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Strategic Market Creation
Master Thesis

The way to Sustainable Development:
Dynamic Capabilities for Corporate Sustainability and Change Management

Case study: The L'Oréal Sustainability Commitment "Sharing Beauty With All".



(Source: L'Oréal Progress Report, 2015)

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ABSTRACT

The purpose of this work is to investigate the way by which companies can successfully initiate, manage and implement strategic change programs toward sustainability, without eroding their economic performances. In particular, the research has been conducted with reference to the practical case of the L'Oréal Group, with detailed attention to their sustainability program "Sharing Beauty With All", launched in 2013.

The study aims at clarifying how companies can simultaneously improve their environmental, social and economic performances through an effective strategic change management needed to shift toward strategies of sustainable development. The research has been conducted with an inductive approach, establishing the formation of new theories on the review of the existing literature on sustainability and change management, as well as on empirical data. Moreover, concerning such empirical data, the authors made use of both primary data and secondary data. With regards to primary data, they have been collected through unstructured in depth interviews conducted with the Communication Director and the Nordic Service Quality Manager of L'Oréal Denmark A/S. The secondary data have been collected from official public documents of the L'Oréal Group (Annual Progress Report 2014 and 2015), and from interviews with top managers found on the web. The findings show that it is actually possible to solve the paradox between profitability and responsibility, and that in the case of the L'Oréal group, it has been possible thanks to a successful management of the strategic change process.

Finally, the authors acknowledge that the scope of the research is limited to the case study considered; nonetheless they develop and propose a theoretical framework that can be used by managers when approaching strategic change toward sustainability. Lastly, the research suggests further investigation in other academic and professional fields, which could be complementary to the findings of this study.

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*To my parents and the rest of my family,
infinite source of strength, guidance and support.*

To my friends, for always being there when I needed the most.

To Giulia, my love, my friend, my everything.

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To my friends, the real ones.
To my messy, crazy family.
To my grandmother, for teaching me forgiveness and second chances.
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You're the half of my everything.

Thank you all for always being by my side,
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"Macte nova virtute, puer, sic itur ad astra"
(Virgilio, Eneide IX, 641)

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1.0 INTRODUCTION

Companies are now facing the substantial challenge to develop capabilities and processes that will enable them to pursue sustainable development. For a long time, companies focused on their activities with the exclusive responsibility to remain within the legislation's requirements.

A few decades ago, consciousness about ecological and environmental issues commenced to arise as a result of the activity of NGO's and other associations of external stakeholders, who claimed for major responsibility and ethics in companies' activities. However, for many years, the path towards responsible operations has mostly been recognized as a counterpart of profitability, with companies being doomed to choose between the interests of the several stakeholders involved and affected by their operations, or those of the shareholders.

In addition, the academic world manifested and still manifest different opinions on the topic, where on the one hand academics and researchers, as for instance Friedman (1962), believe that *"there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud"* (Friedman and Friedman, 1962, p. 32-33); on the other hand, advocates of what has been called *"the stakeholder values perspective"*, argue that *"a company should not be seen as the instrument of shareholders, but as a coalition between various resource suppliers, with the intention of increasing their common wealth"* (Wit, B. and Meyer, R., 2010, p.132). Moreover, the majority of the proponents of such view argues that, including and taking into account the joint interests of all the stakeholders, not only is the most just thing to do, but also the most effective one for any organization.

We took these argumentations as a point of departure for our study, which aims at providing evidence of how the pursuit of a sustainable development not only goes further the trade-off typically identified by part of the doctrine and the business world, but also it equips organizations with specific capabilities that, in the long term, generate competitive advantage and simultaneously improve environmental, social and economic performances.

1.1 Problem definition, Purpose of the project & Research Question

During the last years, a plethora of material has been disclosed about sustainability issues and how firms should behave in regards to this topic. More specifically, nowadays an abundance of arguments is dealing with how to approach the sustainability agenda and how to integrate it at the production and operational level in a company. On the contrary, low attention has been paid to the sustainability construct from a corporate and strategic perspective. As a consequence, it's still widely believed that investing in sustainability could erode profitability. In fact, numerous companies, being reluctant to invest in it in a more strategic manner, they take instead an "end of pipe" or a "green washing" approach.

