legal requirements that we have explained above, society has further expectations from businesses regarding their ethical behavior. “Taking on ethical responsibilities implies that organizations will embrace those activities, norms, standards and practices that even though they are not codified into law, are expected nonetheless” (*B. Carroll, 2016*). It also expected that businesses will take fair and objective decisions, acting with good morale, even in situations that are not included in the illegal spectrum. Ethical responsibilities are not always easy to deal with, as the public opinion is often not unanimous, and they can be subject of debate. “The business ethics movement of the past decade has firmly established an ethical responsibility as a legitimate CSR component. Though it is depicted as the next layer of the CSR pyramid, it must be constantly recognized that it is in dynamic interplay with the legal responsibility category. That is, it is constantly pushing the legal responsibility category to broaden or expand while at the same time placing ever higher expectations on businesspersons to operate at levels above that required by law” (*B. Carroll, 1991*).

### *Philanthropic responsibilities*

The idea of philanthropy in a corporation includes any kind of activity or gift that has as unique purpose to help others. This responsibility is not literally an obligation and the corporations that don't undertake such

contributions, will not be labeled as unethical or unfair. Nonetheless, it is considered as a responsibility in Carroll's CSR pyramid, due to the general expectation that society has regarding the business-giving actions that companies undertake, in addition to their daily operations. Participating in charitable projects creates a sense of accomplishment for employees, consumers and even managers, which will be beneficial for the firm. This can sometimes lead to confusion, as most commonly, companies will look to improve their reputation and the public brand image through these gifts, so their actual intentions are not as honorable as it would be expected. This is of course not always the case, but we see that this kind of practices are becoming more and more common, as society becomes more aware and their expectations increase.

The different categories of responsibilities outlined in the pyramid, have of course a different degree of importance, "it could be said that the economic responsibility is "required" of business by society; the legal responsibility also is "required" of business by society; the ethical responsibility is "expected" of business by society; and the philanthropic responsibility is "expected/desired" of business by society" (Carroll 1979, 1991). The more society evolves, the more these responsibilities become essential for the companies to be successful. Nowadays, a minimum step outside the expected practices, can be very threatening to public opinion. For example, any news about unethical behavior or illegal practices will reach all the medias in no time and it will become very complicated to convince consumers, investors or employees of the company's worth and managers have to be very cautious with this.

## 2.2. CSR established in the cosmetics industry

The use of cosmetic products is essential in our day to day lives. As per defined by the European Regulation 1223/2009, a cosmetic product is "any substance or mixture intended to be placed in contact with the external parts of the human body (epidermis, hair system, nails, lips and external genital organs) or with the teeth and the mucous membranes of the oral cavity with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance, protecting them, keeping them in good condition or correcting body odors" (European Regulation 1223/2009).

In the last decade, we have seen how the importance of body image and empowerment of people through beauty has become a central trend in consumer behavior, making them more and more dependent cosmetic products. As expected, the increase in consumption and awareness of consumers when it comes to beauty products has made the cosmetics market become increasingly important; it now represents a market value of 507.8 billion dollars worldwide (Statista, 2020). Moreover, evidence shows that the future expectations for growth in the market are very optimistic for the next 5 years (Figure 2).

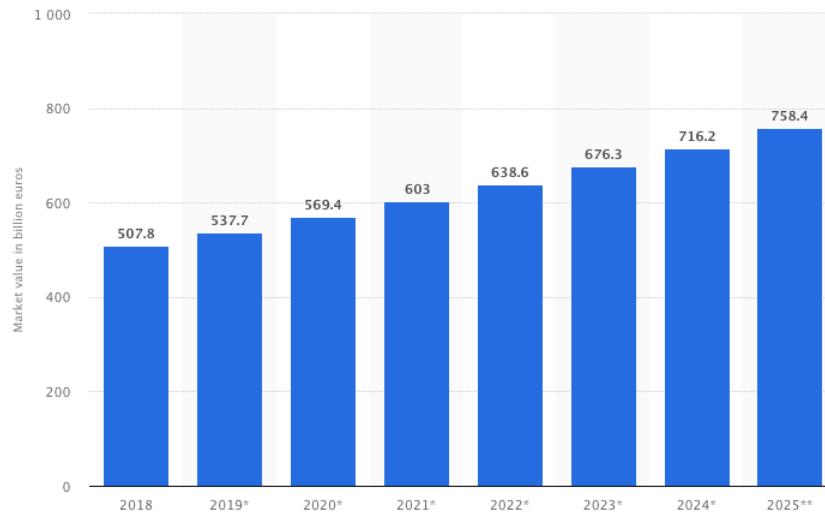


Fig 2 – Predicted growth in the cosmetic market (Source: Statista 2020)

However, as the market grows, its impact on the planet also increases and consumers are aware of this fact. Overall, there are 8 million tons of plastic that are dumped in the ocean every year and due to green gas emissions, global warming has become a critical threat to the planet’s wellbeing and sustainability. Not only marine biodiversity, but also our own lives, are endangered by the consumption practices that humans have had over the last decades and more particularly since the industrial revolution. All of this is communicated through the internet and social media and we can see that a large percentage of consumers have decided to adopt more sustainable habits. The expectations of users as well as the regulations implemented in the cosmetics industry have experienced a drastic shift in the last decade, leading to a change not only in the products, but also in the way that cosmetic companies develop them. In the next section, I will look at the research done on consumer behavior regarding green products in the cosmetic industries, the regulations that also push companies to adopt CSR and the ways that companies can be socially responsible.

### 2.2.1. Consumer behavior

“The growing number of media reports on sustainability raised consumer awareness of environmental and social issues: and, though the primary decision for acquiring cosmetic products still relies on personal preferences, environmental and ethical considerations are becoming increasingly important” (*Liobikiene and Bernatoniene, 2017*). Consumer behavior is the key factor that adjusted the path of the cosmetic industry towards a more sustainable one. As consumers are more aware and conscious about the social impact of the products they are consuming, and the sector becomes more and more competitive, companies are obliged to reach the standards of sustainability that are now demanded. The impact of negative reputation is substantial for consumers, studies showing that one third of consumers recognize to be “seriously concerned” about the ethical behavior of companies (*Marylyn Carrigan & Ahmad Attalla, 2001*). Actually, bad reputation has greater effect on the consumers than positive one, and it is common to see consumers boycotting products that are produced irresponsibly. Now-a-days, it is expected for companies to act ethically and responsibly, more

than being an option, it has actually become a requirement and more particularly in the cosmetics industry, where products are being directly used on the consumers' bodies. According to the study of Guosheng Zhao, not all CSR initiatives will be perceived the same by the consumers, as in some cases it will be seen as "doing CSR business", instead of genuinely acting responsibly. Companies have to make sure that the efforts put towards CSR are not only aiming to improve reputation, as this will be seen as fake ethical actions and echo negatively on the buyer's image of the firm (*Guosheng Zhao, 2012*).

In terms sales, popularity among consumers is key and we can see this in the evolution of the best-selling brands in the industry, "in contrast with the mid-1980s, the best-selling cosmetics brands – Avon, Max Factor and Rimmel – all claim to be 'not tested on animals', as do Revlon, Yardley and Estée Lauder" (Ashok Som, 2017). Som's articles highlight how multinational corporations fail to be controlled by state regulations but are now being influenced by the trend of "green consumerism".

### 2.2.2. Regulations

Although regulations are sometimes slow and have little impact on the behavior of multinational corporations in the cosmetics industry, they still have an effect of on the way that businesses act. The legal frame enforced over the last few years has also been able to influence the cosmetic industry to adopt CSR initiatives and become more sustainable. In Europe, as well on a global level, the regulations that have been implemented in the sector and for CSR in general are highly important for companies.

#### *Europe*

The first directives regarding the cosmetic industry were put into place in Europe in 1976, when the members of the European Economic Community decided to harmonize the regulatory system for the sector, to protect consumers and allow the free circulation of the products inside the community. In 1979, the Scientific Committee of Cosmetology, composed of independent scientific experts, was established to give science-based and transparent advice on the ingredients and their safety. Over the years, this committee has been key in important decisions, such as the substances used for preservatives or UV filters. In 2001, REACH gave a new approach to the chemical's legislation in the EU, instituting the requirement to register on the products "the safety data package and human environmental assessments" (*The Personal Care Association*). REACH is considered to be "the most important piece of environmental legislation for the substances used in cosmetics" (*The Personal Care Association*). In 2003, the animal testing ban for cosmetic ingredients was reinforced and a hazard-based ban was implemented on the products containing chemicals that were prohibited in the previous legislations.

In 2009, the new cosmetic regulation is engaged, "changing the legal form from a Directive to a Regulation" (*The Personal Care Association*). Due to this change, countries no longer had to integrate the directives in their national legislations, but the regulations are directly applied to all EU members. In 2013, animal testing was fully banned, also forbidding products containing ingredients that were tested on animals.

### *United States*

In the United States cosmetics and their regulations are a whole lot different. According to studies, the sector has been avoiding strict regulations for over a century now. Of course, health concerns are rising, and in 2018 the FDA decided to start inquiring on the matter by “conducting its first survey of cosmetics companies’ safety and manufacturing practices” (Priyanka Narayan, 2018). At the moment, the only regulations that affect the industry come under the Federal Food, Drug and Cosmetic Act, dating from 1938. The act’s main focus is on the regulation of misbranding or falsely packaging products; however, the fake use of the organic tag is not actually considered as a fault. The industry is nearly completely self-regulated through the Cosmetic Ingredient Review, an independent body promoted by the industry that is trusted to keep the consumers safe. However, the body doesn’t have any actual authority over bad actors, and it fails to deliver the necessary results. At the moment, the issue becomes increasingly important, as some products, imported from China and distributed at a low price, are reaching the hands of young consumers with no awareness and threatening their well-being and even their lives.

### *Global*

At the moment, we can see that there are no international regulations common to the whole world regarding the cosmetics industry. In 2018, the issue was discussed by the European personal care product association, in the Cosmetics Europe's annual conference, where it was agreed that attaining regulatory harmonization in the sector was a significantly important goal in the long term. As Europe is a fundamental player in the market for cosmetic products, its regulations are a flagship; they are seen as a model for non-EU countries and could be instituted as a “global standard”. As for the forecast of this matter for future years, Humphreys, chair of the “international executive committee at the Washington DC, US-based Personal Care Products Council (PCPC), said: "We'll undoubtedly see greater convergence over the next five years, with more degrees of similarity than today, most notably in India, the US and, ultimately, China," where there is "much more work to be done"" (Liz Newmark, 2018).

#### 2.2.3. Dimensions of CSR in cosmetics

There are many dimensions in which a company can act in terms of CSR and sustainability in the cosmetics industry. All the efforts have the ultimate goal to achieve a lower environmental and social footprint from the products sold, in terms of ingredients, packaging or production. Also, companies often reinvest some of their profits into philanthropic activities that will help society.

### *Sustainable and ethical ingredients*

The ingredients used are part of an important aspect that affects the products' sustainability and ethical nature. Because of the consumer's influence and demand, the ingredients used in the products have to be looked at with a lot of detail and care. The ingredients can be certified with different labels considered sustainable and/or ethical, however there is a certain level of uncertainty about the ingredients that don't always fulfil all the certification requirements. The labels that are most popular for ingredients are cruelty-free, vegan and organic. The palm oil free label, which is very recurrent in the food industry, can also be used in cosmetics but isn't as common as the others. Cruelty-free ingredients are the ones that haven't been tested on living creatures during the development process. Vegan products, which are well known due to their uprising trendy effect, are the ones that don't contain any animal ingredients. As per natural and organic, these products "do not contain any GMOs, manufactured herbicides, artificial fertilizers, artificial or synthetic colors, preservatives or chemicals" (*Sustainable Jungle*). Finally, the palm oil free products, don't contain this oil or any of the derivatives that may indulge in the environmental harm caused by its production and consumption. Brands claiming to be using truly sustainable and ethical ingredients should actually tick a maximum of these ethical requirements, as contradicting the different labels might be seen as lacking coherence. In terms of sustainability and ethics, a vegan product that is tested on animals and therefore not cruelty free or has used chemicals and palm oil, could be seen as fake ethics used for marketing purposes, having a negative effect on the success of such products and the brand itself.

### *Ethical sourcing*

The sourcing of not only of ingredients, but also other materials to develop and produce the final product, is also a key aspect that should be considered by the businesses' CSR. "A brand that is committed to ethical ingredient sourcing is one of the single most important signs of a sustainable and ethical company" (*Sustainable Jungle*). In order to ensure sustainable sourcing, the company must have a thorough monitoring of the supply chain processes and the provenance of the materials from external suppliers. This is a difficult activity for companies and it requires a great engagement. For the sourcing to be ethical, a few requirements need to be satisfied: the price paid for the raw materials should be fair and the suppliers should be "committed to positive environmental and social impact and providing safe working environments" (*Sustainable Jungle*). For some products, the fair-trade mark ensures the ethical sourcing of their ingredients, from small-scale farmers from more than 50 different countries. In the beauty industry, the number of fair-trade products has increased and there are now more than 150 products that can be found in different retailers online and offline. SpendEdge, an important global procurement and sourcing intelligence advisory firm, issued a report that listed the main advantages that ethical sourcing brings to companies. In the first place, through ethical sourcing, companies are sure to comply with the regulations imposed by regulatory bodies and avoid entering in any kind of legal conflict. They also mention, that ethical sourcing has a positive impact on the brand's value and therefore improves the reputation of the company, not only for customers but also employees.

## *Packaging*

One of the main environmental issues the planet is facing concerns the production of waste by the population. According to National Geographic, “The amount of plastic packaging on U.S. products (not just on personal care items) has increased by over 120 times since 1960—with almost 70 percent of that waste piling up in landfills. Globally, the packaging industry for beauty and personal care products, which primarily reflects plastic packaging, makes up nearly \$25 billion in sales” (A. Borunda, 2019). It is for this reason, that being conscious about packaging and trying to reduce waste is now a particularly important challenge for companies that are socially responsible. At the moment, it is very difficult to attain zero waste in the packaging of cosmetic products and this option is not broadly accessible in the market. For brands that want to develop packaging options in line with an ethical CSR strategy, it is usual and strongly recommended to use recycled materials such as glass or aluminum in the packaging. Also, it is now becoming more common to find options with a packaging that is reusable and many brands are starting to propose refill stations for their products. Brands in the sector are constantly working on new packaging options to reduce their carbon footprint and the excess of non-recyclable materials in their products.

## *Production processes*

As important as the sustainability of products and their origins may be, it is also crucial to ensure that the products are being produced in an ethical and sustainable way. The way that offices and factories are run can have an immense impact on the environment and society. The waste and resource management policies have to be well thought and strict measures should be in place to ensure that the negative impact from their production is as little as possible.

Some companies such as L’Oréal, committed in 2005 to reducing water consumption in their sites by 60%, minimizing it’s used to a “needs-only basis” and implementing a water reuse and recycling project all over the world. The use of energy should also be monitored, companies should purchase the energy used from sustainable suppliers, if possible from renewable sources, like solar or wind energy.

As well as resources, the production sites have to comply with the ethical standards of labor, even if the production takes place in countries with a lack of regulations protecting the workers. Companies have to ensure that the employees working in factories are paid fairly and working in a safe environment.

## *Philanthropic actions*

Finally, companies with a well-developed CSR strategy should also put in place some philanthropic actions, reinvesting some of their profits into society. Philanthropic actions don’t necessarily have any direct link with the products produced by the company and this is the dimension of CSR that companies have the most trouble identifying as strategic. However, the philanthropic dimension of CSR plays an important role in Carroll’s definition of the concept and it shouldn’t be put aside because “the effect of philanthropy is indirect and hard to evaluate” (Namin Kim, EuiSik Chob, Youngchan Kim and Moonkyu Leec, 2011). The use of corporate philanthropy actually has an undervalued positive effect on the brand’s reputation and image, creating a certain

shift in the minds of consumers. There are scholars, such as Namin Kim, EuiSik Chob, Youngchan Kim and Moonkyu Leec that have studied the way that companies should strategize their corporate philanthropy to make the most of it. In their article “Developing an effective strategic mix of corporate philanthropy”, they explain that the choice of such activities shouldn’t be left to hazard, but rather closely selected to make sure that the activities are well “fit” to the brand’s culture and long-term objectives. This is done by helping the causes that are most meaningful for the largest segment of customers. Some examples of cosmetic brands that have undertaken philanthropic activities are L’Occitane, with their solidarity balm supporting women leadership initiatives in Burkina Faso or Garnier, that partnered up with UNICEF and donated a part of the product’s benefits to help educate children in emergency situations. These are only two examples, but there are many others from brands that want to support society by giving a part of their sales to necessary causes.

## 2.3. Integrated reporting and performance

### 2.3.1. Sustainability and integrated reporting

“A broad array of stakeholders are continually demanding companies to provide transparent disclosure on multiple dimensions of economic, social, and environmental performance (*Logsdon and Lewellyn 2000; Rasche and Esser 2006*), commonly known as sustainability reporting” (*Irene M. Herremans, Jamal A. Nazari & Fereshteh Mahmoudian, 2016*). This represents a large step that many companies have started to take towards sustainability and is used as the major tool to assess and communicate on the sustainability efforts and progress of the firms (*Rodrigo Lozano, Benjamin Nummert and Kim Ceulemans, 2016*). Sustainability reports are issued by companies in the aim of putting forward the impact of their activities on society and the environment, as well as spreading their values and their management ethic. KPMG conducted a survey to the 250 largest multinational companies worldwide, that showed that the percentage of those companies that produced a sustainability report had increased from 35% in 1999 to 93% in 2013 (*KPMG, 2013; Rodrigo Lozano, Benjamin Nummert and Kim Ceulemans, 2016*). Also, the Global Reporting Initiative (GRI) has developed, and updated over the years, the general guidelines that are most commonly used for sustainability reporting and it counts with 14,541 organisations and 61,274 reports in their Sustainability Disclosure database (*GRI, 2020*). Legally speaking, many governments have already started to put into place regulations that promote sustainability reporting and the transparency of public information. In the EU, companies with more than 500 employees’ knowns as “public interest entities”, will be required to release reports “on environmental, social and employee related, human rights, anti-corruption and bribery matters” as well as information on their business model and policies. This “directive introduces measures that will strengthen the transparency and accountability of approximately 6000 companies in the EU” (*European Union Directive*). In France, the law of “duty of vigilance” was implemented in 2017, to create a legal standard that the parent companies had to demand to their subsidiaries and suppliers. It creates an obligation for French companies to elaborate, publish and put in place measures that identify and prevent the risks linked to human rights,



fundamental freedoms, health and safety of people and the environment (*The Law of Duty of Vigilance, 2017*). This model is being studied and taken as example for other countries going in the same direction, according to Beatrice Madeline, for “Le Monde”, this law will surely be extrapolated to the European Parliament and could even reach the scale of the United Nations. This is only the start to achieve the wider objective of smart and sustainable growth of businesses, improving society as a whole and protecting the environment.