Our research aims to prove that not only companies that fully integrate sustainability into their core business strategy can invest on sustainability without affecting profit, but also that they can gain competitive advantage, foster innovativeness, open new opportunities and markets. From our viewpoint, what is lacking in the literature and among practitioners is a possible explanation of how some of the companies that were investing in sustainability were able to accomplish that without losing money.

We believe that the explanation could be found in a connecting variable between sustainable activities and profitability, which we identified in the company's ability to manage strategic change toward sustainable development; such ability resides in what have been commonly named "*dynamic capabilities for sustainability*" (Wu et al., 2012, p.233).

Thus, the aim of our research is to develop a theoretical model, which can provide an explanation of how firms can purposefully initiate, manage and implement transitions toward sustainable development without eroding their bottom line performances.

We chose L'Oréal as the main focus of our research on the grounds that the group can be taken as an example of a global successful company that strategically "*shifted*" towards sustainability, i.e. it integrated sustainability at the core of its strategy.

Taking inspiration from the Dynamic Capabilities theory of David Teece, from the literature on sustainability in general and from the field of strategic change management, we developed the following research question:

How can companies implement a strategic change towards sustainability without eroding economic performances?

1.2 Thesis Structure

The entire research project has been constructed on three major pillars: corporate sustainability, strategic change management and dynamic capabilities for corporate sustainability.

The introductory chapter contains the purpose of the project, the problem delineation and the research questions.

After having discussed ontological and epistemological considerations, the second chapter will outline the methodology chosen for this research, together with our choices for research strategy, research design and data collection.

The third chapter will discuss the literature and the theories that framed our research, with a logic that has been explained in the Figure 1.



Figure 1: Literature Review Structure

The point of departure for our research was the idea that sustainability is a relatively novel concept in the business environment and that, in order to implement it, some sort of changes are needed in companies that decide to adopt it, as for any shifts towards a different paradigm (e.g. new technologies, new business models).

Therefore, we decided to delve into the change process, by examining the main pressures for change that companies face (environmental pressures and organizational pressures).

Two main variables have been identified in the literature when speaking about the organizational pressures: the *top management's mind-set and role* and the *vision for the future*, i.e. the future state that a company is willing to reach, which in this case is sustainability.

After researching into strategic change management, we inquired some particular capabilities that companies need to possess in order to realign their internal assets to novel needs in the business environment, i.e. dynamic capabilities for corporate sustainability.

However, for the sake of argumentations' clarity, the concept of corporate sustainability will be firstly introduced. Secondly, the dynamic capabilities for corporate sustainability construct will be depicted and finally, the discipline of strategic change management will be illustrated. In chapter 4, a research process overview will be illustrated and the in-depth analysis of the L'Oréal Group will develop through the examination of the interview cases and of secondary data.

Then, a discussion of the findings and a conclusion to our work will follow. Lastly, we will suggest recommendations for further investigations.

2.0 METHODOLOGY

2.1 Methodological Consideration

Lewis et al. (2009), propose their “onion” framework, aiming to guide social researchers in their methodological choices. One could ask what is the importance of understanding the philosophical position that resides in the more peripheral layers. The authors answer as follows: *“We think that it is of practical benefit to understand the taken-for-granted assumptions that we all have about the way the world works. Only if we have such an understanding can we examine these assumptions, challenge them if we think it appropriate, and behave in a different way”* (Saunders, Lewis and Thornhill, 2009, p.109).