On the other hand, the more recent practice of “Integrated reporting — the combination of a company’s financial and nonfinancial performance in one document — is a crucial step to creating a more sustainable society. It has started to be practiced around the globe by companies as varied as Philips, Novo Nordisk, PepsiCo, and Southwest Airlines” (*R.G. Eccles & D. Saltzman, 2011*). Although sustainability reporting has a larger history than integrated reporting, now-a-days they are both closely linked, and sustainability reports have started to be part of a wider integrated report that includes not only the company’s financial performance, but also their non-financial achievements. “The Danish company Novozymes, whose core business is industrial enzymes, microorganisms, and biopharmaceutical ingredients, is generally considered the first company to issue an integrated report, which it did in 2002” (*R.G. Eccles & D. Saltzman, 2011*). After this, many other companies followed between the years 2004 and 2008, including United Technologies, who was the first company in the US to take the initiative of producing an integrated report. In fact, the companies that were pioneer in the issuing of integrated reports were very different in terms geography and sector. However, what they all have in common is the fact that they decided to take a step further in the implementation of CSR, due to their common interest in sustainability issues and their wish to ensure that CSR was a part of their business strategy. At first, Integrated Reports were known as One Reports, and there was no literature issue about the theory behind this practice. However, the practical use of integrated reporting was progressively followed by many literature pieces that analyse the use, issues and implications for companies and society of the use of this new method of reporting. Among these implications, we can count important benefits that can be separated in three classes, internal benefits, external market benefits and regulatory risks benefits. On one hand, internal benefits are related to stakeholder’s engagement and reputational risk; on the other hand, external market benefits, such as satisfying mainstream investors, being present in the sustainability indices and much more. Moreover, these companies will also be prepared to deal with the future regulations concerning sustainability, as well as take place in their actual development and implementation (*R.G. Eccles & D. Saltzman, 2011*).

### 2.3.2. Improvement in performance

It is undeniable that a businesses’ principal mission is to be profitable and to produce and offer the most competitive products to consumers. Therefore, it is necessary to analyse how CSR affects a company’s performance and profit in the long run. In general, it is commonly thought that acting with social responsibility is incompatible with a company’s ultimate goal of profit making. “The marketplace puts one’s convictions to the test. A business is not a philanthropy, social aid service or school. And if it tries to be all things to all

people, it won't be able to fulfil its mission" (Vaughn, 1997). This polemic debate has motivated the development of many studies and researches that seek to understand if the relationship existing between CSR and financial performance is negative or positive. Unfortunately, the results of such studies don't all reach the same conclusions, as some argued the positive relation, others defend that there is a negative correlation, or even none at all. Nonetheless, most studies, have succeeded in proving that good ethics is the best possible path to good business and more particularly a sustainable business. "In effect, socially responsible corporate action is increasingly argued to be a prerequisite for protecting the bottom line and boosting shareholder value" (Epstein & Rejc-Buhovac, 2014). Although implementing a strong CSR policy can incur in additional costs for the company, it is known that it will also contribute to satisfying shareholders, which is one of the main goals of any company. "If managed properly, CSR will not only improve the satisfaction of these stakeholders but also lead to improved financial performance" (Aver & Cadez, 2009). "For example, satisfied employees will be more motivated to perform effectively, satisfied customers will be more willing to make repeat purchases and recommend the products to others, satisfied suppliers will provide discounts, etc." (Galant & Cadez, 2017).

The measurement of financial performance has been done for a very long time now, therefore there are very thorough indicators that will give a clear image of a firm's financial situation. These indicators can be based on accounting, on the market or on both factors. Despite some inevitable limitations that could bias the results, the approaches used are fairly reliable and standardised according to sectors and characteristics. However, the effect of CSR can be more difficult to measure, due to the ambiguousness and subjectivity of its definition and dimensions. "Due to the lack of consensus and complexity of the concept, it is not surprising that many different approaches have been used in the literature to measure CSR" (Galant & Cadez, 2017). The different measurement methods include reputation indices, content analyses and questionnaire-based surveys. On one hand, reputation indices are issued by rating agencies and they measure the company's reputation with public data available and information of management – this is particularly useful for big companies that disclose a lot of information about their business strategy and performance. The reliability of the different indices is uncertain, but MSC KLD 400 social index and Fortune magazine reputation index, are among the ones considered the most complete and trustworthy. However, this reliability strongly depends on different factors, such as the firm's sector, country, size... Content analysis, on the other hand, focuses on the constructs of interests, "codifying qualitative information to derive quantitative scales that can be used in subsequent statistical analyses" (Galant & Cadez, 2017). Questionnaire-based surveys are the last resource, when no other CSR measurement information is available, and it relies on public opinion about the ethical and environmental behaviours of the company.

## 2.4. Synthesis

The objective of the theoretical research done on the subject of CSR and more particularly its importance in the cosmetic sector was achieved through the study of different literature pieces published over the years. As

the matter has been widely studied, the research allows to get a better understanding of CSR, its evolution and the way that it found its way into the cosmetic industry. Although the opinions exposed on the subject are different and the researchers haven't always agreed on a single conclusion, there are some points that seem important to accentuate for the purpose of supporting the research that will then be exposed.

Since the beginning of the research on CSR, in 1938, scholars weren't able to agree upon a single definition for the concept. It is in 1991, that the contribution of Carrol's research and the pyramid of CSR, started giving a more explicit frame to the idea of CSR. However, the evolution of CSR has been great, and it is still happening at the moment: there are many things that have changed since it started and many that will continue to change, gaining more and more importance, regardless of the sector. With this evolution, it is true that the concept is still unclear, however, something that everyone can agree upon is the fact that it has become an essential practice among multinational firms as well as smaller companies.

In the cosmetic industry, the main factors that have contributed to the development of CSR are public opinion and consumer demand, as well as regulatory bodies that are becoming increasingly strict regarding cosmetic products, making sustainability a key concern for the sector. The literature pieces on regulations and sustainability in cosmetic firms analysed in the theoretical section are fundamental to develop the knowledge needed to be able to understand the findings of this study.

However, in terms of business, there are some factors that might seem unclear to succeed in the implementation of CSR. Past researchers have dedicated a number of resources to the development of theories on sustainability reporting, integrated reporting and the link of CSR and financial performance. Although the opinions are not always aligned, there are many studies that have provided proof for the theory that acting sustainably will eventually impact the performance of companies in a positive way. From these literature pieces, the most important piece that should be retained is that "Integrated reporting — the combination of a company's financial and nonfinancial performance in one document — is a crucial step to creating a more sustainable society. It has started to be practiced around the globe by companies as varied as Philips, Novo Nordisk, PepsiCo, and Southwest Airlines" (*R.G. Eccles & D. Saltzman, 2011*).

The whole research section that will now be presented relies upon the theory that CSR, achieved through sustainability reporting and even more through integrated reporting, is an essential advancement that companies need to achieve if they want to make sure that their performance is on top of its game financially as well as ethically.

### 3. Research section

#### 3.1. Research Method

The research methods for data collection in Business Administration are very vast and they can be grouped into two main categories, which are quantitative methods and qualitative methods. The quantitative methods are expressed as numerical data, that can be quantified in graphs, they are used to test and compare the data collected about a theory, through the opinion of certain population. On the other hand, qualitative research centers on detailed information provided by a person, that shared their specific view and knowledge on concepts, thoughts and their own experience on a certain topic. In order to choose the methods that are more suitable for a research, it is important to compare and analyze the advantages of each one of them and then retain the methods that are more adapted to the topic.

Qualitative research: A focus on text	Quantitative research: A focus on numbers
Action research	Surveys
Case study research	Laboratory experiments
Ethnography	Simulation
Grounded theory	Mathematical modelling
Semiotics	Structured equation modelling
Discourse analysis	Statistical analysis
Hermeneutics	Econometrics
Narrative and metaphor	

Fig. 3 – Comparative of qualitative and quantitative research (Source: Myers, 2008)

In the case of this research, a mixed method research has been made, which is the combined use of quantitative and qualitative methods in a single study. According to researchers R. Cameron and J. F. Molina-Azorín this mixed method wasn't as widely popular in the field of Business and Management as in Education, Sociology, Psychology and Health Sciences. However, there has been an increase in the literature that proves the success of this more complex research method in Business and Management studies. In fact, the results of their “study point to a growing use of mixed methods in applied postgraduate business and management research. The authors anticipate major shifts in the teaching of research methods and the building of research capacity in applied business and management research in the future” (R. Cameron and J. F. Molina-Azorín, 2011).

My intention through the quantitative research was to analyze the sensitivity of customers towards the different dimensions of CSR, mentioned in the literature review. Testing the purchase intentions on a wider set of population would provide evidence of the importance of CSR initiatives, not only in the most evident aspects, but also in ones that are least used, such as philanthropic activities. This quantitative research was important to make a point on the relationship between the CSR implementation and the increase in sales and financial

performance of companies. In addition, I wanted to conduct qualitative research on the topic, to get a better understanding of the way that Shiseido had implemented their CSR strategy, the way that it had affected their performance and also, compare it to the competitor's approach.

## 3.2. Research Material

### 3.2.1. Quantitative Method

The data for the quantitative research was assembled using an online questionnaire with questions about the awareness and sensitivity of customers towards the sustainable and ethical dimension of their cosmetic products. As surveys are one of the most effective methods to obtain relevant data for a research paper, I gathered a series of questions and collected the answers with the aim of analyzing the results. According to Guosheng Zhao's research, questionnaires are a useful tool to obtain the individual opinion of the respondents on the research topic. These opinions will then be suitable to make a quantitative analysis based on a fairly vast sample. A well-designed survey should consider various essential factors. In the first place, depending on the population sample to be interrogated, the terminology should be adapted. In the case of this research, the survey was addressed to any English-speaking individual, no particular knowledge on CSR was necessary, therefore the wording used was simple and didn't include any technical words regarding the topic. The importance of language for an online survey shouldn't be underestimated, as in some cases the confusion of the respondent can lead to inaccurate answers. The terms used should also be clear and simple to understand for non-native speakers that will answer the survey, which in this case, represented the vast majority of them. Secondly, the questions should be well structured and have a coherent development throughout the survey, making it easier for the respondent to answer logically and as accurately as possible. Also, this will help in the analysis to be able to draw conclusions from the answers. Finally, the questionnaire should have an introduction explaining the topic and the objectives of the research. This foundation will establish a direct link with the population and engage them in the research.

For this study, the survey first included questions to collect information about the respondents, which is important to understand the characteristics of the population and analyze them. This demographic information was, for example, the gender, the age, the nationality and the familiarity of the respondent with cosmetic products in general. This information provides an overview of the population and variables such as age or gender can have an enormous impact on the consumption habits of people and their sensitivity to sustainability. After that, there were questions that tested how conscious the respondents were when purchasing cosmetics products. The questions followed the dimensions explained in the literature review: sustainable and ethical ingredients, ethical sourcing, packaging, sustainable production and philanthropic activities.

The main purpose of this survey was to understand the factors that impacted most consumers when shopping for cosmetic products and how much importance is given to the sustainable dimension of the brands they purchase.

The questionnaire for this study was distributed through email, phone and social platforms, from April 19<sup>th</sup>, 2020 to April 26<sup>th</sup>, 2020. The total number of respondents was 161. The full questionnaire can be found in the Appendix 1.

### 3.2.2. Qualitative Method

For the purpose of this work, it was also highly important to obtain qualitative information from experts in the field of CSR. “Qualitative research methods are designed to help researchers understand people and what they say and do. They are designed to help researchers understand the social and cultural context within which people live” (*M. D. Myers, 2008*). This kind of research is, according to M. D. Meyers, “the best way of research in business and management to become both rigorous and relevant at the same time”. When looking at the CSR strategy of companies and studying the case of Shiseido, it is important to understand what happened and how it worked in reality, getting the insights of professionals that were directly implicated in such projects. That is why, the interviews made for this study engaged directly people at Shiseido and other organizations as well as experts in the sector. Through their experience, I will be able to analyze the different ways that companies implement their CSR strategies, drawing some conclusions and setting a personal perspective on the matter, that will help managers, entrepreneurs, policy makers and future researchers on the topic of CSR.

Designing the qualitative research method was the starting point of this study. “All qualitative researchers need to decide how they are going to investigate the social world. How are you going to answer your research questions? For example, do you need to study organizations in the public sector, consumers, or managers? Do you want to study one case or many?” (*M. D. Myers, 2008*). All of these questions were very helpful in order to determine which information would be most useful to answer my research question and therefore which people I had to interview. Therefore, I decided to base this research on the case study of a private company, Shiseido Group, one of the main cosmetic groups in the world. For this case study, the interviews were addressed to people that were implicated in the developed or implementation of the CSR strategy in the group. Also, in order to obtain some further knowledge on the topic of integrated reporting, I interviewed an expert in CSR and sustainability reporting and finally for the purpose of comparison of the strategy against its competitors I also interviewed some professionals from the group’s competitors, L’Oréal and Chanel. In the table below, are the details of the professionals that participated in this qualitative research:

Name	Position	Connection	Interview time
Interviewee 1	Sustainability Project Officer EMEA at <b>Shiseido</b>	Work colleague	45 minutes
Interviewee 2	Eagle Project Manager RHQ Finance at <b>Shiseido</b>	Work colleague	45 minutes
Interviewee 3	Merchandising Supervisor at <b>Chanel Spain</b>	Work colleague	60 minutes
Interviewee 4	CSR/Sustainability expert and Senior Consultant at <b>ITG Group</b>	LinkedIn contact	75 minutes
Interviewee 5	Global Communications and Event Project Manager at <b>L'Oréal</b>	Master alumni	60 minutes

Finally, I was able to assist to Givaudan's "Be.Do.Feel.GOOD" Webinar. Givaudan is a Swiss company producing scents, perfumes and ingredients for cosmetic products, the biggest in the sector since 2007, it supplies scents and perfumes to some of the most prestigious brands in the cosmetic sector. Since a few years, they have taken an interest in clean beauty and they discussed it during this very interesting Webinar.

### 3.3. Limitations of methods used

#### 3.3.1. Quantitative research limitations

Regarding the quantitative research, there are some research limitations of the results that have to be considered in this study. The survey was completed by a fairly vast sample of population, 161 people. However, the geographical origin of the respondents was mainly France and Spain. In the aim of obtaining more accurate results, it would be appropriate to question a wider population, in terms of geography. Also, 82% of the respondents were aged between 18 and 25 years old and belonged to the generation Z (from 1995 to 2010), therefore it's expected that their consciousness towards sustainability is higher to the one of older consumers, that might be less familiar with the trend of sustainability. Finally, the income conditions of the respondents should also be examined, as "accurate knowledge of product features, credible information to consumers, and deliberate education of consumers play an important role in decision-making" (N. Amberg and C. Fogarassy, 2019).

#### 3.3.2. Qualitative research limitations

As all the research methods that exist, the qualitative research in the study can also have some limitations, as the number of people interviewed is limited and they couldn't always provide the desired answers or the right

person to answer is not available. In fact, the qualitative research method has very many advantages, but the main disadvantage is that it is not always possible to reach the person that will give you the most pertinent information. For example, in the case of this study, it would have been very enlightening to share with the person in charge of producing the worldwide sustainability report for Shiseido group, as well as professionals with positions closer to the sustainability department in the headquarters of the competitor's studied. However, these people have very many responsibilities and it's very difficult to get in touch with someone in such power positions. For this reason, it important to bear in mind the fact that the knowledge acquired through this qualitative research could have been greater if the people to be addressed were available for interviewing.



## 4. Results and analysis

### 4.1. Consumer behavior towards sustainability

In the aim of getting a better understanding of the importance that consumers award to the sustainable dimensions of their beauty products, I conducted a survey. This survey tested the consumers with different questions regarding their consumption habits for cosmetic products and their sensitivity to various facets of sustainability, identified in the literature review. With this information, we will be able to draw some conclusions on how important it is for companies to make their products and their practices more sustainable. Also, we will see the impact it will eventually have on their perception of brands and therefore their likeliness to consume products from these brands. This will ultimately affect the total sales and the performance of a business.

#### 4.1.1. Demographic information

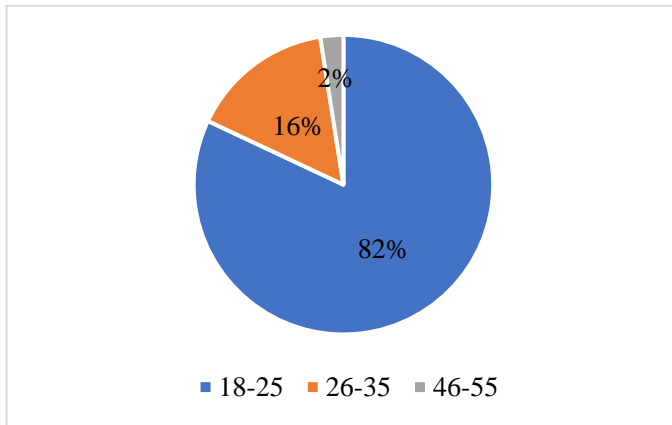
The demographic information, about the gender, age and nationality was important to collect to get more knowledge about the people that were answering the survey and their habits. We expect the consumption habits and consciousness to be different according to the age-group and nationality, so analyzing this is an important task as well.

The total number of answers received to this survey was 161. Out of the respondents, 147 were women and 14 were men (this represents 91.3% women vs 8.7% men). The survey was answered by a lot more women than men, however, this doesn't seem like an issue, as, at the moment, the most common consumers in the cosmetic industry are women, according to the survey, 71% of the men that answered considered themselves as rare consumers of cosmetic products, while for women only 33% consumed cosmetic products rarely. It is for this reason that having a greater number of opinions from women is actually relevant in this case.

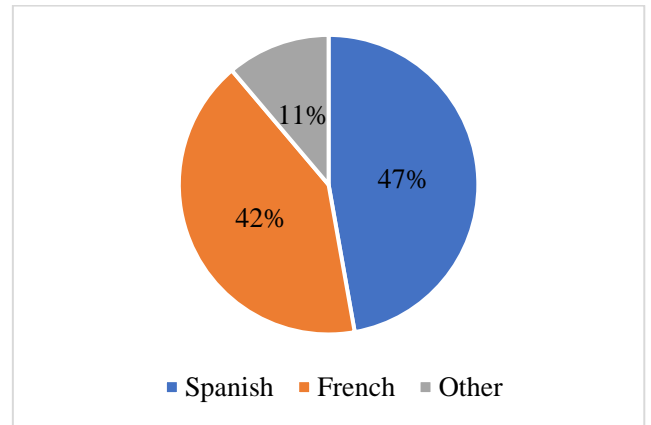
The age distribution of the respondents was also uneven, as the majority (132 respondents) were aged between 18 and 25 years-old, which represents 82% of the answers. The rest of the respondents were mainly aged between 26 and 35 years old (25 respondents) and finally, a small number of respondents was aged between 46 and 55 years-old (5 respondents).

Nationality was also an important factor, most of the respondents are from Spain (47%) or France (42%): There were also answers from other many nationalities that count for 11% of the total, these included for example Chinese, Italian, Dutch, American...

In the graphs below, you can appreciate the distributions in the categories of age and nationality.