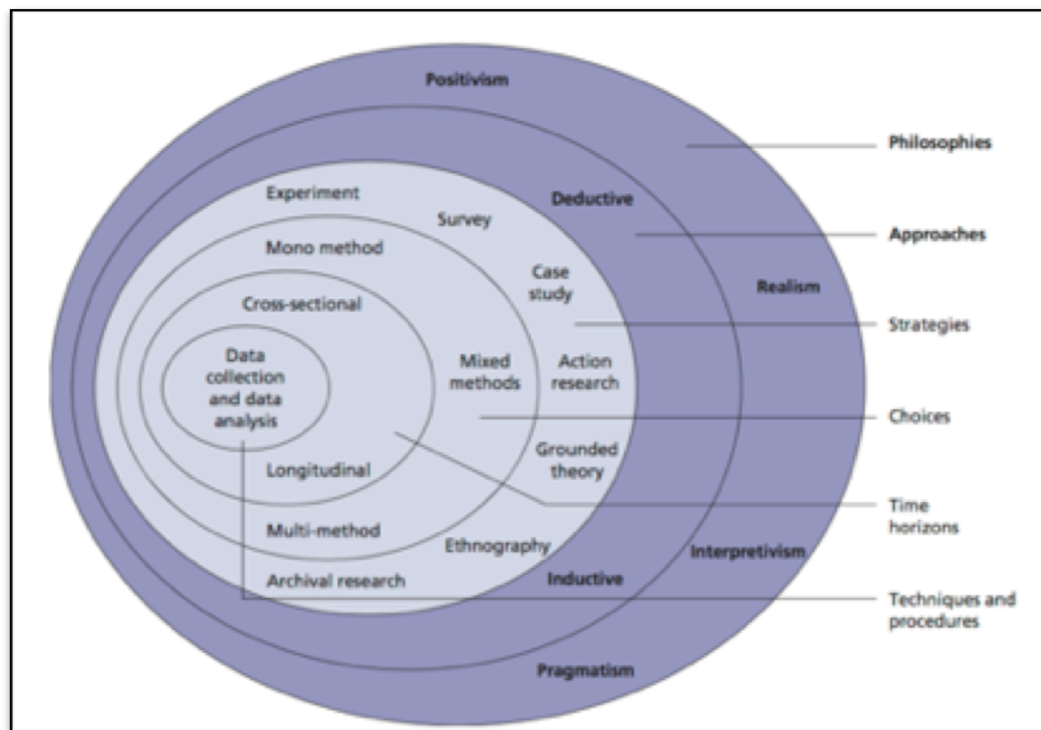


Figure 2: The “Research Onion” by Lewis et al. (2009).

Thus, the onion served us as a frame of references in our methodological choices and it will be employed here for explanatory reasons.

Before describing the research strategy and the research design employed in our work, it's useful for comprehensibility and clarity reasons to talk about the epistemological and ontological perspectives that lay at the roots of our research choices.

When it comes to epistemological considerations, *"a central issue in this context is the question of whether the social world can and should be studied according to the same principles, procedures, and ethos as the natural sciences"* (Bryman, 2012, p.27). Two main doctrines have divided the opinion of writers and academics in respect to epistemology: *positivism* and *interpretivism*.

Positivism collects the favour of those who affirms the importance of imitating the natural sciences; it encompasses elements of both deductive and inductive approaches research strategy. A key element of positivism concerns the *"implication that it is possible to collect observation that it is not influenced by pre-existing theories"* (Bryman, 2012, p.27). On the other hand, some writers reject the *"application of the canons of the natural sciences to the study of social reality"* (Bryman, 2012); writers that raise this critic often claim for the validity of a contrasting epistemology, that is, interpretivism.

Interpretivism advocates call for a different logic for the study of the social world, *"one that reflects the distinctiveness of humans as against the natural order"* (Bryman, 2012, p.28).

The epistemological conflict can be seen also as the reflection of different focus between the explanation and the understanding of human behaviour; the former is the main fundament of positivism whereas the latter is a constituent of the interpretivism perspective. Embracing the interpretivism perspective means to acknowledge that *"social reality has a meaning for human beings and therefore human action is meaningful"* (Bryman, 2012, p.30); as a consequence they act accordingly to the meaning of their act and of those of others. Thus, *"it is the job of the social scientist to gain access to people's common sense thinking, hence to interpret their action and their social world from their point of view"* (Bryman, 2012, p.30).

A similar clash can be diagnosed when facing ontological considerations, where ontology concerns the nature of social entities. The question here is *"whether social entities can and should be considered objective entities that have a reality external to social actors, or whether they can and should be considered social constructions built up from the perceptions and action of social actors"* (Bryman, 2012, p.32). Coherently with these two different views,

two main contrasting positions exist in relation to ontological discussions: *objectivism* and *constructionism*.

Objectivism “*implies that social phenomena confront us as external facts that are beyond our reach or influence*” (Bryman, 2012, p.32). For instance, from an objectivist perspective, an organization will have rules, standardized procedures, a precise hierarchy, a mission statement and so on; these features may vary from one organization to another, but the point is that from the objectivist viewpoint “*an organization has a reality that is external to the individuals the inhabit it*” (Bryman, 2012, p.32). The same consideration is true for cultures; they are stockroom of values and beliefs that bind people to act accordingly to them.