*Question 2: How old are you?*



*Question 3: What is your nationality?*

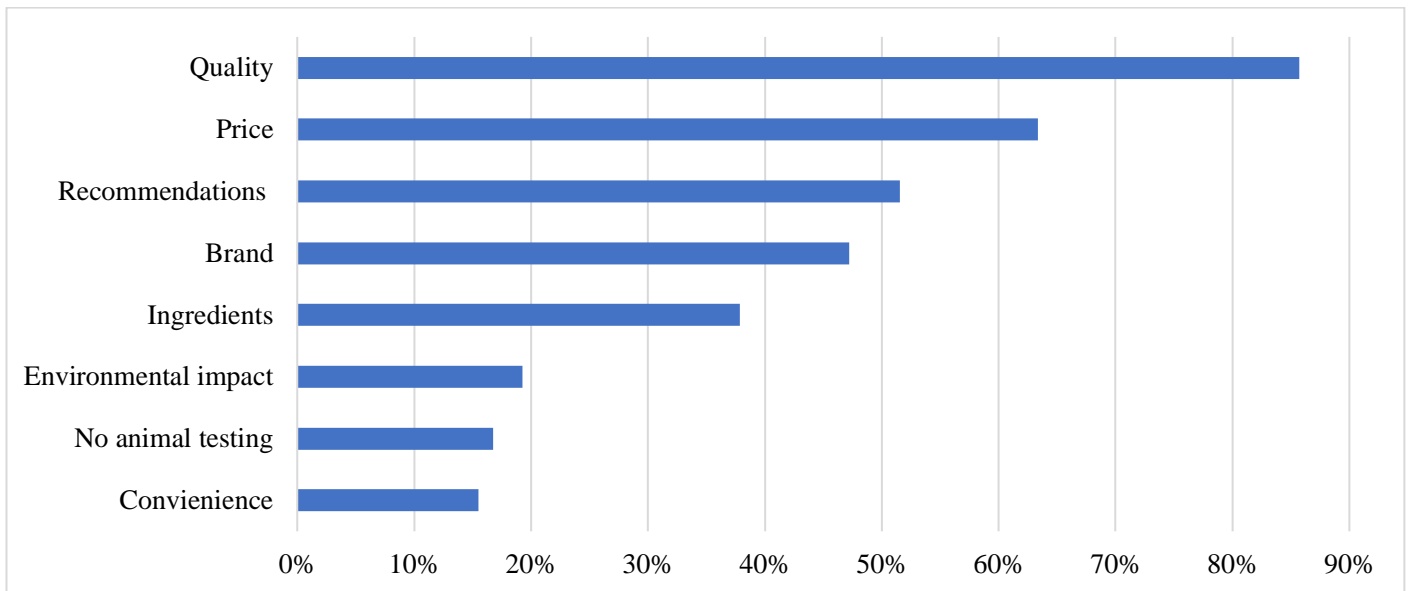
#### 4.1.2. General consumer behavior for cosmetic products

Afterwards, the respondents were questioned about their usual consumption habits for cosmetic products. These questions were used to identify how many of the respondents are usual consumers, what is the kind of products they consume most. Finally, they shared their opinion on the most important factors that influenced their purchases.

For 161 people that answered, 25 of them said they consumed cosmetic products “very frequently”, representing 15.5%, 78 said they consumed this kind of products “frequently”, representing 48.4% and finally 58 did it rarely (representing 36%). No respondents considered they didn’t consume any cosmetic products at all. When looking at the age of the consumers and the frequency of consumption for cosmetic products, I didn’t perceive any specific pattern, it was relatively aleatory. I expected to see that consumers increased the consumption of cosmetic products with age, due to higher purchase power, however, it wasn’t the case at all and this appeared to uncorrelated.

As per the products consumed, the most commonly purchased are skincare products, which 72% of the respondents consumed, followed by make-up, for 63.4% of respondents and finally fragrances that are consumed by 40.4% of respondents.

In question number 6, the respondents were asked to determine the factors that they considered the most when purchasing cosmetic products and the results showed that the quality, the price and the recommendations were the most popular factors. In the graph below, all the results are listed.



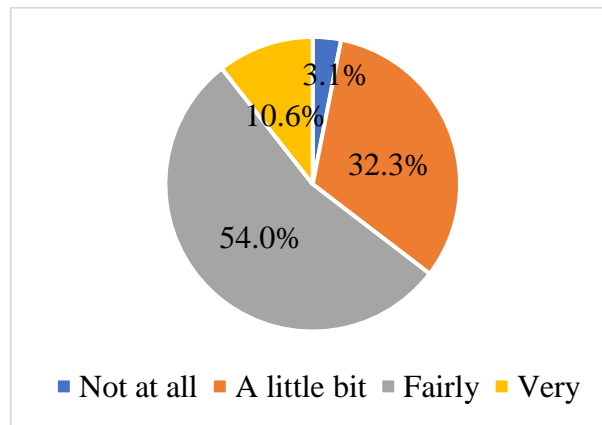
*Question 6: When choosing cosmetic products what factors do you consider most?*

This graph is very enlightening to understand what are the factors that will impact most consumers in their behavior. For any product, it is essential to bear in mind that quality, price and recommendations are the factors most impactful for consumers, therefore any brand that produces cosmetic products has to ensure that their products are high quality, have a decent price and that the results will lead to consumers recommending it. For a decent number of consumers, other factors such as the brand, the ingredients used or the impact of the product on the environment would also affect their purchase behavior, however for the vast majority, these clean attitudes will not actually ensure a sale, unless the main conditions of quality, price and recommendations are fulfilled. This is an important thing to consider for the development of products that are sustainable, as sustainability is not the only constraint.

#### 4.1.3. Sustainability of the products

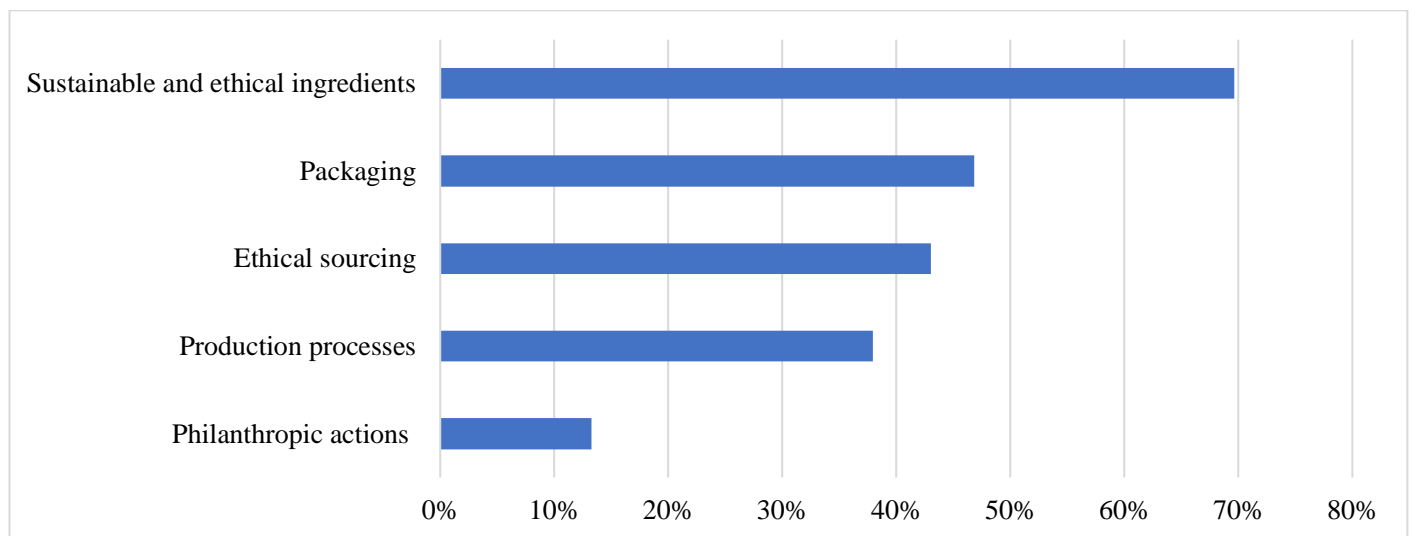
In this section, we will analyze and interpret the results from the questionnaire regarding the sustainability of cosmetic products, as well as the companies that produce them.

As introduction, the respondents were asked two brief questions about their general sustainability consciousness and the ecological and ethical aspects of the products they considered most important. In general, the majority of the respondents, 54%, consider themselves as “fairly” conscious about sustainability. For the remaining, there were 10.6% of the respondents that are “very” conscious, 32.3% that are “a little bit” conscious and only 3.1% that are “not conscious at all”. This data is important to be able to see the approach that these different categories of consumers will have towards the sustainability options that will be studied from other questions.



*Question 7: How ecologically conscious are you?*

Finally, the respondents were questioned about the aspects that seemed the most important to them, from the dimensions of CSR that were identified earlier in the study, during the theoretical research. From these different dimensions of CSR practices, the one that was more important for the respondents was the fact that the ingredients were sustainable and ethical, selected by 70% of them, followed by the packaging selected by 47% and ethical sourcing that was an important factor for 43% of the people that answered.



*Question 8: What are the most important ecological and ethical aspects of a product to you?*

We should note that not all respondents were fully familiar with the initiatives that corresponded to each of these terms, as I was questioned in multiple occasions on the real meaning and the actions that took place behind some of the dimensions.

We will now look further into the consumer's opinions and perception of the different dimensions of CSR that companies can put into place, the aim is to understand which are the most important to develop and what impact they will have on the consumers' behavior.

### *Sustainable and ethical ingredients*

The sustainability of the ingredients used for the conception of the products seems to be a factor that particularly concerns the consumers, which is not surprising as the products are all destined to be applied on their skin or bodies. In fact, the importance of this factor is not only due to the sustainability itself, but unconsciously also to their own well-being, as sustainable and ethical ingredients are perceived by the consumer as better for their health.

The first question that was asked concerned the real interest that consumers take in the ingredients that are present in their products. Now-a-days, most people are used to looking at the ingredient list for their food and actually, the same trend is starting to spread among consumers when purchasing cosmetic products as well. When questioned about this, 23% of the respondents claimed that they always looked at the ingredients before purchasing a cosmetic product, 49.1% do it sometimes and finally 28% never look at the ingredients.

As we can see, the vast majority of the respondents, 72.1%, would look at the ingredients in their cosmetic products at least sometimes. Out of these respondents, 75% of them had included sustainable and ethical ingredients in their top priorities when it comes to the sustainability of their products, in the previous question. It is through this simple information, that we can see how important it is for consumers to know that the ingredients in their beauty products are sustainable and ethical and that most consumers will actually verify this information.

Ingredients, however, can be quite tricky to manage for cosmetic products. In many cases, as animal testing or containing animal ingredients, it is straight forward and simple, but in many other cases, for example when it comes to natural and synthetic ingredients or the origin of the ingredients, it is not that simple.

Regarding the animal testing, the respondents were actually quite split in their opinion, 38.5% said they wouldn't purchase a product that was tested on animals, 44.1% said they would maybe do it and 17.4% said they would do it. These results seem to be quite surprising, as animal testing for cosmetic products in the EU has actually been banned since 2009, and any kind of commercialization of such products in the Union is prohibited since 2013. The most logical explanation for these results might actually be the lack of information and knowledge that most people have on the matter, thinking that animal testing for cosmetic products is not something illegal or dangerous. It is for this reason that cosmetic brands and institutions should also invest some resources to educate the customers.

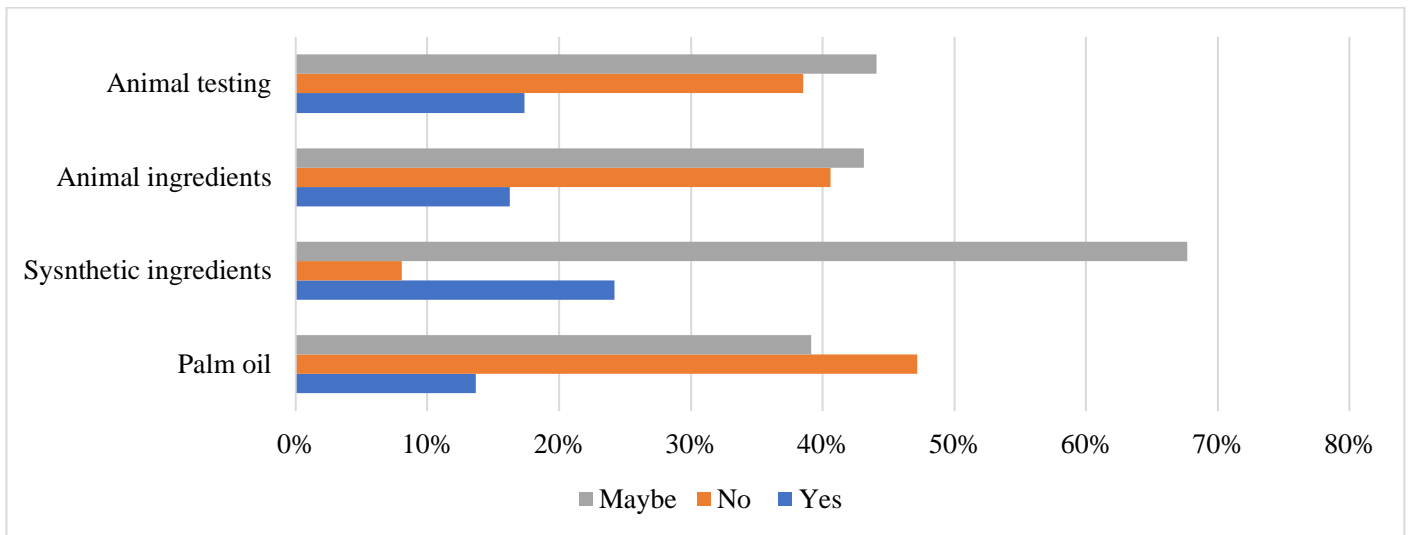
As per the animal ingredients in the cosmetic products, the respondents were also not that skeptical about the factor that their cosmetic products contained animal ingredients. There were 40.6% of the respondents, that wouldn't purchase products that contained animal ingredients, however, 43.1% said they would maybe do it and 16.3%, a total of 26 people would purchase these products without problem. Animal ingredients in cosmetic are usually disguised with unknown names and customers are not fully aware of their origins, which leads consumers to think that it is not a problem, as shown by the survey. In most cases, the consumers might purchase these products, without actually paying attention to the animal ingredients, however brands should

actually watch out for these ingredients, as there is an important risk that consumers might become more aware of the kind on animal parts in their cosmetics and a trend for vegan cosmetic products arises.

For synthetic ingredients, on the other hand, most respondents, 67.7% of the them, would buy cosmetic products with synthetic ingredient, if these were not harmful. On the other hand, 24.2% would buy them independently from the fact that they are harmful or not, and 8.1% wouldn't purchase these products at all. There is a common belief that has been transmitted to consumers through the marketing of claimed natural products with a high percentage of natural ingredients, that makes the customers belief that natural ingredients are always better for them and more sustainable. It is important to note that not all that glitters is gold and natural product can also be damaging for the environment and the consumer itself. Actually, natural ingredients have allergens that are much more sensible than the products designed in laboratories and in some cases, the extraction methods for natural ingredients, which are often sourced in developing countries, can be damaging to the environment, as well as the population that extracts them. On the other hand, research and innovation has evolved impressively, and there are synthetic ingredients that are designed to be harmless to the environment, even biodegradable in many cases, and require many less resources to be produced. It is for this reason that nothing is all black or white, there are some natural ingredients that are precious and some other synthetic ones that are also very important for the products and their effectiveness. The key is to ensure that natural or synthetic, the ingredient used are sustainable and ethically produced or extracted, taking the best of both worlds to propose good quality and sustainable products, at a decent price.

Finally, palm oil would, in most cases (47.2% of them), make the customers withdraw their purchase intentions. On the other hand, 39.1% of the respondents might buy products with palm oil, and 13.7% wouldn't have any problem buying them. Palm oil is also an ingredient that might cause confusion to the customers, as there was a lot of environmental issues linked to deforestation and the use of palm oil, especially in food products. It is true that conventional palm oil is an important red flag when looking for sustainable cosmetic products, however, there are some companies that use certified palm oil that doesn't contribute in any way to deforestation. It is important for brands that use this certified palm oil in their products, to claim it and inform the consumers, as otherwise, it might impact their purchase intentions.

On the graph below, you will see these results summarized.



*Question 10: Would you buy a beauty product that contains ingredients that are tested on animals?*

*Question 11: Would you buy a beauty product that contains animal ingredients?*

*Question 12: Would you buy a beauty product that contains synthetic ingredients?*

*Question 13: Would you buy a beauty product that contains palm oil?*

### **Packaging**

As we can see, companies tend to lean towards sustainable practices in order to address the increasingly important demands of customers on the sustainability standards of the products they purchase. In the case of cosmetic products, this is tending to be even more true, as the consumers are also deeply concerned about negative impact of their products. Packaging is actually one of the dimensions of CSR that is considered most important by consumers and where there are also many changes to be made.

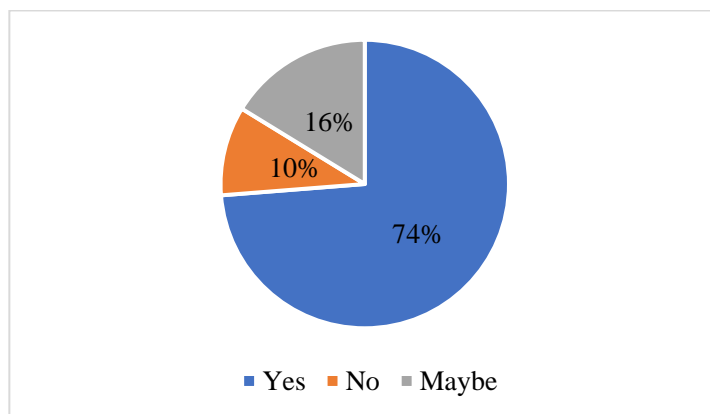
There are many options to improve the sustainable aspect of the packaging in cosmetic products. For the purpose of the study of sustainable packaging, the respondents were asked their opinion about refill products, recycling and reducing the size of the packaging.

In the first place, the respondents had a positive response to the use of products that could be refilled. The majority, 45% of the people that answered, said they would be very likely to purchase a product that can be refilled, 40.6% said they would be fairly likely to do so and 12.5% would be a little bit likely. Only 3 people said they wouldn't consume a refillable cosmetic product, which is 1.9% of the respondents. These results show how there are many consumers that would be ready to refill their cosmetic products, however, this is an option that doesn't seem to be widely available.

On the other hand, recycling cosmetic products is something that isn't done by the majority of the people questioned, 44.7% of them. Only 24.8% of the respondents said they always recycled their beauty products, the rest, 30.4%, did it sometimes. This data demonstrates the fact that cosmetic products are not always easy to recycle, as consumers don't know what parts go where and how to recycle certain products. It is in the hands of retailers and brands to create initiatives that incentivize the consumers to recycle their products and to educate them on how to do it.

Finally, reducing the size of the packaging is something that many cosmetic brands, especially in luxury, were quite sceptic to do. In the sector, it was thought that consumers preferred to have their products in large and adorned packs, as consumers perceived these packaging as more valuable and richer. However, the perception

of consumers has changed, and all the studies conducted show that consumers wouldn't choose a pack just because it is larger. In the survey, 73.8% of the respondents claimed that they didn't consider that a product was less valuable or luxurious if the packaging was lighter. There are many other consumer surveys from the different brands that have supported this theory. For example, Guerlain decided to change the packaging for their classic cream Orchidée Impériale: the weight went from 244g to 93g. The clients fully satisfied with this change as it was easier to carry the product on trips and it was more convenient for them. Also, at Shiseido, the Light Blue products have been repacked to achieve a lighter more sustainable packaging, and the returns were impressive as many clients perceived the new pack as more sustainable and better conceived.



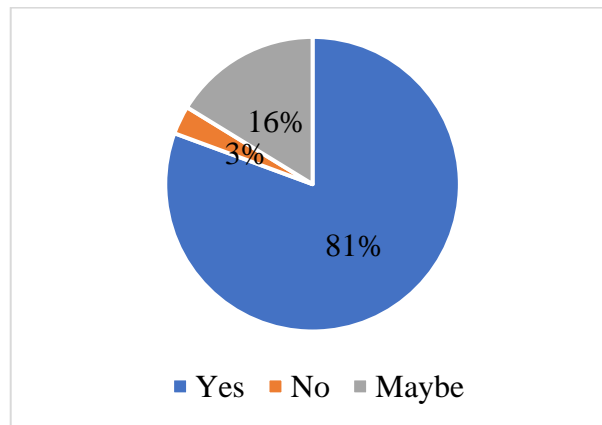
*Question 18: Would you consider that a product is less valuable or luxurious if the packaging is lighter?*

### ***Ethical sourcing***

As seen in the previous section of literature research, ethical sourcing consists on the way that the ingredients and materials are sourced to develop the products sold. When conducting the survey, ethical sourcing was the factor that caused the most doubts on the respondents, as I was asked for clarifications on several occasions. There were 68 respondents, representing 43% of the total, that considered ethical sourcing as an important factor of sustainability. Well, it is true that ethical sourcing is something that companies need to consider at all the points of their supply chain, specially to maintain a good reputation and to avoid scandal.

There is evidence that proves the fact that consumers are more likely to purchase products that are ethically sourced, in the survey 80.6% of the respondents said so. Ethical sourcing is, in many cases, a factor that is hard to claim, as it concerns many different suppliers at different points of development, however it is of capital importance, as there are many risks that arise from bad reputation and press, linked to the way that suppliers source their ingredients. It is for that reason, that companies are now analyzing and auditing their suppliers to make sure that ethical standards are respected at all levels.





*Question 14: Would you be more likely to buy a product with ingredients sourced ethically?*

### ***Production processes***

One of main objectives for cosmetic companies is to reduce the negative environmental and social impact in their production processes. This may not be a factor that is directly perceived by consumers, but there are many regulations in place to control it, such as regulations on carbon footprint or on the employment standards for the factory workers. In the case that these standards are not respected, the legal implications will also affect the reputation of the brand, affecting the perception of customers and the sales. On the other hand, companies that make sure they have sustainable production processes, will follow all the constraints given and also ensure that they have a good brand reputation. The respondents were questioned about their interest in products that are produced sustainably, and the results are actually really positive. There was an absolute majority of 62.1%, that not only would be more likely to purchase products that were made sustainably but would also be willing to pay more for these products. Then there was a 34.8% of respondents that would be me likely to purchase sustainable products, however, they expect to pay the same price for them. Finally, only 3.1% of the respondents claimed that they don't consider sustainability in any way when purchasing cosmetic products. These results succeed in providing proof of how important sustainability is actually becoming for consumers, not only in the product and the ingredients, but also in the way that they are made.

### ***Philanthropic activities***

The last dimension on CSR on which consumers were questioned, was the brand's philanthropic activities, the ones that are not directly linked to cosmetic the products, but aim to help honorable causes, in order to give back to society some of the profit obtained. The respondents mainly claimed that they would be more likely to purchase products from companies that undertook philanthropic activities to help society, there were 56.5% of them. Otherwise, 35.4% of the people surveyed said they might be more likely to purchase these products and finally 8.1% said they wouldn't.

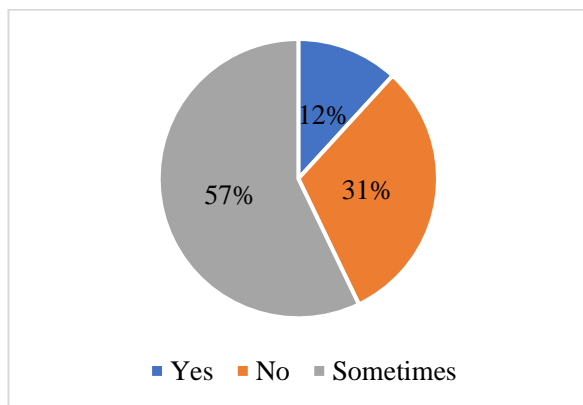
As important as philanthropic activities may be, we can see that, for the customers, it is not as impactful as ethical sourcing or sustainable production on their purchase behavior. However, companies should always consider the value that these activities have to society and do it in an altruistic way, even if the ultimate gain is not to achieve more sales.

## Brand reputation

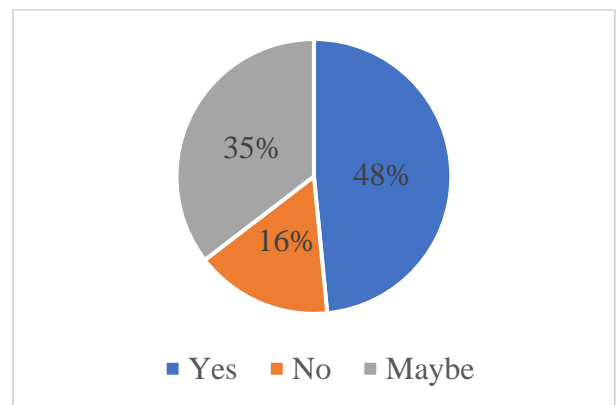
Finally, the respondents were asked about the interest they take in knowing if their favorite brands act sustainably. Most of the respondents check these standards occasionally, 57.1% of them chose the option “sometimes” and for the rest, there is an 11.8% that checks them on a regular basis or very often and then 31.3% that don’t do it at all.

Also, 48.4% of respondents declared that they would boycott a brand that is using harmful ingredients or damaging the environment and 35.4% might do it, as well.

These results are quite enlightening as they show that companies have the duty to act sustainably and take care of their reputation if they don’t want to lose on market share and sales, as more than 60% of respondents will check, at least sometimes, if the sustainability standards are in line and might boycott the brand if it is not the case.



Question 20: Do you check on the sustainability standards of your favorite brands?



Question 21: Would you boycott a brand that is using harmful ingredients or damaging the environment?

## 4.2. CSR strategy and Sustainability Reporting

Sustainability strategies and in particular integrated reporting are very new for many companies in France and the pioneer ones that have taken a step further into this kind of reporting, have only issued reports for the past two or three exercises. It is why, in many cases, sustainability and CSR strategies are unclear and they don’t always have the right tools to ensure that the strategy will work.

I have been able to discuss on the topic with interviewee 4, who’s an expert in CSR and sustainability and works as a senior consultant for ITG Group, explaining the many key elements that allow companies to implement the right CSR strategy for their business model. Over the years, she has worked as a consultant and aimed to “support companies to set up an efficient CSR and environmental strategy and define their Sustainable Development Goals (SDGs) compliant with all related legal framework” (*LinkedIn CSR/Sustainability Expert and Senior Consultant at ITG Group*). The insights coming from the interview with this person were essential to formulate a viable strategy.

As we have seen in the previous section, the interest that most consumers are taking in the sustainable aspect of the products they consume is increasingly high and companies have to make sure that their strategies are on point to be able to answer the demands of a set of consumers that is toughening overtime and becoming stricter. Society is changing, as seen in the survey, it is becoming more conscious and looking to purchase from companies that perform in different aspects, other than financially.

In the following part, we will see an analysis of the different factors that should be considered by companies when building a CSR strategy from scratch, with a particular interest on cosmetic firms, as well as guidelines on how to avoid failure in the implementation. It is important to know that any core transformation in a company takes time and resources to be fully impregnated in the company's foundation and results cannot be immediate, if they are going to be successful in the long-term. Over time, the company will not only attain an important financial performance, but it will also achieve sustainable performance, which is a value-added component. "The implementation might take some time, as the change journey is not easy, but once achieved, the goal is to have CSR strategy that is systematic and holistic, fully integrated, without even needing a CSR director, as CSR will no longer be a department, but a core value that is incarnated in the strategy, in all the departments, all the jobs and every little action" (*CSR/Sustainability Expert and Senior Consultant at ITG Group*).

#### 4.2.1. Building a CSR strategy

##### ***Mission and values***

Firstly, and most importantly, the company has to have a strategy that is clear, as well as a vision and values very explicitly stated, in order to be able to vehiculate these in their sustainability strategy. The philosophy, vision and values have to come first, and they should be well thought, coming from a very deep place of reflection. For some companies, we have seen that sustainability has been fully integrated in their DNA and their commitment is very strong, while for others, this might not be the case. To find the correct philosophy, vision and values, the company has to make an extensive analysis of the business, what it represents and in what direction it wants to go. This philosophy, vision and values are not easy to change, so it is imperative that the right ones are chosen from the beginning, that they are simple to understand and can lead to a whole business and sustainability strategy. The company has to incarnate that philosophy and those values to be able to make a correct assessment of their attitude towards sustainability as well as the risks that may exist for the company (these could be, for example, air pollution, water pollution, water management, recycling, CO2 emissions, etc.).

##### ***Roadmap and objectives***

The second step is to lay out a roadmap and objectives that are well thought and achievable. In order to do so, it is always recommended to use sustainability reporting and even better, integrated reporting, to ensure that the roadmap and objectives are being followed carefully and integrated in the business model.

In many cases, companies will be taking some strong commitments that will be measured with indicators and audits and in some companies, extra financial notation is done to show the improvements done from year to year. However, most companies are already aware of this methodology and the changes don't represent a real challenge for them. Companies need to understand that it is not only about putting into place some random KPIs and objectives linked to sustainability, but rather about questioning what stands behind each indicator and trying to integrate it as closely as possible to the business model. It is that work that has to be done by companies; looking for the challenging and constraining objectives, that are not easy to achieve, but will end-up having the most effect. Looking for the things that are the most impactful, to directly act upon them, is a long-term commitment that has to be done.

In order to do so, companies should take a deeper look inside their business model and analyze what are the risks of the activity, to be able to integrate them, measure them and look for all the factors that impact them. Those risks can only be fully unified with the business model with the use of integrated reporting. As the risks are integrated and a strategy, with indicators and clear commitments, is put in place, the results can be monitored and audited correctly, which will deeply help the company in the path for becoming responsible. Through integrated reporting, companies can have a much clearer strategy and the approach to sustainability is more instinctive, as it is closely linked to the business itself and enables companies to go much further.

### *Coherence*

In many cases, companies need to turn around their sustainability standards because they are attacked by NGOs and the press, losing their good reputation. For this kind of companies, it is not enough to make small changes in their actions, they have to act on all the different parts of the value chain, to achieve coherence in the strategy. In order to have that systematic and holist approach, there has to be an important coherence that is spread widely across the firm. However, we cannot only implement this coherence in the surface, it is important to go further and transform the company. It is a question of the firm's posture and, to be able to achieve the right posture, a lot of work from the inside needs to be done. It can take a long time for a company to regularize the whole value-chain, it depends also deeply on the size, the strategy and the business model, so it is important to make sure that everything is done correctly from the beginning.

For environmental matters, companies have to be very transparent now a days, it is representing a minimum standard that is demanded and to which people are most sensible to. Environmental standards were the first to be integrated in big companies, and they are now obliged to make assessments on their carbon footprint, end the use of harmful products, recycle, avoid pollution (in the air, the ground or water), analyze their impact on climate change and explain the measures that are being taken to avoid making the situation from getting worse. Social matters might be less considered, but they are just as important, and they shouldn't be forgotten in a consistent strategy. For the social measures, some of the most common ones are gender equality, training, the flexibility of work hours, fair pay or safe working conditions.

Overall, the most important thing is that the whole business model and their whole value chain is developed sustainably, as it is the only way that companies will be able to continue to operate whilst being actually

responsible. According to a CSR expert working as senior consultant for ITG Group, “this is the most difficult way to do it, but it is the best way”.

### *People*

Finally, another important factor is the workforce that is in the company and I would even dare to say that it is one of the most important ones. The rhythm at which the directors integrate the change towards sustainability will be essential to determine how effectively the strategy will be implemented. The leadership team has to be onboard with the CSR strategy to make sure that it will be carried out correctly, otherwise it will not work. There are famous cases in which the CSR directors have even grown to become the main leadership team of companies, becoming for example CEO. This isn't something that will happen every day, but the fact that it has taken place in enormous groups, such as H&M, is proof of the fact that now-a-days CSR has become a key strategy for companies. Also, the flexibility of the employees towards change will be a major factor and this work isn't done overnight. The change has to be done from within, modifying their and their employees' behavior and approach, to make sure that there are real results afterwards.

#### 4.2.2. CSR Strategy for cosmetic companies

### *Integrating the risks*

Integrating the risks in the business model and eventually, in an integrated report, might seem like a difficult task, but it is crucial, especially for companies in the cosmetic sector, that have many risks spread all over the value-chain that are sometimes difficult to identify. The first step is to make a mapping of the risks and how they can be integrated in the business model, such as environmental risks and social risks, and their impact. Making a link between the risks and the business model will make it easier to address the issues.

For cosmetic firms, some of the risks may include:

- Social responsibility standards followed by the firm and its suppliers, for example child or forced labor, paying unfair salaries or any other social standards that might not be respected, in relation to the communities in which they work and the local communities.
- Environmental standards in the sourcing and production processes, for example, pollutant raw materials (palm oil for instance) or producing with large amounts of fossil energy, water...
- Pollution from the packaging of the products sold, for example, plastic and glass can be an important source of pollution.
- Endangerment of public health, as some ingredients might be harmful for the consumers, in the short and long term, causing allergic reactions, poisoning or even important illnesses.

All of these risks have to be well integrated and the firm should go as far as possible to focus on finding the best way to avoid the risks from happening. With the use integrated reports, the risks are well-known and integrated, which is a helpful tool to ensure that they are always considered and addressed, to ensure responsibility in the actions of the company.

### *Looking into the whole supply chain*

When it comes to cosmetic companies, the sourcing and supply chain goes very far, so in order to be sustainable, the measures have to be taken all the way until the end of the business model and the end of the value chain. The path towards sustainability needs to start from the beginning, not only with the production and sale of the products, but also with each of the ingredients that are present in the products. Then, it needs to follow with the education of consumers: as seen in the results from the survey in the first part, consumers are starting to become more conscious about environmental issues, but all isn't done, and it is also de duty of the companies to educate their consumers to make more conscious choices.

Many of the risks listed in the previous part don't always concern the company itself or the final product sold, that is why it is so important not to have any loose ends on the value chain, on which the company can be attacked, but rather to have full control over all of its pieces.

### *Objectives close to the business model*

Finally, one of the fundamental parts of a CSR strategy, seen earlier, is to put in place objectives, but, as it was discussed, not any objective is applicable. Each company has to choose the objectives and challenges that will have the most impact for their business model. Some of the objectives are common to most companies, such as reduction in carbon footprint; on the other hand, there are other objectives that should be particularly chosen for the company and seeking to attack on the most apparent risks that it has. For instance, for a company that uses flowers as one of the main raw materials, the objectives should be closely linked to the activities undertaken when growing and picking the flowers, making sure they are as efficient and sustainable as possible. The key is to be able to prove that the right indicator is in place, to control the impact of precise activities that are part of the value-creation chain: the suppliers, the producers of the raw materials, the conditions in which they are working, the conditions of the land...

#### 4.2.3. Mistakes to avoid

### *Only doing what is asked*

An important part of sustainability standards is ensured though legal obligations, however, CSR has to go beyond the legal framework that is imposed and take further action in sustainability. The legal standards are the minimum rules that companies have to respect to avoid any legal conflict, but this is imposed and, in order to the socially responsible, they have to take a step further. There is a difference to be noted between the companies that just respect the legal standards and the ones that go further into that purpose of sustainability. However, in many countries, that step further of benevolence is also legally asked, for example, the French law on duty of vigilance, seen in the literature review, obliges companies to lookout for the right standards in their subsidiaries and suppliers. It provides legal requirements, in the whole value chain of global companies, to look out for human rights and sustainability standards all over the world, where the company operates. This is a start and a very big advancement in the fight for responsible business models, however, many companies

still need to make more efforts and many countries are still far from implementing this kind of new legislation. Even the sustainability audit and notation mechanisms, such as EcoVadis, are usually not accurate enough. Actually, they fail to look into all the points of the firm's value-chain, and will only ask for certifications and a strategy, but they don't go look into the deep origins of the products and the conditions in which they are produced. If there is no one that digs deeper, the results will not be as worthy as they should, and this work should start with the companies, if they have adopted the right CSR strategy.

### *Unformalized strategy*

There are many companies for which the CSR strategy is only starting to be implemented and things are not as formalized as for others. There are various reasons why having an unformalized CSR strategy can have a negative impact on the company, showing how it is always preferable to establish a clear plan, supporting it with the help of sustainability reporting or integrated reporting, which is more convenient to achieve a systematic and holistic approach.

For companies that have many subsidiaries or big groups that operate in an international level, especially if they have different brands and specialties, if the CSR strategy is not clearly formalized it will probably be very uneven. This is a major problem for companies, as the efforts that are made in some brands or territories can be very easily destroyed if the other brands or subsidiaries don't act in the same direction. This is also linked to the concept of coherence that was discussed and coherence can only be achieved if the strategy is formalized and shared by all, otherwise, the efforts and resources dedicated will not have the same valuable impact, and in some cases, they could even end up being counter producer for the whole business model and affecting negatively the reputation of the company.

On the other hand, we tend to believe that if companies don't formalize their strategy, it is because they don't want to be transparent about the standards of all their activities, which can be an image that is perceived wrongly.

### *Trick public opinion*

Another big mistake that was commonly made, especially in the beginning of CSR, was to try to trick the public opinion into thinking that a company was acting sustainably, while in reality it wasn't the case. For instance, for energy consumption, some companies started to increase the amount of renewable energy they consumed and marketed it as being environmentally responsible, however, their consumption of fossil energy remained unchanged, so the real impact was hardly inexistent. On the other hand, the way to go would be to reduce the use of fossil energy until it reached zero, while increasing the consumption of renewable energy until it represents all of the energy used.

However, the internet and social networks have made information get around much faster and this fake greenwashing is no longer possible for the big companies that are carefully followed and watched, not only by regulatory bodies but also by NGOs and the public opinion. Transparency has increased importantly, and the bad examples are easily spotted and pointed out. This context has also obliged them to change their behavior.

Overall, companies need to be very careful with the way that they communicate on sustainability to avoid being attacked by the press, which will create a bad reputation. Once again, coherence between the strategy and public communication is essential, to make sure that all of the information that is published can be proved and that it won't be a source of bad press.

### 4.3. The case of Shiseido Group

Shiseido Group is a Japanese firm that produces and distributes cosmetics and luxury products internationally. Founded in 1972 by Yushin Fukuhara, it is the oldest cosmetics company in the world and it uses the traditional Japanese cosmetic habits, while taking advantage of the occidental technologies and adapting it to its culture. The French subsidiary of the company is known as Beauté Prestige International, it is in charge of Shiseido's perfume brands, on a worldwide level. The company counts with 46 thousand employees all over the world and is present in 120 countries. Ranked the N1 cosmetic firm in Japan and Asia, Shiseido has seen an 8.8% increase in revenue YoY in 2019.

In order to spread their international essence and develop products that are most adapted to the needs of the consumers, using the best resources, Shiseido has set its centers of expertise in the most qualified places. Skincare is developed in Asia, fragrances in France and make-up in the US.

Sustainability has become a central concern in Shiseido's business model. The worldwide headquarters, located in Japan, have an important sustainability department that is in charge coordinating the initiatives undertaken in the different centers of expertise, the global strategy and the production of annual sustainability reports. There are around 20 people working in the sustainability team and the department was created around 20 years ago.

On the other hand, the sustainability department at EMEA started in January 2018, under the direction of Armel Yver, who is in charge of directing the sustainability strategy not only in EMEA, but also globally, for the fragrance brands that are conceived in the Paris excellence center (Dolce&Gabbana, Narcisso Rodriguez, Issey Miyake or Serge Lutens, for example). When it comes to the make-up and skincare brands, the strategy will be defined in their excellence center, in line with the global strategy, and the EMEA managers will help the markets to follow the plan and work with the teams to help them with the sustainability activations.

Shiseido's Sustainability team leads the brands towards a more sustainable development and more responsible products. I was able to interview the Sustainability Project Officer for the EMEA region on the sustainability plan and projects that were being put in place, getting a closer insight into the practical implementation of a CSR strategy in an important cosmetic group. In the following part, we will analyze this strategy and its implementation and draw some best practices as well as axes of improvements in the case of Shiseido.



#### 4.3.1. Sustainability at Shiseido

When developing a CSR strategy, as mentioned earlier, the first step is to have a mission that will help to draw the lines of the strategy and create that coherence that is key in the success of the strategy. At Shiseido, a new corporate mission, “Beauty innovations for a better world” was established in 2019, with a number of objectives that “will aim to realize a society where everyone can live the way they want to”, through the creation of Social Value (*Jun Aoki, 2019*).