The alternative ontological position is constructionism. In this view, the social order is in a perpetual state of adjustment. Considering the same example previously adopted, from a constructionist perspective, culture “*can be taken to be an emergent reality in a continuous state of construction and reconstruction*” (Bryman, 2012, p.34).

Lastly, both epistemological and ontological considerations tend to suggest different choices regarding research strategies and designs. Concerning epistemological and ontological perspectives, we embraced the interpretivism and constructionism positions, which have also influenced our research design choices. Our aim is to obtain a deep and detailed understanding of the dynamics and the activities that characterized our case study together with its cultures and subcultures, which we picture in a continuous state of construction and reconstruction.

2.2. Research Strategy

Research strategy is simply defined as “*a general orientation to the conduct of social research*” (Bryman, 2012, p.35).

The status of the distinction between qualitative research and quantitative research has always been ambiguous. In fact, some in the literature found the contrast to be no longer useful while others see it as fundamental (Layder, 1993). However, some in literature believe that this distinction hinges on the fact that quantitative research employ measurement while qualitative

research do not. Nonetheless, for many writers quantitative and qualitative research differ with respect to their epistemological and ontological foundations.

Hence, in quantitative research, the quantification in the collection and in the analysis of data is considered predominant and data are managed by following a deductive approach. In a deductive approach, a researcher deduces a hypothesis (or a set of hypotheses) on the base of what is known and tests it through an empirical scrutiny.

By contrast, qualitative research can be construed as a research strategy that emphasizes word rather than quantification in the collection and analysis of data. Moreover, the qualitative research normally utilizes an inductive approach when speaking about the relation between theory and research. With the inductive approach, theory is the outcome of research. In fact, the process involves drawing generalizable inferences out of observations (Bryman 2012).

Our case study will be mainly based on qualitative methods, since the objective is to gain in-depth knowledge about the dynamic capabilities in L'Oréal and its consequent ability to change towards sustainability.

Consequently, the research follows an inductive view of the relationship between theory and research, whereby the former is generated out of the latter.

By the same token, we took the epistemological position described as interpretivist, meaning that the stress is on the understanding of the social world through an interpretation of that world.

Lastly, we followed a constructionist viewpoint when speaking of ontological considerations, which implies that social properties are outcomes of the interaction between individuals, rather than phenomena separated from those involved in its construction.

2.3 Research Design

A research design provides a framework for the collection and analysis of data and the choice of research design reflects the priority given to certain dimensions of the research process, such as the causal connections between the variables or the possibility to generalize to a larger group of individuals (Bryman, 2012).

We designed our research as a case study that entails the detailed and intensive analysis of a single organization, L'Oréal, and its sustainability program "*Sharing Beauty With All*".

The reason behind the choice of the case study is the aim of generating an intensive examination of the L'Oréal Group: the generalization of the findings to a larger population is not a purpose of this research.

De facto, with a case study, "*the case is an object of interest in its own right, and the researcher aims to provide an in-depth elucidation of it*" (Bryman, p. 69, 2012).

In addition to the above argumentation, we also followed the alleged "idiographic approach", i.e. researchers' concern is positioned on the elucidation of the unique features of the case, as opposed to the "nomothetic approach", where the concern lies in generating statements that apply regardless of time and place.

As far as the distinction between deductive and inductive approach is concerned, whether a case study is inductive or deductive tends to be affected by whether a quantitative or qualitative research strategy (Bryman, 2012) has been chosen.

In our case study the predominant research strategy is qualitative, therefore we followed an inductive approach to the relationship between theory and research.

2.4 Data Collection

In order to gain a deeper understanding in relation to L'Oréal's "Sharing Beauty With All program" and the way in which has been implemented, we conducted two unstructured interviews with two managers of L'Oreal Denmark A/S. The first interview took place at L'Oreal Nordic Headquarter, where we had the opportunity to meet the Communication Director at L'Oréal Denmark A/S, Mrs Sonja Christensen. The second interview took place at the L'Oréal Danmark A/S Distribution Centre in Greve, where we also had the opportunity to explore the Distribution Centre guided by the Nordic Service Quality Director, Mr Bo Lund Mathisen.

For both occasions, we were asked to prepare a set a question before the meetings. However, when it came to the meetings, the nature and the execution of both interviews was unstructured.