In line with the group’s corporate vision, the way that Shiseido approaches sustainability is well consolidated in this affirmation: “The integration of sustainability doesn’t mean restrictions or taking away possibilities, on the contrary, it is an innovation, a new way of working, new economy and new business opportunities” (*Sustainability Project Officer EMEA, Shiseido*). Combining sustainability and innovation, as the way to achieve Creating Social Value.

Through this CSR strategy, Shiseido is aiming to achieve three main objectives:

1. Diffuse the sustainability values
2. Educate all the collaborators
3. Reset the bases and standards

When discussing with the Sustainability Project Officer EMEA at Shiseido, three main rules that were followed by Shiseido were listed, to ensure that the sustainability plan is as coherent and successful as possible. These rules are in line with the observations made in the previous section, which indicates that Shiseido is working in the right direction with this CSR strategy. The three rules are, to protect the brands from the risks linked to sustainability, to think transparency and trust and finally, to commit. In the following part we will be having a deeper look into what these rules mean to the group and why they are so important to keep in mind at any time.

##### *Protect the brands from the risks linked to sustainability*

As seen in the previous section, it is essential to integrate the risks that are linked to sustainability and understanding the effect that these risks have on the company and society as a whole. For Shiseido, considering the risks and protecting their brands from that negative impact is the first and most important task.

The Sustainability Project Officer EMEA at Shiseido explained how all of the supply chain is concerned, as the business model requires to work with many different suppliers and any unethical behavior from the suppliers will end up impacting the group and the brands a well. To do so, they make sure that their suppliers don’t work in bad conditions (child labor for example), which puts the brands at risk. It will also help to protect the image from the bad reputation, that actually depends on the suppliers as well.

Also, climate change represents an important risk for the group and they are always doing their best to protect the planet and its resources, that are essential for the company to operate. Climate change has an important impact on the way that companies produce, and it harms the ingredients used for their products. For example, 80% of the vanilla consumed worldwide is produced in Madagascar and due to climate change, the island is

being highly impacted by cyclones. This has had an important impact on the production of vanilla and it can harm Shiseido's brands that use the ingredient in many products and, if climate change doesn't slow down its pace, in some years it might no longer be available.

### *Think transparency and trust*

Being transparent and trustworthy is also a key concern that Shiseido is constantly addressing, to be able to comply with, on one hand, the regulations and on the other hand the demands of retailers that are increasingly challenging.

Firstly, regulations in Europe have become very important and it imposes standards of sustainable development that are very high, in particular for cosmetic companies. As seen in the literature review, the legal framework that has been established not only for cosmetic products and their ingredients, but also for companies that have a certain number of stakeholders and operate globally, is very strict. Shiseido implements their sustainability plan in a way that will cover any of the current demands and even comply with standards that go further, covering requirements that might be imposed in future regulations.

Also, retailers are constantly challenging the brands to have sustainable products and packaging to be able to sell them in their shops. In the cosmetic industry, retailers such as Sephora, Douglas or Ulta, are essential all over the world for the brands to market their products. It is for this reason that the brands need to comply with the standards they require.

Finally, the consumers are also more demanding. As seen in the survey presented in the first part, 48% of respondents would boycott a brand that is not acting sustainably. There are many applications like Yuka that have emerged for consumers to analyze the ingredients in the products they consume. They have a good side, because they allow transparency for consumers that didn't understand the ingredients, but they are also not fully accurate because they classify the ingredients as good or bad, but they don't really explain to the consumer how some products are only harmful at a certain level of concentration, for example, and most products will not exceed this dose, but are still considered as harmful in the application. The analysis is then considerable biased and doesn't always show the whole picture. Also, there are some ingredients that have to be included in the formulas to ensure that they work, and consumers in most cases, are not ready to give up on that effectiveness. For example, perfumes need to be stabilized with chemical ingredients to make sure that the color doesn't change. The consumer wants their perfume to remain the same over time, but with these applications, he doesn't understand that some of the ingredients listed as bad have to be present to ensure that the formula is stable. Therefore, it fails to educate the consumer on why the ingredients are present and what would be the consequences of removing them.

### *To commit*

The final rule, that is linked to the strategy as a whole and is necessary to see any kind of results, is to be committed to the strategy and the vision of sustainability. We already know that the path towards sustainability

is not an easy one, and the implementation can be difficult at times, however, it will be that strong commitment that will end-up achieving results.

Companies need to work hand to hand to attain the ambitions of sustainability, not each on their side, if they want to obtain a global result on climate change. A key attitude for Shiseido, is to think circular in terms of consumptions, following the concept shared by the Ellen MacArthur Foundation. Their concept on the circular economy of plastic doesn't aim to eradicate the usage of all kinds of plastic but rather to change the idea that it is destined to a unique usage. The objective is to make it reusable, recycle it and integrate it into the circular economy. Shiseido follows this foundation, as eliminating all plastic would only lead to substituting it with another material, that will also contribute to pollution, if it is single-use. The most important commitment is to consume responsibly and reuse or recycle as much as possible.

With this commitment, Shiseido is also supporting the brands that want to be perceived by public opinion in a better way and develop sustainability actions that are in line with their codes and their DNA. The sustainability department helps each of the brands to develop their sustainability strategy, bearing in mind their personal DNA and codes. In EMEA, the focus is set on the fragrance brands: Dolce&Gabbana, Issey Miyake, Narcisso Rodriguez and Serge Lutens, and they are all currently working on finding the right territory for their sustainability strategy. For example, for Dolce&Gabbana, sustainability is about the know-how and craftsmanship of the products, the Mediterranean origins of its ingredients, protecting the land that is the source of the raw materials and the inspiration for the products, protecting the values of people and family that are most important for the brand...

Finally, this commitment is also done for the employees, that are attracted by companies that are socially responsible and contribute with their actions to improving society. Acting sustainably will also have a positive effect on the workforce, that will feel more engaged and more comfortable working for a socially responsible company. It will also attract more talent and gain a better reputation among the potential employees.

#### 4.3.2. Shiseido's sustainability plan

"The sustainability plan followed at Shiseido relies on the analysis of concrete facts that allow to reduce any negative impacts on the basis of factual research, to be able to avoid going for fake good ideas" (*Sustainability Project Officer EMEA, Shiseido*). In order to do so, detailed research has been done, through the analysis of the life cycle of some of the products, an environmental risk mapping and a societal risk mapping.

When making the analysis of the life cycle of Shiseido's iconic products, the whole life of the product is considered. For instance, for the analysis of the life cycle of two Dolce&Gabbana lipsticks was done, and they realized that the product with less ingredients and more natural ingredients had a higher environmental impact than the one that contained more ingredients in general and less natural ones. With this example, we understand that the perception that we may initially have can be wrong and it is not because a product has more ingredients that it is less sustainable or that natural ingredients are always better, as extracting natural products can also

endanger the environment. Each ingredient and each of the process has to be carefully studied to understand where to act and how to do it most efficiently.

Regarding the environmental and the societal risk mapping, it is an important step to understand what activities are affecting the most the environment and society, so that the right indicators are selected, and the objectives are set as closely as possible to the group’s business model. This is something that is a basic requirement in a well-developed CSR strategy and the investment will end-up being worthy. The results from the environmental risk mapping showed that the biggest risk comes from the packaging, being addressed with the development of new packaging for the best-seller products such as Dolce&Gabbana’s Light Blue line, for example.

In terms of social risk, it is the ingredients and raw materials that create the most uncertainty. To make sure that society isn’t negatively impacted by the origins of the ingredients and raw materials, Shiseido acts on the assessment of all of their suppliers, making sure that they work under the most precise standards.

Through these analyses, Shiseido can work on ways to reduce the life cycle impact of the products, as well as the environmental and the societal risks.

Regarding CO2 emissions for the EMEA headquarters, 90% of the emissions are due to business travel, on the other hand energetic consumption doesn’t seem to have such a high impact. This gives a straight forward idea of the policies that should be implemented to make a direct impact on the CO2 emissions.

Finally, the CSR strategy at Shiseido is split in three main pillars, that aim to focus on different aspects of sustainability, covering the risks identified and creating an important coherence on the whole strategy. These pillars are to “Protect beauty, Inspire beauty and Empower beauty”. In the following graph are represented the three axis and the domains on which they each act, all in the aim to attain a sustainable business model.

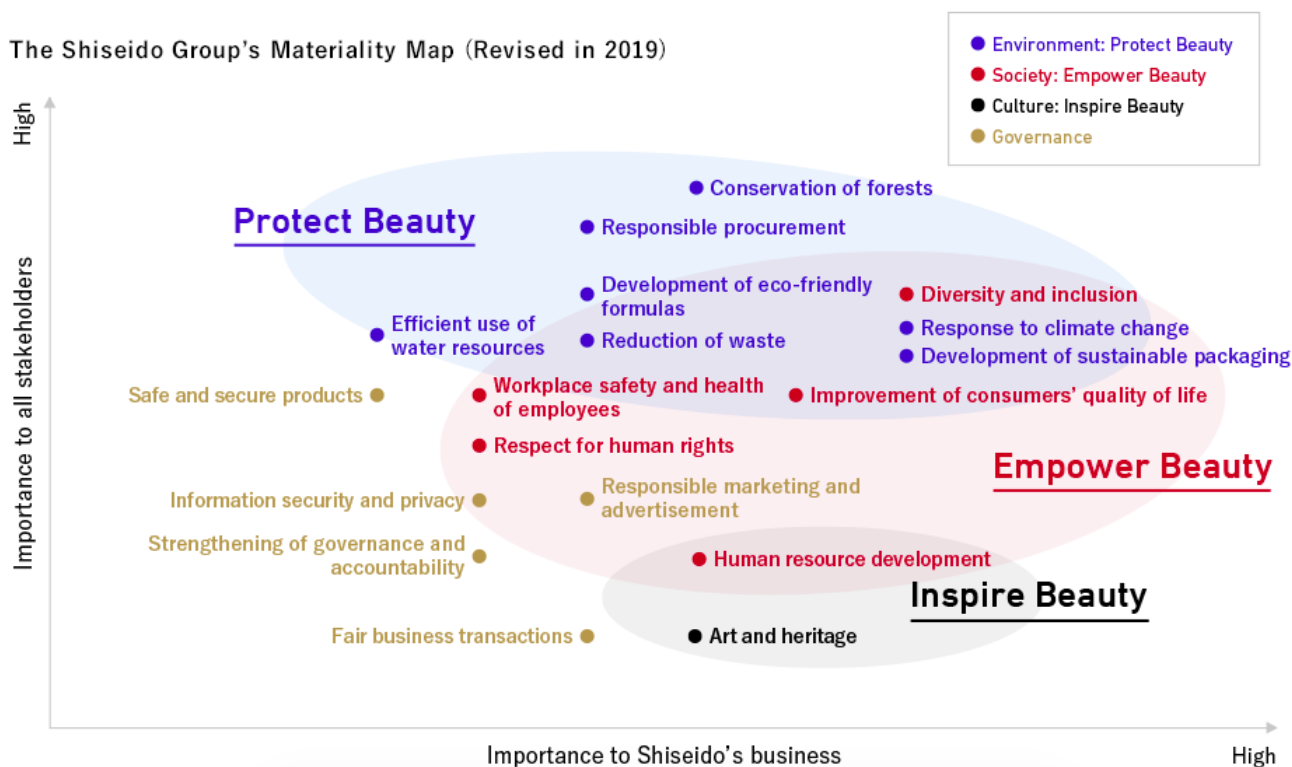


Fig 4: Shiseido's Sustainability Website

## *Protect beauty*

The “Protect Beauty” pillar relates to protecting the environment and the people: as Shiseido claims, “protect the beauty of the earth and the beauty of the people who call Earth home, protect the beauty of all other life that exists on the earth as well”. As seen in the graph, this pillar concerns concrete activities for the production processes and the products themselves. In the aim of protecting beauty, Shiseido puts in place initiatives that help to reduce the environmental burden from their operations.

The group set in 2009 the general objective to reduce by 23% the emissions of CO<sub>2</sub> issued from production sites and in non-production sites by 11%, by 2020. The first objective will be achieved this year, and the second one is not attainable, as the data isn't recorded from the year the objective was set. When making these kinds of commitments, companies should always make sure that the departure information is well compiled and that the objective is achievable. Otherwise, it could impact negatively the reputation of the company and end up being counter producer. Also, all of the EMEA factories are in line with the certification ISO 14001, which endorses the environmental management that is undertaken in all of the sites.

Shiseido also works with all the suppliers of alcohol, perfumes and packaging on sustainable products. There is a notation system of the formulas' environmental impact and a minimum score that has to be attained to be produced. A clear plan is set to identify harmful ingredients and the ones that are not at the moment, but might be considered dangerous one day. All the suppliers working with the group are in line their sustainability standards. For example, I was able to attend a very interesting webinar from Givaudan, one of the main suppliers of scents for Dolce&Gabbana fragrances and other fragrance brands in Shiseido, where they explained rigorously the sustainability standards that were followed in the company, in line, they said, with the increasing demand for natural and responsible perfumes, from consumers and cosmetic companies as well. Deforestation is also a central concern: 84% of the consumption of Shiseido's palm oil has been certified RSPO, meaning it doesn't contribute in any way to deforestation. The aim is to reach 100%, being fully sustainable. The paper used is also certified anti deforestation with the FSC certification and 100% of the packaging is produced with FSC certified paper or recycled. They also work with the perfumers on the origin of the wood ingredients used as raw materials. Any raw materials that might represent a risk for deforestation are identified by the suppliers and the origin of these raw materials is researched. There is a risk matrix and any raw material that is dangerous or comes from an endangered country is listed to look into more sustainable alternatives.

In addition, the packaging is becoming more sustainable and Shiseido is using innovation to produce new forms of packaging that are more responsible. We tend to believe that the most impactful material in packaging is always plastic, however, it is not the case for Shiseido EMEA. At the moment plastic only represents 2% of the materials used for packaging and it is all recyclable plastic. On the other hand, the real point of action is on glass, that is the principal material used for the packaging of the products. Shiseido is the first Japanese company to have joined SPICE, “Sustainable Packaging Initiative for CosmEtics: A collaborative initiative by global cosmetic companies to create a future with sustainable packaging” (*Shiseido Sustainability Website, 2019*), together with some of the main cosmetic groups in the world, such as Chanel, LVMH or Yves Rocher.

### *Empower beauty*

With this axis, Shiseido is looking to “empower their people” and it relates to the beauty of the society. The objective is to “motivate and empower all people who make up our society”.

How do they manage to put into practice this essential pillar? Well, firstly, they involve all employees and train them on the basic elements of sustainability. This is an important task for the employees and the group, in particular, because the sustainability cause is very transverse, and it needs the collaboration of all the departments to work.

The Japanese group puts a lot of effort into “realizing gender equality and fairness” (*Shiseido Sustainability Website, 2019*). Objectives regarding gender equality are very ambitious, at the moment the leadership team in EMEA is composed by 45% of women and the numbers will continue to grow with the help of programs that promote women leadership. Every year, 20 women from Shiseido EMEA are selected to attend a seminar with intense coaching on how to become leaders, encouraging them to go further in their career paths.

Moreover, there is an employee conduct code anti-corruption that is being implemented in the EMEA region and employees have access to an anonymous whistle blowing line to report on unethical behavior.

For the suppliers, the Shiseido Conduct Code, is in place since September 2019: the suppliers will not only have to sign the Conduct Code, but they will also be evaluated through a platform and audited.

For the employees, the camellia day, launched in 2017, takes place every year. It mobilizes Shiseido’s workforce to help different associations for a day. This initiative is very well appreciated by the employees as well as the associations that are always in need of help to complete essential tasks.

### *Inspire beauty*

The final pillar relies on the inspiration that the Japanese beauty culture can create in the company and for the consumers. Shiseido wishes to “use Japanese beauty to raise beauty awareness around the world and encourage the realization of beauty as a culture” (*Shiseido Sustainability Website, 2019*). They put this pillar into practice by integrating Shiseido’s heritage and the Japanese culture into educational activities for all of the group’s employees. Also, the Japanese Beauty Institute was established in 2019, to create awareness on the Japanese aesthetics that Shiseido integrates in their communication strategy.

The aim of inspiring beauty among the employees and consumers is to create a personal link between them and the group, its brands and the original sentiment that inspires them to be sustainable and honor that unique legacy.

#### 4.3.3. Performance

One of the main objectives that Shiseido has been pursuing for the last few years is to improve the operating profit for the group. To do so, Shiseido worked hand to hand with McKinsey on the EAGLE project, to find what aspects of the business could be improved and where the company could make some economies. These

economies were, in many of the cases, a great improvement in terms of sustainability as well. With this project, Shiseido was able to prove how companies can be both economically performant and sustainable at the same time. In EMEA, the EAGLE team put into place a number of initiatives, to avoid \$50 million in expenses and reach a 10% annual operating profit. In addition, the initiatives achieved to make important improvements in sustainability for the group.

This project started after the McKinsey Diagnosis, that was presented in spring 2018, with a full analysis made on the year 2017. The initiatives started to take place at the end of 2018 and during the whole of 2019. The objective was to achieve the desired results by the end of 2020. In order to do so, the EAGLE team did an important job helping all the people implicated in the project and explaining the initiatives to the parties involved. A detailed follow-up strategy was also implemented, and the results were reported to the Tokyo headquarters on a regular basis. With this tracking, they are able to see that most of the initiatives proposed were successfully implemented and the ones that were not working were reviewed. The project concerned five main areas of action: factories, marketing teams, commercial contracts, IT projects and indirect purchases (computers, phones, travel policies...). To put the plan into action in the EMEA region, two people were staffed an EAGLE Project Manager RHQ Finance and an EAGLE Project Director RHQ Finance. I was able to discuss the EAGLE Project Manager, that is in charge of the marketing and commercial areas, two departments that have important axis of improvement in terms of sustainability, because they have control over the packaging, the sampling and the corporate gifts of the brands.

### *Packaging*

Most of the initiatives were created around the idea of design to value, taking the products and rethinking the packaging and the product itself to improve the product's rentability and also create improvement in terms of sustainability. The initiatives were presented as packs of measures, adapted to the different product lines. The biggest optimizations were found in Dolce&Gabbana's best seller, Light Blue. The optimization was achieved by reducing the size of the packaging and this change was not only driven by sustainability, but also by the economies made in the price of production. At first, Dolce&Gabbana's Fashion House (FH), led by the designers, was not very open to the change, as in luxury it is usually thought that the bigger the products are, the most value they will bring to consumers. However, the customer studies proved that his idea was wrong, and clients were satisfied about the change in size, mainly because of the improvement in its sustainable aspect. In the end, something very positive came around: a reduction in the cost of production, less impact on the environment and the customers were happier with the new pack. The group manager at the time for the Light Blue line, explained: "the Light Blue products were reviewed to identify the best potential savings on product conception. It was an intense journey, involving packaging, purchasing, quality, supply chain, finance, consumer insights, business development, marketing and the FH. There were 90 ideas presented directly to the designers. The reduction of the size of the folding boxes of Light Blue products made them more sustainable and less costly. Also, the replacement of induction by varnish on the folding box has a good impact on environment and reduced the price. 3-million-euro savings have been confirmed with the packaging

changes and there are many other initiatives in the pipe that will be implemented little by little, representing another million euros of savings. All of this didn't have any negative impact on the product perception of consumers and on Light Blue, value has even been added as consumers perceive it as eco-friendlier and better conceived".

### *Sampling and gifts*

For cosmetic brands, sampling and gifting is a very common marketing tool to attract consumers to the products, however, it is undeniable that it represents an important cost and a source of pollution that is not always essential. In order to reduce the costs and the impact, there are two possibilities, either to reduce the amount of materials used in the product or reduce the amount ordered. It is for this reason that, with EAGLE, the brands were able to identify the elements that were not necessary for consumers, but still represented a high cost, in terms of money and sustainability. Once identified, the brands proceeded with design changes, reducing the luxurious appearance of the gifts, getting rid of excessive wrapping elements, such as silk paper and other items that were not essential, and educating the markets to order the amounts actually needed, achieving a better management of stocks. These changes had an important positive impact on both the cost and the sustainable aspect of the products.

### *Other initiatives*

Poor stock management was also an important source of waste that increased the costs, also it represented an unsustainable waste of resources. For example, the packs with various products were produced in different languages according to the country in which it would be sold, therefore, the unsold stocks couldn't be distributed in different regions. To provide a solution to this issue, the boxes have been transformed into multilingual, which allows the brands to relocate them between countries, avoiding further costs of production or destruction and the environmental impact linked to these activities.

In addition, EAGLE is aiming to make an optimization in the references for make-up products, for example. For each line, there are many shades that are not popular among consumers but are still being developed, produced and transported, and represent an important waste of resources. The rationalization of the references that have a low turnover is being done, to avoid these unnecessary costs and also avoid the environmental impact that they have.

## 4.4. Other companies

### 4.4.1. L'Oréal

The L'Oréal CSR strategy is developed around the mission "Sharing beauty with all", a strong purpose that helps the group to integrate their sustainability plan, a base for the strategy, something that they have in common with Shiseido. It started in 2013 and they were pioneer in the adoption of CSR as a central strategy,



setting group objectives for the end of 2020. It is important to know that L'Oréal has set a very good example for all cosmetic companies in terms of sustainability.

Interviewing the Global Communications and Event Project Manager at the brand L'Oréal Paris was key to understand the implications that L'Oréal has taken in CSR and the projects that are being implemented. As part of the brand's communications team, she feels implicated in the sustainability plan, not only with the projects that she is directly managing but also with actions that take place in the day to day office life. As part of the group's philosophy, there are many alternatives available to avoid printing or single-use cups and internal communication events are organized to educate the employees on CSR.

L'Oréal's overall objective is to develop a business model in the group that is much more sustainable in the long term and to review the group's philosophy and the individual's brand philosophy to build a coherent model. The CSR strategy is declined at the levels of the divisions and the brands, because they don't all follow the same rhythms and sustainability doesn't imply the same things for the mass market, luxury, professional products or active cosmetics. Therefore, the aim is to target all the actions and all the spheres of the group with four pillars, that create a coherent and unified strategy. These four pillars are Innovation, Production, Consumption and Sharing Growth.

### *Innovations*

Through innovation, L'Oréal has managed to decline large objectives into specific goals, in order to achieve, by 2020, that all of their products have a positive environmental and social profile and that they have improved. This is done by working on the formulas, the packaging and controlling the environmental and social impact that they have. Some objectives are large and concern the whole group, but it is important to put them into practice with smaller and achievable objectives that concern the specific brands and teams.

Reducing the environmental footprint of the formulas by working on green chemistry is an important innovation that L'Oréal is putting in place. On L'Oréal Paris they try to develop new actives and formulas to produce products with ingredients that need less resources to be produced. For brands that make solar protection products, they will develop formulas that don't pollute the water environment. This initiative can be declined into many different products and actions. For example, hairsprays are products that have been actively improved, by working on formula innovations to make them biodegradable and also on the packaging to obtain aerosols that are easier to recycle.

Another ambition is to work on biodiversity, by using ingredients that are sustainable (renewable ingredients) and by implementing a sustainable sourcing policy, in partnership with the ONG Green Forest Alliance. La Provençale, for example, is a brand that launched in 2018 in the French market, made with olive oil, and their beauty oil contains 97% of renewable raw materials.

In terms of packaging, they are constantly improving, by developing new products that are sustainable and renewing the ones existing to be more responsible. L'Oréal Paris, for instance, is trying to stop using black plastic in their shampoo bottles, as it cannot be recycled. They will either find a black plastic that can be recycled or take-off this plastic from the products. Also, La-Roche-Posay is working with the packaging

company ALBEA to develop cardboard tubes for the products, an innovation that will substitute a large amount of the plastic used.

### *Consumption*

For a global company such as L'Oréal, there is certain duty that exists in regard to sustainability. The products are massively present on the market, in beauty shops, supermarkets, perfume shops... and the impact of the perception of the products is really important. Their objective is to make cosmetic products that are in general more sustainable, without focusing particularly on branding them as green and ecological, where the options are limited. Regular products had to become more sustainable, making common large distribution sustainable and widely available, giving a larger choice to consumers while still proposing respectful products. This way, it will also convince the consumers that use applications such as YUKA and are interested in knowing the origin of their products.

Garnier, for example, launched a range of organic products, however, this didn't attract the consumer. The objective is to make the same product, with the same effectiveness, but with a reduced environmental and social impact, instead of creating organic and vegan ranges, that are not always accessible to all.

Transparency is also very important for a large group such as L'Oréal, as they can be easily attacked about different aspects of their production and products (transportation, packaging, sourcing), so L'Oréal is developing SPOT (Sustainable Product Optimization Tool), a tool to evaluate the products by giving them an environmental impact profile, that the consumers can access at any time.

### *Production*

Factories have various objectives to be more responsible in the production processes. Through energy management in the factories, L'Oréal will achieve the objective set in 2005, of reducing by 60% the CO2 emissions from their sites, by 2020. Also, the transportation of products had become more sustainable from 2011 to 2020, with a reduction of 20% in the CO2 emissions.

All of this is done with renewable energy, using for example solar panels to obtain electricity and by the end 2020 the group will have 38 factories that are carbon neutral. Some of the factories in the group are used as model factories (for example the Yichang site in China and Burgos site in Spain). The objective is that over the years all the factories replicate the model of these sustainable sites.

### *Sharing growth*

Finally, sharing growth is the pillar that distributes this growth with the people and the ecosystem. Citizen day, for example is an initiative in which the L'Oréal employees, worldwide, will spend a day working for non-benefit associations to help society (paint a school, pick up plastic on the beach...).

They also have the "Share and care program", which is an internal program to ensure social protection in countries where essential human rights might be at risk. It is present in all the countries where the group has a

subsidiary and they have a partnership with the World Organization of Labor. In addition, there are global initiatives to ensure good life quality at work, healthcare, maternity and paternity leave...

#### 1.4.2. Chanel

In line with the expectation of stakeholders, the sense of mystique that Chanel used to create around its business practices has been left behind, and the Maison decided in 2018, to start disclosing on their CSR strategy in a Report to Society that communicates transparently on the company's values and their commitment to sustainability. The case of Chanel is quite different from Shiseido's or L'Oréal's, as Chanel is privately owned, so they don't have the obligation to disclose information publicly, and the company and the brand are one, instead of a group with different brands. However, it is also interesting to understand how a CSR strategy is implemented in this more discrete and luxurious brand.

Chanel's strategy is built on the aim of creating long-term value for the brand, the luxury industry and society, betting on the future through sustainability. This long-term value is based on three pillars, that are "a creation-driven brand, a committed luxury leader and a human-driven company". Their timeless brand purpose relies on the creator's passion for self-empowerment and creating her own destiny. In their Report to Society, Chanel claims "Our DNA is in everything we make, and elevating women, treasuring their complexities and facets, is in our DNA" (*Chanel Report to Society, 2018*). Once again, a strong mission that leads all the efforts taken towards sustainability and a clear CSR strategy that is now known to all, through their public Report to Society. This report also explains the coherence in their business model and the commitments that they have made in contributing to sustainability. Chanel also owns Fondation Chanel, that "actively contributes to the Chanel CSR strategy. As a bridge between the company and non-profit partners, Fondation CHANEL embodies a lasting commitment for women and girls worldwide" (*Fondation Chanel Website, 2020*).

I was able to better understand the way that Chanel supports their markets is the path towards sustainability by interviewing the person working as Merchandising Supervisor at Chanel Spain, who also is in charge of sustainability projects for the marketing department. The Chanel subsidiary in Spain is mainly in charge of the cosmetic business axis and the initiatives discussed are all in regard to cosmetic products. At the Madrid office, the Training and Human Resources Director is in charge of discussing sustainability with the headquarters and working with the teams to develop the sustainability initiatives. The Madrid office also has a sustainability committee with members across all departments, commercial, human resources, training, communication, finance, public relations and marketing that gathers every 2-3 months to discuss and align on the initiatives implemented in each department. The project can either be imposed by the headquarters or they can be proposed by the market, according to the necessities that might be most impactful for them. This is a very good way to make sure that the strategy is both coherent and pertinent, with initiatives that are standardized and initiatives that are also tailor made to the particular challenges that the market might be facing. With this interview, I finally got closer view on how actions are implemented in the markets, being closer to the specific process.

## *Suppliers*

One of the main sustainability initiatives that were demanded by the headquarters was to audit and regularize the standards of all the suppliers working for Chanel. This includes every little detail: the materials they use and where they come from, the working conditions of employees and if they are being paid fairly. This also included analyzing the level of responsibility of the materials they use and making sure that they are not harmful for the environment or society. Regarding the workers, all the standards had to be in line with Chanel's policies, in terms of working conditions and hours and safety at work.

This audit is being done for every one of the suppliers and it has to be done for any new supplier that starts working with the subsidiary. Working hand to hand with all the subsidiaries is the best way to make sure that all of the supply chain and value chain are sustainable and responsible, which is a major step that companies should all be taking.

## *Materials*

One of the projects managed by the Merchandising Supervisor at Chanel Spain to improve the sustainable aspect of the brand in the Spanish market, was putting into place a life cycle follow-up of the PLV (all the displays used in the different points of sale to support the campaigns being played). The full life cycle is easy to calculate from the creation of the PLV until it is distributed to the points of sale. At the moment, Chanel knows the origins of the PLV, how it is transported to the market (to Spain by truck) and the environmental impact that it has... The problem is that once it is distributed in the point of sale, there is not tracking of the way that the PLV is being disposed. In general, the points of sale don't recycle the PLV and this is causing a lot of pollution that could be avoided through recycling. The idea is to create a virtuous cycle that ends in the recycling of the PLV that has been used, working with a local recycling company. There are a few constraints that impact this project, the high costs linked to gathering all of the PLV and recycling it and the fact that the points of sale don't have enough space to stock the PLV during the months after the campaign has been played. In order to face this constraints, Chanel is trying to work hand to hand with other cosmetic firms in order to join the efforts and make their marketing tools more sustainable.

Also, they are trying to make changes in the materials used, such as the Duratrans or the lights from the stands. Duratrans is used as a generic term to refer to blacklight display prints, used very often for promotional displays. At the moment, they are changing it for backlight and this has a positive impact on sustainability and cost. By avoiding to print on this plastic material, they reduce the plastic consumption, also, the machines used for Duratrans are very costly, so the material is less expensive. They are also exploring how to use Duragreen, which is a material that imitates the original method used but is made of recycled component. In terms of lighting, all of the lights in the Chanel point of sale and the office are being changed to Led, which consumes less energy.

### *Product recycling*

There are other sustainability initiatives that have been launched in Spain to create awareness among Chanel's clients, such as incentives to recycle their finished products. With the launch of the new The Lift skincare campaign, Chanel started offering to the consumers the possibility to bring their empty products, for recycling, to some of the El Corte Ingles points of sale over the country to get in return a flash make-up or skincare treatment with the brand's specialists. The idea is to expand this initiative to other retailers and make it more common.

## 5. Discussion and conclusion

According Lord Holme's and Richard Watts's claim stated in the first paragraph, CSR is a long-lasting commitment that businesses make to act ethically by supporting sustainable development and society. The importance of this commitment shouldn't be underestimated, and this research aims to prove this, as well as to propose an effective plan of action to help cosmetic companies to place CSR at the heart of their business strategy. After developing a deeper understanding of the evolution and implementation of CSR in general, and more particularly in the cosmetic industry, through the study of different literature pieces published over the years and the original research done on the topic, we are able to draw some conclusions to this matter. Although the subject of CSR is very large, and there are very different opinions about it, it is important to put an accent on various points that seem to be particularly enlightening.

For the theoretical section, the first conviction that is shared by most authors and me, is the fact that CSR is a subjective idea, behaviour, mentality, set of values that is still in the process of being developed and defined. Although, its definition is still unclear, it has become a very common practice among multinational firms as well as smaller companies. For the cosmetics industry, CSR has been very impactful and there has been a radical change in the behaviour of some of the firms in the sector. After being at the heart of many scandals related to CSR, cosmetic firms are looking to improve their reputation among consumers, governments and international organizations. In fact, unethical behaviours like animal testing, the use of child labour, the unfair working conditions and the over-polluting factories, are no longer accepted by regulations and more importantly by the public opinion. All of these issues have made cosmetic companies realise that a shift in their business strategy was necessary if they were to continue to be successful. The implementation of CSR in the cosmetic industry started mainly with an improvement in the ingredients, the sourcing, the packaging and the sustainable management of production processes. Also, the link between CSR's and financial performance has created a number of different opinions among the researchers. In some articles, there is clear proof of the theory that good ethics will, in time, lead to great business, but this is not a unanimous opinion, although it is the one that convinced me the most. Also, integrated reporting, that includes sustainability information in commonly known financial reports, is the new trend regarding CSR and many public companies have taken the step of issuing these reports. Regulations are also responsible for the increase in importance of CSR, as this attitude is no longer optional for businesses of a certain size, but a legal and social demand.

Supported by further qualitative and quantitative research done on sustainability, consumer behaviour and CSR strategies, I am also able to provide some additional conclusions on the theory of CSR and its implementation. The survey's results have proven that sustainability has become a major concern for consumers, that have claimed to take the most interest in the sustainability of the ingredients, the packaging and sustainable sourcing. This up to date data on customer behaviour is the basis of the research and it was necessary to sustain empirically the importance of the framework of CSR strategy on which I can now conclude.

The core of this framework is a strategy that is “holistic and systematic” (*CSR/Sustainability expert and Senior Consultant, ITG Group*) and all of guidelines proposed for the framework rely upon this core concept that is what will, in time, make the strategy really work. The idea is to ensure that every step taken towards sustainability should come from deep down, from the essential philosophy and values of the firm. A holistic and systematic strategy will integrate the fundamental components that any CSR strategy needs to have, which are, a mission and values, a road map and objectives, coherence and the conviction of its people.

The best way to achieve a systematic and holistic CSR strategy is through integrated reporting, as it is the only way that financial and non-financial results can be integrated in one unique strategy, which will lead to better economic results without negatively impacting society and the environment.

By studying the case of Shiseido’s CSR strategy, we are able to understand how a real cosmetic group puts into place the fundamental components from the framework and what are the mistakes that are sometimes made. The practical initiatives seen in Shiseido’s case study and the comparison made with two competitors, L’Oréal and Chanel, also provide more concrete evidence of how CSR is implemented in different ways, not only in the headquarters but also in the subsidiaries. These companies haven’t started to use integrated reporting yet, but they are all implementing CSR in their value-chain and producing sustainability reports. If they do it right, over time, they will see how their CSR strategy and their general business model start to merge into one, that should be reported in an integrated document and it is then that they will have achieved the systematic and holistic approach.

This framework provides a line of action for entrepreneurs, companies, managers, consultants and regulatory bodies that may need to expand their knowledge on CSR strategies in the cosmetic business. For entrepreneurs, this study provides a base to develop a systematic and holistic approach from the beginning and it will help them see the positive implications that integrated reporting will have for them. For the companies, managers and consultant, it should be a wakeup call to understand how integrating the CSR strategy into the business model should be a primary objective in the agenda, and although it isn’t a simple process to put in place, it is the only way to achieve long term sustainability. Finally, regulatory bodies should probably undertake further action to encourage cosmetic companies to integrate their results into one single report, that will help companies to become more sustainable and also better performing.

This research also has some limitations, that should be considered for the results and for future researchers. These limitations include that fact that the company that is studied as well as its competitors have not yet integrated their reports into one, even if many of the fundamental components of an effective CSR strategy are present in their sustainability plans. Also, Shiseido is a Japanese company and the focus of this research was set on the EMEA region, that is also the headquarter and excellence centre for the perfume brands. If the research had been done for the worldwide headquarters in Japan, or the US make-up headquarters, further results could have been found, as the make-up brands for the group and the Japan headquarters are deeply invested on CSR. This might be an axis of improvement on which other studies could be set. Also, only the cosmetic industry was studied, and it would be refreshing to find out more on how CSR strategies are

implemented in other sectors and even to extrapolate the framework developed for this industry into other industries.



## 6. Appendixes

### **Appendix 1: Survey on sustainability of cosmetic products**

This survey will evaluate the sensibility of consumers to the sustainability of the products they purchase.

Thank you for your help!

1. What is your gender?

- Female
- Male
- Prefer not to say

2. How old are you?

Please enter the product number

- <18
- 18-25
- 26-35
- 36-45
- 46-55
- 56-65
- >65

3. What is your nationality?

---

4. How often do you buy cosmetic products?

- Very frequently
- Frequently
- Rarely
- Do not shop

5. What cosmetic products do you use most frequently?

- Fragrances
- Make-up
- Skincare

6. When choosing cosmetic products what factors do you consider most?

- Quality
- Convenience
- Price
- Ingredients
- Recommendations
- Environmental impact
- No animal testing
- Brand

7. How conscious are you about sustainability?

- Very
- Fairly
- A little bit
- Not at all

8. What are the most important ecological and ethical aspects of a product to you?

- Sustainable and ethical ingredients
- Ethical sourcing
- Packaging
- Production processes
- Philanthropic actions

9. Do you look at the ingredients in a beauty product before purchasing it?

- Always
- Sometimes
- Never

10. Would you buy a beauty product that contains ingredients that are tested on animals?

- Yes
- No
- Maybe

11. Would you buy a beauty product that contains animal ingredients?

- Yes
- No

Maybe

12. Would you buy a beauty product that contains synthetic ingredients?

Yes

No

Maybe, if they are not harmful

13. Would you buy a beauty product that contains palm oil?

Yes

No

Maybe

14. Would you be more likely to buy a product with ingredients sourced ethically?

Yes

No

Maybe

15. Are you more likely to buy a product if you know it is produced sustainably?

Yes, and I am willing to pay more for it

Yes, but I wouldn't pay more for it

No

16. How likely would you be to buy a product with a packaging that you can refill?

Very

Fairly

A little bit

Not at all

17. Do you recycle your beauty products once they are finished?

Yes

No

Sometimes

18. Would you consider that a product is less valuable or luxurious if the packaging is lighter?

Yes

No

Maybe

19. Would you be more likely to buy a product if you know the company undertakes philanthropic activities to help society?

Yes

No

Maybe

20. Do you check on the sustainability standards of your favorite brands?

Very often

Sometimes

Never

21. Would you boycott a brand that is using harmful ingredients or damaging the environment?

Yes

No

Maybe

## 7. Summary

### 7.1. Introduction

“Corporate Social Responsibility (CSR) is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” *Lord Holme and Richard Watts*.

The notion of CSR and the business practices that lead to its implementation have been subject of many studies over the years. There are also previous researchers that have studied sustainability in the cosmetic industry and green-cosmetics, since it has become increasingly popular among consumers. However, there isn't a single study published that generates a generic frame of action for cosmetic companies for implementing a CSR strategy, relying on coherence and integrated reporting, and aiming to achieve an overall financial and extra-financial performance.

The scope of this project includes: the understanding of CSR and its development in the cosmetic industry, through past research; literature knowledge on sustainability reporting and performance related to CSR and finally original research on consumer behavior and the implementation of CSR in a cosmetic company to achieve effectiveness and success, based on the study of the Japanese cosmetic group Shiseido.