With this type of process, questions do not necessarily follow the outlined question set path and some of them, which were not included in the list, have been asked following the conversation with the interviewees (Bryman, 2012). Lastly, we recorded and then transcribed the interview with Mrs Sonja Christensen, while we took notes with Mr Mathisen, due to the impossibility of recording while visiting the Distribution Centre in Greve.

The preeminent reason why we chose unstructured interviews is that being two interviewers, it was necessary to ensure a comparability of the interviewing style. The second essential reason is that this type of process allows greater flexibility (Bryman, 2012).

We tried to cover all the areas of our interest: sustainability focus, how the shift towards sustainability was implemented and what type of major modification happened in the organization at the functional, business and corporate level. Indeed, with the Nordic Service Quality Director we tried to discover what this transformation meant in practice inside the warehouse.

In addition to the interviews we conducted with the Communication Director and the Nordic Service Quality Director, we wanted to capture supplementary information in respect to the L'Oréal group, to the roots of the "*Sharing Beauty With All*" program, to its prevailing dimension and targets, and finally with respect to how it impacted and will impact the organization in the coming years.

We therefore gathered information from the Group official website (www.loreal.com), from the "*Sharing Beauty With All*" dedicated website, the "*Progress Report 2014 and 2015*", the "*Annual Report 2014 and 2015*", and from the webcast highlights of the "*Annual General Meeting 2015*" (a meeting held each year by the CEO Mr. Jean Paul Agon and other Executives, where they discuss strategic plans for the future and economic and financial performance).

In this last edition, the intervention of Alexandra Palt, Chief Sustainability Officer must be noted. As a matter of fact, an interesting observation is that before the meeting, the company's shareholders were asked to complete a survey in which they could indicate the cardinal topic they wanted to address during the meeting: in 2015, 80% of them cited CSR and Sustainable Development as a priority to be addressed, while in 2014 the same figure was only 11%.

In our opinion, this data authenticates an increase in shareholders' awareness concerning the importance of a paradigm shift toward corporate sustainability.

Lastly, we analysed several interviews conducted with the Chief Sustainability Officer, Alexandra Palt, found on the web.

2.5 Data Analysis overview

The research project will undergo four different phases (Figure 3):

- **Step 1:** this step is directed to the quest for dynamic capabilities. To this extent, when analysing the interviews with L'Oréal managers and secondary data, we followed a colour coding approach. Hence, we assigned the following colours to each dynamic capability: pink for “monitoring”, purple for “seizing” and green for “reconfiguring”. This approach aims at identifying the different set of capabilities that L'Oréal demonstrated to have in the change implementation towards sustainability.
- **Step 2:** a repetition of the colour coding on the same material is executed in pursuance of detecting the presence of the three pillars of change management: vision, process and people. Therefore, we assigned the colour yellow for “vision”, red for “process” and blue for “people”.
- **Step 3:** we created a table that shows the intersections between dynamic capabilities and the three pillars of change management. By following this approach, we were able to count how many times a certain capability was related to either vision, process or people. The breadth of this process is to show that successful strategic change management relies on this set of capabilities.
- **Step 4:** this step is concerned with the analysis of numerical data, such as L'Oréal annual reports, with the purpose of displaying that not only the firm is succeeding in implementing sustainability, but also that it's achieving it without eroding profit. .

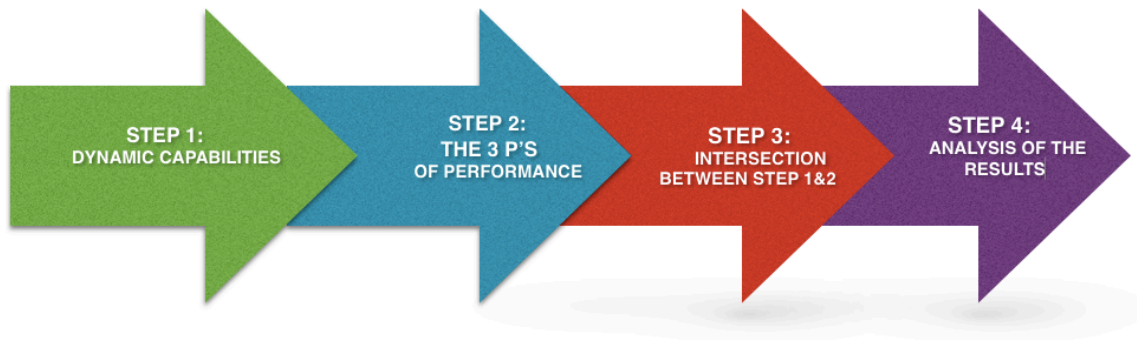


Figure 3: The Research Process

We will discuss our findings in the chapter dedicated to the analysis.