The first objective is to obtain deep knowledge on CSR, the cosmetic industry and the sustainability practices that this industry has developed. Secondly, to prove the increasing importance of CSR for consumers and to link CSR with performance and reporting. This is an essential purpose of the study, as it is only through performance, that the company will be able to fulfill the obligations that it has towards society. Finally, it aims to achieve further plausibility by covering a real-life business case and cross-checking it with some of its competitors. Overall, the research covers a factual and practical study of consumer behavior and the main mechanisms that cosmetic companies should use to implement their CSR strategy, focusing on the reporting as the main tool to achieve success.

### 7.2. Theory Sections

In the reality we are currently facing, corporations are no longer expected to exclusively make profits. Making a positive impact on society, respecting the environment and human rights are some of the requirements that consumers, employees and even the law are increasingly demanding from firms. Although these used to be voluntary actions, the increase in awareness and the environmental and social problems that society is facing, have changed that quite drastically. Since it appeared, the notion of CSR has been widely studied: in this section, the theoretical studies carried on CSR in general, its evolution and its importance in the cosmetics industry have been identified and analyzed.

Researchers weren't able to agree upon a real definition for the concept of CSR since the 1950s, it is when B. Carrol published an article giving a more concrete frame to the concept. In the article “The pyramid or

Corporate Social Responsibility: toward the moral management of organizational stakeholders, 1991” are described four categories that embody the responsibilities that companies hold, which are economic, legal, ethical and philanthropic. In the article, he explains how, for the shareholders and directors to be able to understand the importance of CSR and accept it, the concept had to be framed together with the other responsibilities that they were already familiar with.

As the cosmetic market has grown in size and importance, its impact on sustainability has increased, and once this became known to consumers and regulatory bodies, there had to be actions taken on matter. The expectations of users as well as the regulations implemented in the cosmetics industry have experienced a drastic shift in the last decade, leading to a change not only in the products, but also in the way that cosmetic companies develop them. In the theoretical section, there is also a detailed analysis of the research done on consumer behavior regarding green products in the cosmetic industries, the regulations that push companies to adopt CSR and the ways that companies can be socially responsible.

In terms of consumer behavior, we can say that it is the key factor that adjusted the path of the cosmetic industry towards a more sustainable one. As consumers are more aware and conscious about the social impact of the products they are consuming, and the sector becomes more and more competitive, companies are obliged to reach the standards of sustainability that are now demanded.

In addition, the legal frame enforced over the last few years has also been able to influence the cosmetic industry to adopt CSR initiatives and become more sustainable. In Europe, as well on a global level, the regulations that have been implemented in the sector and for CSR in general are highly important for companies.

Finally, there are many dimensions in which a company can act in terms of CSR and sustainability in the cosmetics industry. All the efforts have the ultimate goal to achieve a lower environmental and social footprint from the products sold, in terms of ingredients, packaging or production. Also, companies often reinvest some of their profits into philanthropic activities that will help society.

When dealing with sustainability in a company, we can't forget the important tools that are used to follow the and document the initiatives implemented, “a broad array of stakeholders are continually demanding companies to provide transparent disclosure on multiple dimensions of economic, social, and environmental performance (*Logsdon and Lewellyn 2000; Rasche and Esser 2006*), commonly known as sustainability reporting” (*Irene M. Herremans, Jamal A. Nazari & Fereshteh Mahmoudian, 2016*). Therefore, in this theoretical section we also take a deeper look into the use of sustainability reporting and, in some cases, integrated reporting to ensure that all the right steps are being taken.

Finally, we shouldn't forget that a businesses' principal mission is to be profitable and to produce and offer the most competitive products to consumers. Therefore, it is necessary to analyse how CSR affects a company's performance and profit in the long run. There have been many studies that have succeeded in proving that good ethics is the best possible path to good business and more particularly a sustainable business. “In effect, socially responsible corporate action is increasingly argued to be a prerequisite for protecting the bottom line and boosting shareholder value” (*Epstein & Rejc-Buhovac, 2014*).

### 7.3. Research Section

In the case of this research, a mixed method research has been made, which is the combined use of quantitative and qualitative methods in a single study. According to researchers R. Cameron and J. F. Molina-Azorín this mixed method wasn't as widely popular in the field of Business and Management as in Education, Sociology, Psychology and Health Sciences. However, there has been an increase in the literature that proves the success of this more complex research method in Business and Management studies. In fact, the results of their "study point to a growing use of mixed methods in applied postgraduate business and management research. The authors anticipate major shifts in the teaching of research methods and the building of research capacity in applied business and management research in the future" (R. Cameron and J. F. Molina-Azorín, 2011).

My intention through the quantitative research was to analyze the sensitivity of customers towards the different dimensions of CSR, mentioned in the literature review. Testing the purchase intentions on a wider set of population has provided the necessary evidence of the importance of CSR initiatives, not only in the most evident aspects, but also in ones that are least used, such as philanthropic activities. This quantitative research was important to make a point on the relationship between the CSR implementation and the increase in sales and financial performance of companies. In addition, I wanted to conduct qualitative research on the topic, to get a better understanding of CSR strategies and reporting as a whole, and also illustrate this strategy with the example of how Shiseido had implemented their CSR strategy and the way that it had affected their performance. Also, I wanted to compare it to the competitor's approach, which is achieved with the help of the interviews conducted.

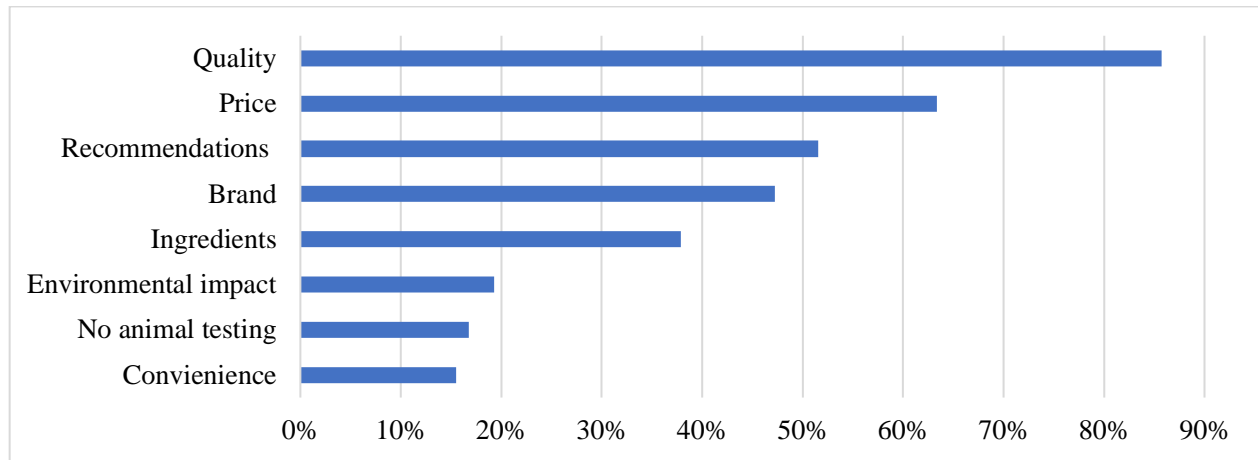
### 7.4. Results and analysis

#### 7.4.1. Consumer behavior towards sustainability

In the aim of getting a better understanding of the importance that consumers award to the sustainable dimensions of their beauty products, I conducted a survey. This survey tested the consumers with different questions regarding their consumption habits for cosmetic products and their sensitivity to various facets of sustainability, identified in the literature review. With this information, I was able to draw some conclusions on how important it is for companies to make their products and their practices more sustainable. Also, I have seen the important impact that it has on their perception of brands and therefore their likeliness to consume products from these brands. This will ultimately affect the total sales and the performance of a business.

At the beginning, some initial demographic information was collected about the respondents as well as some general information about their consumption habits and their sustainability habits, that we will not see in detail for the purpose of this summary. However, this information was interesting to know more about the respondents, which was useful to draw some conclusions and to be able to identify the limits of the survey as well.

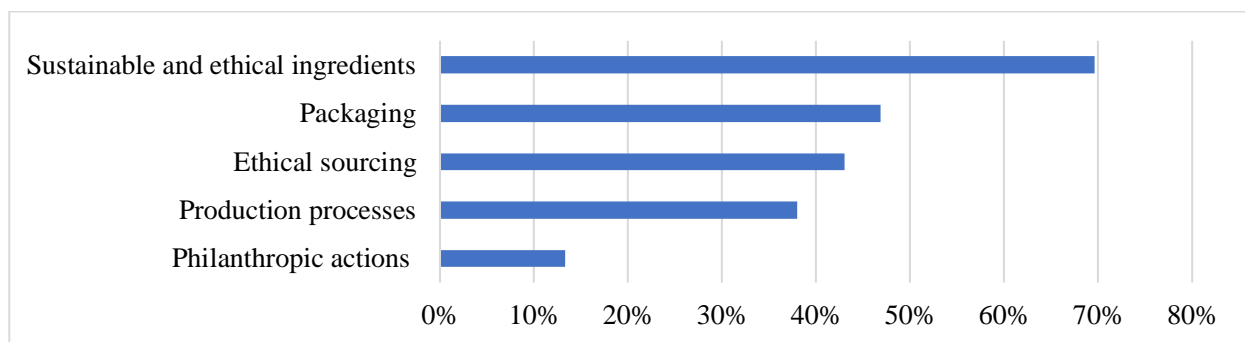
Later on, in question number 6, the respondents were asked to determine the factors that they considered the most when purchasing cosmetic products and the results showed that the quality, the price and the recommendations were the most popular factors. In the graph below, all the results are listed.



*Question 6: When choosing cosmetic products what factors do you consider most?*

This graph is very enlightening to understand what are the factors that will impact most consumers in their behavior. For any product, it is essential to bear in mind that quality, price and recommendations are the factors most impactful for consumers, therefore any brand that produces cosmetic products has to ensure that their products are high quality, have a decent price and that the results will lead to consumers recommending it.

After knowing how important sustainability was to our respondents, they were questioned about the aspects of sustainability that seemed the most important to them, from the dimensions of CSR that were identified earlier in the study, during the theoretical research.



*Question 8: What are the most important ecological and ethical aspects of a product to you?*

From these different dimensions of CSR practices, the one that was more important for the respondents was the fact that the ingredients were sustainable and ethical, selected by 70% of them, followed by the packaging selected by 47% and ethical sourcing that was an important factor for 43% of the people that answered. We should note that not all respondents were fully familiar with the initiatives that corresponded to each of these terms, as I was questioned in multiple occasions on the real meaning and the actions that took place behind



some of the dimensions. Then the survey gives further information about the consumers' opinions and perception of the different dimensions of CSR that companies can put into place, the aim was to understand which are the most important to develop and what impact they will have on the consumers' behavior.

The overall conclusion on the survey's results is that it has proven that sustainability has become a major concern for consumers, that have claimed to take the most interest in the sustainability of the ingredients, the packaging and sustainable sourcing. In some aspects, consumers still have a long way to go in terms of education and knowledge about sustainability in the cosmetics industry, but the overall perception is that it is something that concerns most of them. This up to date data on customer behaviour is the basis of the research and it was necessary to sustain empirically the importance of the framework of CSR strategy on I have built my study.

#### 7.4.2. CSR strategy and Sustainability reporting

As we have seen in the previous section, the interest that most consumers are taking in the sustainable aspect of the products they consume is increasingly high and companies have to make sure that their strategies are on point to be able to answer the demands of a set of consumers that is toughening overtime and becoming stricter. Society is changing, as seen in the survey, it is becoming more conscious and looking to purchase from companies that perform in different aspects, other than financially.

The following research, discussed with interviewee 4, who's an expert in CSR and sustainability and works as a senior consultant for ITG Group, explains some of the key elements that allow companies to implement the right CSR strategy for their business model. An analysis is made of the different factors that should be considered by companies when building a CSR strategy from scratch, with a particular interest on cosmetic firms, as well as guidelines on how to avoid failure in the implementation. It is important to know that any core transformation in a company takes time and resources to be fully impregnated in the company's foundation and results cannot be immediate, if they are going to be successful in the long-term. Over time, the company will not only attain an important financial performance, but it will also achieve sustainable performance, which is a value-added component. "The implementation might take some time, as the change journey is not easy, but once achieved, the goal is to have CSR strategy that is systematic and holistic, fully integrated, without even needing a CSR director, as CSR will no longer be a department, but a core value that is incarnated in the strategy, in all the departments, all the jobs and every little action" (*CSR/Sustainability Expert and Senior Consultant at ITG Group*).

For building a good CSR strategy that is systematic and holistic, firstly, and most importantly, the company has to have a strategy that is clear, as well as a vision and values very explicitly stated, in order to be able to vehiculate these in their sustainability strategy. The philosophy, vision and values have to come first, and they should be well thought, coming from a very deep place of reflection.

The second step is to lay out a roadmap and objectives that are well thought and achievable. In order to do so, it is always recommended to use sustainability reporting and even better, integrated reporting, to ensure that the roadmap and objectives are being followed carefully and fully integrated in the business model.

In order to have that systematic and holistic approach, there also has to be an important coherence that is spread widely across the firm. However, we cannot only implement this coherence in the surface, it is important to go further and transform the company. It is a question of the firm's posture and, to be able to achieve the right posture, a lot of work from the inside needs to be done. It can take a long time for a company to regularize the whole value-chain, it depends also deeply on the size, the strategy and the business model, so it is important to make sure that everything is done correctly from the beginning.

Finally, another important factor is the workforce that is in the company and I would even dare to say that it is one of the most important ones. The rhythm at which the directors integrate the change towards sustainability will be essential to determine how effectively the strategy will be implemented. The leadership team has to be onboard with the CSR strategy to make sure that it will be carried out correctly, otherwise it will not work.

In the case of cosmetic companies, they have to act on different levels to make sure that all of the basic requirements listed above are respected and that their CSR strategy follows the systematic and holistic approach.

The first step is to make a mapping of the risks and how they can be integrated in the business model, such as environmental risks and social risks, and their impact. Making a link between the risks and the business model will make it easier to address the issues.

Also, when it comes to cosmetic companies, the sourcing and supply chain goes very far, so in order to be sustainable, the initiatives have to be taken all the way until the end of the business model and the end of the value chain. The path towards sustainability needs to start from the beginning, not only with the production and sale of the products, but also with each of the ingredients that are present in the products.

Finally, one of the fundamental parts of a CSR strategy, seen earlier, is to put in place objectives, but, as it was discussed, not any objective is applicable. Each company has to choose the objectives and challenges that will have the most impact for their business model, for instance, for a company that uses flowers as one of the main raw materials, the objectives should be closely linked to the activities undertaken when growing and picking the flowers, making sure they are as efficient and sustainable as possible.

There are also a few mistakes that all companies and more particularly cosmetic companies need to avoid making. The first mistake commonly made is to only comply with the basic sustainability standards that are legally required. It is true that an important part of sustainability standards is ensured through legal obligations, however, CSR has to go beyond the legal framework that is imposed and take further action in sustainability. The legal standards are the minimum rules that companies have to respect to avoid any legal conflict, but this is imposed and, in order to be socially responsible, they have to take a step further.

Another common mistake is to avoid formalizing the CSR strategy: there are many companies for which the CSR strategy is only starting to be implemented and things are not as formalized as for others, however, there are various reasons why having an unformalized CSR strategy can have a negative impact on the company. For companies that have many subsidiaries or big groups that operate in an international level, especially if they have different brands and specialties, if the CSR strategy is not clearly formalized it will probably be very uneven. This is a major problem for companies, as the efforts that are made in some brands or territories can be very easily destroyed if the other brands or subsidiaries don't act in the same direction.

Finally, another big mistake that is made by some companies, especially in the beginning of CSR, was to try to trick the public opinion into thinking that a company was acting sustainably, while in reality it wasn't the case. The internet and social networks have made information get around much faster and this fake greenwashing is no longer possible for the big companies that are carefully followed and watched, not only by regulatory bodies but also by NGOs and the public opinion. Transparency has increased importantly, and the bad examples are easily spotted and pointed out, so it is strongly recommended to avoid this kind of behavior as it will very likely backfire at some point in time.

#### 7.4.3. The Case of Shiseido Group

Shiseido Group is a Japanese firm that produces and distributes cosmetics and luxury products internationally. Founded in 1972 by Yushin Fukuhara, it is the oldest cosmetics company in the world and it uses the traditional Japanese cosmetic habits, while taking advantage of the occidental technologies and adapting it to its culture. The French subsidiary of the company is known as Beauté Prestige International, it is in charge of Shiseido's perfume brands, on a worldwide level.

Sustainability has become a central concern in Shiseido's business model. The worldwide headquarters, located in Japan, have an important sustainability department that is in charge coordinating the initiatives undertaken in the different centers of expertise, the global strategy and the production of annual sustainability reports. There are around 20 people working in the sustainability team and the department was created around 20 years ago. I was able to interview the Sustainability Project Officer for the EMEA region on the sustainability plan and projects that were being put in place, getting a closer insight into the practical implementation of a CSR strategy in an important cosmetic group.

As we have seen, when developing a CSR strategy, the first step is to have a mission that will help to draw the lines of the strategy and create that coherence that is key in the success of the strategy. At Shiseido, a new corporate mission, "Beauty innovations for a better world" was established in 2019, with a number of objectives that "will aim to realize a society where everyone can live the way they want to", through the creation of Social Value (*Jun Aoki, 2019*). In line with the group's corporate vision, the way that Shiseido approaches sustainability is well consolidated in this affirmation: "The integration of sustainability doesn't mean restrictions or taking away possibilities, on the contrary, it is an innovation, a new way of working, new

economy and new business opportunities” (*Sustainability Project Officer EMEA, Shiseido*). Combining sustainability and innovation, as the way to achieve Creating Social Value.

“The sustainability plan followed at Shiseido relies on the analysis of concrete facts that allow to reduce any negative impacts on the basis of factual research, to be able to avoid going for fake good ideas” (*Sustainability Project Officer EMEA, Shiseido*). In order to do so, detailed research has been done, through the analysis of the life cycle of the some of the products, an environmental risk mapping and a societal risk mapping. Their CSR strategy is split in three main pillars, that aim to focus on different aspects of sustainability, covering the risks identified and creating an important coherence on the whole strategy. These pillars are to “Protect beauty, Inspire beauty and Empower beauty”. In the following graph are represented the three axis and the domains on which they each act, all in the aim to attain a sustainable business model.

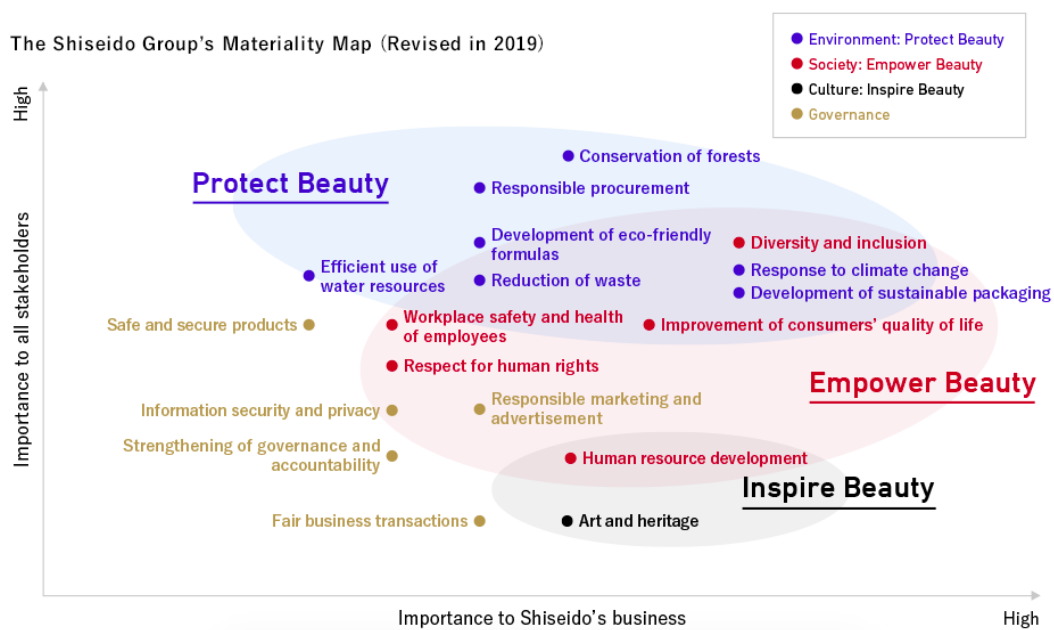


Fig 1: The Shiseido Group's Materiality Map (Source: Shiseido's Sustainability Website)

The “Protect Beauty” pillar relates to protecting the environment and the people: as Shiseido claims, “protect the beauty of the earth and the beauty of the people who call Earth home, protect the beauty of all other life that exists on the earth as well”. As seen in the graph, this pillar concerns concrete activities for the production processes and the products themselves. In the aim of protecting beauty, Shiseido puts in place initiatives that help to reduce the environmental burden from their operations.