2.6 Validity, Reliability and Research Limitations.

LeCompte and Goetz (1982) affirm that *external reliability* (i.e. the degree to which a study can be replicated) is a difficult criterion to be met in qualitative research, since it's impossible to freeze a social setting just the way it is.

In regards to *internal reliability* (i.e. when there are numerous observers, the research team agrees on what they see and hear), we have achieved this result by examining profoundly the interviews and the documents until a certain degree of agreement was reached.

Moreover, in order to increase the reliability of this project, we have attached in the appendix interview transcripts, data analysis decisions and methods.

As far as *Internal validity* (i.e. whether there is a good match between researchers' observation and the theory developed) is concerned, in order to minimize the risk of low internal validity in this study, the researchers have strived to remain objective in their attitudes towards the interviewees.

Finally, *external validity* (i.e. the degree to which findings can be generalized across social settings) is considered a problem for qualitative research as a result of the tendency to utilize case studies and small samples. Anyhow, this case study does not aim to generalize the findings to a larger social setting, but to analyse with an in-depth approach the observed reality.

In addition, there are also a few cons, such as the absence of hard data, the impossibility to generalize them to a broader population and the difficulty to replicate them.

In our case study concerning L'Oréal group, we aimed at investigating the concept of dynamic capabilities, which is an intangible concept difficult to put in numbers.

Moreover, the scope of this research is not to generalize the findings to all the companies in the market, for the reason that each one of them possesses unique characteristics and needs to be investigated individually.

In like manner, *“although managerial dynamic capabilities can to some extent be traced by using large data sets, they can best be analysed through in-depth qualitative research”* (Teece, 2012, p.1400).

Nonetheless, we tried to overcome the qualitative research's flaws by introducing also numerical secondary data that could back up the theory generation process.

3.0 LITERATURE REVIEW AND THEORETICAL FRAMEWORKS

3.1 Corporate Sustainability.

3.1.1 The concept of paradox

A Greek philosopher of the 6th century claims that opposites are necessary for life, but that they are unified in a system of balanced exchanges. Heraclitus contemplates the world as an on-going process governed by a law of change, where opposites coexist (Internet Encyclopaedia of Philosophy, 2016). Similarly, a fundamental tension between apparent opposites can be identified basically at the heart of every strategic issue. The challenge of strategic management is to untangle this complicated strategy tensions.

In general, two different kinds of problems exist, “either/or problems” and “both/and” problems. While either/or problems, such as dilemmas and puzzles, can be solved by analysing and choosing, both/and problems, such as trade-offs and paradoxes, can solely be managed. Whereas a trade-off is a situation in which there are many possible solutions that can be found by combining two different opposites, *“a paradox is a situation in which two seemingly contradictory or even mutually exclusive factors appear to be true at the same time”* (Wit, B. and Meyer, R., 2010, p.14).

Hence, a paradox is presented with the difficult task of struggling with the problem, without ever arriving at a definitive solution or a definitively right answer. It is possible to find innovative ways of combining the opposites, but none of these creative reconciliations will ever be the ultimate solution, on the grounds that paradoxes will always be enclosed by unpredictability and different views on how best to cope.

3.1.2 The Paradox between Profitability and Responsibility

The organizational purpose can be defined as the motivation for which an organization exists, and managers need regularly to make decisions based on the understanding of what the organization wants to achieve. At the same time, executives need to stand up to several

different stakeholders (employees, suppliers, customers, governments, NGOs, communities). This situation forces them to prioritize some interests over others: they are obliged to decide who will be the principal beneficiary of the firm's value creation activities.

The role of business organizations has been discussed since the birth of the modern corporation during the industrial revolution. In the market economy, the preeminent belief is that companies should ensure economic profitability, but that they also have numerous obligations toward the society.

This is where the consensus terminates: executives, academics and practitioners sharply disagree with regard to the relative importance of profitability and responsibility.