With the “Empower Beauty” axis, Shiseido is looking to “empower their people” and it relates to the beauty of the society. The objective is to “motivate and empower all people who make up our society”. To put into practice this essential pillar, they involve all employees and train them on the basic elements of sustainability. This is an important task for the employees and the group, in particular, because the sustainability cause is very transverse, and it needs the collaboration of all the departments to work.

The final pillar, “Inspire Beauty” relies on the inspiration that the Japanese beauty culture can create in the company and for the consumers. Shiseido wishes to “use Japanese beauty to raise beauty awareness around the world and encourage the realization of beauty as a culture” (*Shiseido Sustainability Website, 2019*).

On the performance side, one of the main objectives that Shiseido has been pursuing for the last few years is to improve the operating profit for the group. To do so, Shiseido worked hand in hand with McKinsey on the EAGLE project, to find what aspects of the business could be improved and where the company could make some economies. These economies were, in many of the cases, a great improvement in terms of sustainability as well. With this project, Shiseido was able to prove how companies can be both economically performant and sustainable at the same time.

#### 7.4.4. Other companies

For the purpose of comparing Shiseido’s CSR strategy to some of its competitors, the research looks at the initiatives that L’Oréal and Chanel have put in place.

The L’Oréal CSR strategy is developed around the mission “Sharing beauty with all”, a strong purpose that helps the group to integrate their sustainability plan, a base for the strategy, something that they have in common with Shiseido. It started in 2013 and they were pioneer in the adoption of CSR as a central strategy, setting group objectives for the end of 2020. It is important to know that L’Oréal has set a very good example for all cosmetic companies in terms of sustainability. The group’s overall objective is to develop a business model in the group that is much more sustainable in the long term and to review the group’s philosophy and the individual’s brand philosophy to build a coherent model. The CSR strategy is declined at the levels of the divisions and the brands, because they don’t all follow the same rhythms and sustainability doesn’t imply the same things for the mass market, luxury, professional products or active cosmetics. Therefore, the aim is to target all the actions and all the spheres of the group with four pillars, that create a coherent and unified strategy. These four pillars are Innovation, Production, Consumption and Sharing Growth. The detail of the pillars is further studied in the thesis.

As for Chanel’s case, in line with the expectation of stakeholders, the sense of mystique that the company used to create around its business practices has been left behind, and the Maison decided in 2018, to start disclosing on their CSR strategy in a Report to Society that communicates transparently on the company’s values and their commitment to sustainability. The case of Chanel is quite different from Shiseido’s or L’Oréal’s, as Chanel is privately owned, so they don’t have the obligation to disclose information publicly, and the company and the brand are one, instead of a group with different brands. However, it is also interesting to understand how a CSR strategy is implemented in this more discrete and luxurious brand. For this case, the initiatives that the company put in place in the Spanish market we studied, to better understand the way that Chanel supports their markets is the path towards sustainability.

## 7.5. Conclusion

According to Lord Holme's and Richard Watts's claim stated in the first paragraph, CSR is a long-lasting commitment that businesses make to act ethically by supporting sustainable development and society. The importance of this commitment shouldn't be underestimated, and this research aims to prove this, as well as to propose an effective plan of action to help cosmetic companies to place CSR at the heart of their business strategy. After developing a deeper understanding of the evolution and implementation of CSR in general, and more particularly in the cosmetic industry, through the study of different literature pieces published over the years and the original research done on the topic, we are able to draw some conclusions to this matter. Although the subject of CSR is very large, and there are very different opinions about it, it is important to put an accent on various points that seem to be particularly enlightening.

For the theoretical section, the first conviction that is shared by most authors and me, is the fact that CSR is a subjective idea, behaviour, mentality, set of values that is still in the process of being developed and defined. Although, its definition is still unclear, it has become a very common practice among multinational firms as well as smaller companies. For the cosmetics industry, CSR has been very impactful and there has been a radical change in the behaviour of some of the firms in the sector. In fact, unethical behaviours like animal testing, the use of child labour, the unfair working conditions and the over-polluting factories, are no longer accepted by regulations and more importantly by the public opinion. All of these issues have made cosmetic companies realise that a shift in their business strategy was necessary if they were to continue to be successful. The implementation of CSR in the cosmetic industry started mainly with an improvement in the ingredients, the sourcing, the packaging and the sustainable management of production processes. Also, the link between CSR's and financial performance has created a number of different opinions among the researchers. In some articles, there is clear proof of the theory that good ethics will, in time, lead to great business, but this is not a unanimous opinion, although it is the one that convinced me the most. Also, integrated reporting, that includes sustainability information in commonly known financial reports, is the new trend regarding CSR and many public companies have taken the step of issuing these reports. Regulations are also responsible for the increase in importance of CSR, as this attitude is no longer optional for businesses of a certain size, but a legal and social demand.

Supported by further qualitative and quantitative research done on sustainability, consumer behaviour and CSR strategies, I was also able to provide some additional conclusions on the theory of CSR and its implementation. The survey's results proved that sustainability has become a major concern for consumers, that have claimed to take the most interest in the sustainability of the ingredients, the packaging and sustainable sourcing. This up to date data on customer behaviour is the basis of the research and it was necessary to sustain empirically the importance of the framework of CSR strategy on which I have been able to conclude.

The core of this framework is a strategy that is "holistic and systematic" (*CSR/Sustainability expert and Senior Consultant, ITG Group*) and all of guidelines proposed for the framework rely upon this core concept that is what will, in time, make the strategy really work. The idea is to ensure that every step taken towards

sustainability should come from deep down, from the essential philosophy and values of the firm. A holistic and systematic strategy will integrate the fundamental components that any CSR strategy needs to have, which are, a mission and values, a road map and objectives, coherence and the conviction of its people.

The best way to achieve a systematic and holistic CSR strategy is through integrated reporting, as it is the only way that financial and non-financial results can be integrated in one unique strategy, which will lead to better economic results without negatively impacting society and the environment.

By studying the case of Shiseido's CSR strategy, we are able to understand how a real cosmetic group puts into place the fundamental components from the framework and what are the mistakes that are sometimes made. The practical initiatives seen in Shiseido's case study and the comparison made with two competitors, L'Oréal and Chanel, also provide more concrete evidence of how CSR is implemented in different ways, not only in the headquarters but also in the subsidiaries. These companies haven't started to use integrated reporting yet, but they are all implementing CSR in their value-chain and producing sustainability reports. If they do it right, over time, they will see how their CSR strategy and their general business model start to merge into one, that should be reported in an integrated document and it is then that they will have achieved the systematic and holistic approach.

This framework provides a line of action for entrepreneurs, companies, managers, consultants and regulatory bodies that may need to expand their knowledge on CSR strategies in the cosmetic business. For entrepreneurs, this study provides a base to develop a systematic and holistic approach from the beginning and it will help them see the positive implications that integrated reporting will have for them. For the companies, managers and consultant, it should be a wakeup call to understand how integrating the CSR strategy into the business model should be a primary objective in the agenda, and although it isn't a simple process to put in place, it is the only way to achieve long term sustainability. Finally, regulatory bodies should probably undertake further action to encourage cosmetic companies to integrate their results into one single report, that will help companies to become more sustainable and also better performing.

This research also has some limitations, that should be considered for the results and for future researchers. These limitations include the fact that the company that is studied as well as its competitors have not yet integrated their reports into one with the use of integrated reporting, even if many of the fundamental components of an effective CSR strategy are present in their sustainability plans. Also, Shiseido is a Japanese company and the focus of this research was set on the EMEA region, that is also the headquarter and excellence centre for the perfume brands. If the research had been done for the worldwide headquarters in Japan, or the US make-up headquarters, further results could have been found, as the make-up brands for the group and the Japan headquarters are deeply invested on CSR. This might be an axis of improvement on which other studies could be set. Also, only the cosmetic industry was studied, and it would be refreshing to find out more on how CSR strategies are implemented in other sectors and even to extrapolate the framework developed for this industry into other industries.

## 8. Sources

- Aaver, Bostjan, and Simon Cadez. "Management Accountants' Participation in Strategic Management Process: A Cross – Industry Comparision." *Journal of East European Management Studies*, vol. 14, no. 3, 2009, pp. 310–322, 10.5771/0949-6181-2009-3-310. Accessed 20 Oct. 2019.
- Amberg, Nora, and Csaba Fogarassy. "Green Consumer Behavior in the Cosmetics Market." *Resources*, vol. 8, no. 3, 30 July 2019, p. 137, 10.3390/resources8030137. Accessed 12 May 2020.
- Aoki, Jun. "Sustainability Strategy | ANNUAL REPORT 2018 | Shiseido Group Website." *Www.Shiseidogroup.Com*, 2019, corp.shiseido.com/report/en/sustainability/. Accessed 18 May 2020.
- Ashok, Som. "How the Beauty Sector Woke Up to Sustainability and CSR." *The Council on Business & Society*, 10 Feb. 2017, councilcommunity.org/2017/02/10/how-the-beauty-sector-woke-up-to-sustainability-and-csr/. Accessed 12 May 2020.
- Barnard, Chester I. *The Functions of the Executive*. 1938. Cambridge, Mass, Harvard University Press.
- Biedron, Rob. "Do Consumers & Companies Care About Ethical Sourcing? | PurchaseControl Software." *PurchaseControl*, 12 Dec. 2018, www.purchasecontrol.com/uk/blog/ethical-sourcing/. Accessed 12 May 2020.
- BORUNDA, ALEJANDRA. "The Beauty Industry Generates a Lot of Plastic Waste. Can It Change?" *Nationalgeographic.Com*, 18 Apr. 2019, www.nationalgeographic.com/environment/2019/04/beauty-personal-care-industry-plastic/.
- Cameron, Roslyn, and José Molina-Azorín. "Editorial Mixed Methods Research in Business and Management." *International Journal of Multiple Research Approaches*, vol. 5, no. 3, 2011, pp. 286–289. Accessed 12 May 2020.
- Carrigan, Marylyn, and Ahmad Attalla. "The Myth of the Ethical Consumer – Do Ethics Matter in Purchase Behaviour?" *Journal of Consumer Marketing*, vol. 18, no. 7, Dec. 2001, pp. 560–578, 10.1108/07363760110410263. Accessed 12 May 2020.
- Carroll, Archie B. *A Three-Dimensional Conceptual Model of Corporate Performance*. The Academy of Management Review, 1979.



- . “Carroll’s Pyramid of CSR: Taking Another Look.” *International Journal of Corporate Social Responsibility*, vol. 1, no. 1, 5 July 2016, 10.1186/s40991-016-0004-6.
- . “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders.” *Business Horizons*, vol. 34, no. 4, July 1991, pp. 39–48, 10.1016/0007-6813(91)90005-g.

CHANEL. *CHANEL REPORT TO SOCIETY*. 2018.

[http://services.chanel.com/i18n/fr\\_FR/pdf/Chanel\\_CSR\\_0305\\_Proof\\_180620\\_for\\_web.pdf](http://services.chanel.com/i18n/fr_FR/pdf/Chanel_CSR_0305_Proof_180620_for_web.pdf)

“Cosmetic Market Value Worldwide, 2018-2025 | Statista.” *Statista*, Statista, 2018, [www.statista.com/statistics/585522/global-value-cosmetics-market/](http://www.statista.com/statistics/585522/global-value-cosmetics-market/).

De Baillencourt, Sandra. *Sustainability in the Cosmetic IMPACT FOR BEAUTY A Sparknews Report in Collaboration with Cosmoprof Worldwide Bologna Have an Impact, Share Solutions*. 2019.

Drucker, Peter. *Practice Of Management*. New York, Harper & Brothers, 1954.

Eccles, Robert, and Daniela Saltzman. *Stanford Social Innovation Review Achieving Sustainability Through Integrated Reporting*. 2011.

Epstein, Marc J., and Adriana Rejc Buhovac. *Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental and Economic Impacts*. Google Books, Routledge, 8 Sept. 2014, [books.google.es/books?id=gKk0DwAAQBAJ&printsec=frontcover&dq=Epstein+%26+Rejc-Buhovac](https://books.google.es/books?id=gKk0DwAAQBAJ&printsec=frontcover&dq=Epstein+%26+Rejc-Buhovac). Accessed 12 May 2020.

Galant, Adriana, and Simon Cadez. “Corporate Social Responsibility and Financial Performance Relationship: A Review of Measurement Approaches.” *Economic Research-Ekonomska Istraživanja*, vol. 30, no. 1, Jan. 2017, pp. 676–693, 10.1080/1331677x.2017.1313122. Accessed 12 May 2020.

Herremans, Irene M., et al. “Stakeholder Relationships, Engagement, and Sustainability Reporting.” *Journal of Business Ethics*, vol. 138, no. 3, 29 Mar. 2015, pp. 417–435, 10.1007/s10551-015-2634-0. Accessed 12 May 2020.

Joyner, Brenda E., and Dinah Payne. “Evolution and Implementation: A Study of Values, Business Ethics and Corporate Social Responsibility.” *Journal of Business Ethics*, vol. 41, no. 4, 2002, pp. 297–311, 10.1023/a:1021237420663.

- Kim, Namin, et al. “Developing an Effective Strategic Mix of Corporate Philanthropy.” *The Service Industries Journal*, vol. 31, no. 7, May 2011, pp. 1049–1062, 10.1080/02642060903079428. Accessed 12 May 2020.
- “La Loi Sur Le Devoir de Vigilance.” *La Loi Sur Le Devoir de Vigilance – Liste Des Entreprises Soumises Au Devoir de Vigilance*, 2017, [plan-vigilance.org/la-loi/](http://plan-vigilance.org/la-loi/). Accessed 12 May 2020.
- Liobikienė, Genovaitė, and Jurga Bernatoniene. “Why Determinants of Green Purchase Cannot Be Treated Equally? The Case of Green Cosmetics: Literature Review.” *Journal of Cleaner Production*, vol. 162, Sept. 2017, pp. 109–120, 10.1016/j.jclepro.2017.05.204. Accessed 12 May 2020.
- Logsdon, Jeanne M., and Patsy G. Lewellyn. “Expanding Accountability to Stakeholders: Trends and Predictions.” *Business and Society Review*, vol. 105, no. 4, Dec. 2000, pp. 419–435, 10.1111/0045-3609.00091. Accessed 9 Apr. 2020.
- “L’Oréal Has Committed to a 60% Reduction in Water Consumption per Finished Product by 2020, from a 2005 Baseline. - L’Oréal Group | World Leader in Beauty | Official Website.” *Www.Loreal.Com*, [www.loreal.com/sharing-beauty-with-all-producing/reducing-water-consumption](http://www.loreal.com/sharing-beauty-with-all-producing/reducing-water-consumption). Accessed 12 May 2020.
- Lozano, Rodrigo, et al. “Elucidating the Relationship between Sustainability Reporting and Organisational Change Management for Sustainability.” *Journal of Cleaner Production*, vol. 125, July 2016, pp. 168–188, 10.1016/j.jclepro.2016.03.021. Accessed 12 May 2020.
- Myers, Michael D. *Qualitative Research in Business & Management*. London ; Thousand Oaks, California, Sage Publications Ltd, 2020.
- NAGAWAT, ABHA JAIN, and PAYOJ RAJ SINGH. “Acomparative Study of Corporate Social Responsibilities.” *INTERNATIONAL JOURNAL OF COMMERCE AND BUSINESS MANAGEMENT*, vol. 9, no. 2, 15 Oct. 2016, pp. 194–198, 10.15740/has/ijcbm/9.2/194-198.
- Newmark, Liz. “Will We Ever Have Global Cosmetics Legislation? The Experts Weigh In.” *Www.Cosmeticsbusiness.Com*, 19 July 2018, [www.cosmeticsbusiness.com/news/article\\_page/Will\\_we\\_ever\\_have\\_global\\_cosmetics\\_legislation\\_The\\_experts\\_weigh\\_in/145165](http://www.cosmeticsbusiness.com/news/article_page/Will_we_ever_have_global_cosmetics_legislation_The_experts_weigh_in/145165). Accessed 12 May 2020.

- Priyanka Narayan. "The Cosmetics Industry Has Avoided Strict Regulation for over a Century. Now Rising Health Concerns Has FDA Inquiring." *CNBC*, CNBC, 2 Aug. 2018, [www.cnbc.com/2018/08/01/fda-begins-first-inquiry-of-lightly-regulated-cosmetics-industry.html](http://www.cnbc.com/2018/08/01/fda-begins-first-inquiry-of-lightly-regulated-cosmetics-industry.html).
- Publications Office. *Regulation (EC) No 1223/2009 of the European Parliament and of the Council of 30 November 2009 on Cosmetic Products*. 2009.
- Raimo Streefkerk. "Qualitative vs. Quantitative Research | Definitions, Differences & Methods." *Scribbr*, 15 May 2019, [www.scribbr.com/methodology/qualitative-quantitative-research/](http://www.scribbr.com/methodology/qualitative-quantitative-research/).
- Rasche, Andreas, and Daniel E. Esser. "From Stakeholder Management to Stakeholder Accountability." *Journal of Business Ethics*, vol. 65, no. 3, May 2006, pp. 251–267, 10.1007/s10551-005-5355-y. Accessed 4 Feb. 2019.
- "SDD - GRI Database." *Globalreporting.Org*, 2017, [database.globalreporting.org](http://database.globalreporting.org).
- "Section 135 of Companies Act, 2013 – Corporate Social Responsibility." *Corporate Law Reporter*, 2013, [corporatelawreporter.com/companies\\_act/section-135-of-companies-act-2013-corporate-social-responsibility/](http://corporatelawreporter.com/companies_act/section-135-of-companies-act-2013-corporate-social-responsibility/).
- Simon, Herbert A. *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*. New York (N.Y.), Free Press, 1945.
- "Sustainability Reporting in the EU." *Globalreporting.Org*, 2020, [www.globalreporting.org/information/policy/Pages/EUpolicy.aspx](http://www.globalreporting.org/information/policy/Pages/EUpolicy.aspx).
- "Sustainable and Ethical Beauty: What These Terms Actually Mean?" *Sustainable Jungle*, 15 Sept. 2017, [www.sustainablejungle.com/sustainable-beauty/sustainableconsumer/](http://www.sustainablejungle.com/sustainable-beauty/sustainableconsumer/). Accessed 12 May 2020.
- "Understanding the Cosmetics Regulation." *Cosmetics Europe - The Personal Care Association*, 2009, [cosmeticseurope.eu/cosmetics-industry/understanding-cosmetics-regulation/](http://cosmeticseurope.eu/cosmetics-industry/understanding-cosmetics-regulation/).
- Vaughn, Susan. *Firms Find Long-Term Rewards in Doing Good*. Los Angeles Times, 1997.
- Zhao, Guosheng. *CSR and Its Impact on Consumer Behavior A Study of the Cosmetic Industry*. 2012.