Managers accept that both economic profitability and social responsibility are valuable goals to pursue and promise to include both on the agenda, yet, as organizational purpose, profitability and social responsibility may be contradictory.

In fact, if executives direct efforts merely towards profit maximization, this could bring them into conflict with the optimization of benefits for other stakeholders. In other words, a tension between profitability and responsibility is believed to exist.

On the one hand, it is clear that business organizations must be profitable in order to survive and, more importantly, that investors must have a financial incentive to run a commercial risk. Profitability has to be considered as a source of competitive power and not only as a result, because it provides the company with the freedom to improve its competitive position and pursue its vision. In fact, once a firm has established a track record of proven profitability, it will inspire trust amongst financiers and it will make easier to raise new capital. Generally, it is in the best interest of a corporation's shareholders to see the value of their stocks to increase through the organization's pursuit of profitable business strategies. This perspective is called the "*Shareholder value perspective*" (Wit, B. and Meyer, R., 2010, p.131).

According to this perspectives' defenders, companies belong to their owners and therefore, they should act accordingly. Corporations are instruments that create economic value on behalf of those who invest risk-taking capital in the enterprise.

Profitability as the fundamental purpose of firms does not imply that the stakeholders' demands are not taken into account, although the emphasis is placed on the fact that it's not the corporation's purpose to serve them.

To conclude, according to this viewpoint, it might be in the interest of shareholders to listen to stakeholders as well, but that there is no moral obligation to act accordingly.

On the other hand, companies are more than just mere “*economic machines*” (Wit, B. and Meyer, R., 2010, p.127), regulated by legal contracts. They are networks of people, members of social groups, and as members of social groups, its employees need to develop a sense of community. Hence, where there is a societal responsibility (i.e. the act of behaving in the interest of others), there is a base to build trust. Furthermore, where there is trust, people are willing to commit themselves to the organization.

Just as it is beneficial for trust to evolve within organizations, it is likewise important that it develops between the organization and its broader environment of buyers, suppliers, governments, local communities and activist groups. Therefore, it is important that these organizations act in a socially responsible way, even when this could damage profitability (Wit, B. and Meyer, R., 2010).

This perspective is called “*Stakeholder value perspective*” and sees corporations as joint ventures between shareholders, employees, banks, etc., that cooperate with the company to achieve economic success (Wit, B. and Meyer, R., 2010, p.132).

3.1.3 Why Corporate Sustainability?

In recent years, several societal stakeholders have increased the pressure on companies to take responsibility for their behaviour and the consequences of their actions. Societal stakeholders are nowadays informed better and quicker, and have added instruments at their disposal to pressure companies if they deem their conduct questionable. In fact, governments, activists and the media have commenced to put pressure on companies in the extent that they initiated to take account for their activities’ social consequences.

A copious number of companies have already accomplished to improve the social and environmental consequences of their activities, yet these efforts were not nearly as productive as they could have been (Porter and Kramer, 2007). First of all, as we have introduced with the concept of paradox and the two different perspectives (shareholder value vs. stakeholder value), companies tend to regard business as opposed to society, when clearly the two are interrelated.

Numerous companies are convinced that the more environmental-friendly they become, the more the effort will erode their competitiveness. In fact, it is believed that a sustainability agenda will add costs and will not deliver immediate financial benefits (Nidumolu, Prahalad and Rangaswami, 2015).

It is additionally believed that making sustainable operations and developing environmental-friendly products can place companies in a disadvantaged position, if compared with developing countries that don't face the same pressures yet.

In a situation of economic recession, customers will not pay extra money for sustainable products and suppliers won't provide enough transparency. In addition, sustainable manufacturing necessitate of advanced processes and equipment. That's why several executives treat sustainability as a corporate social responsibility disconnected from business objectives.

Nonetheless, their efforts towards sustainability are relegated to peripheral initiatives instead of taking part of a firm's strategy, and they impact only few of the several functional and operational processes.

De facto, the prevailing approaches to sustainability are extremely fragmented and disconnected from business and strategy, to the point that they overcast multiple opportunities for companies to benefit the society and their business. If, instead, corporations were to analyse their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that corporate social responsibility can be over and above a cost: it can be a source of opportunity, innovation and competitive advantage.

Executives behave as they are doomed to pick between the largely social benefits of developing sustainable products or processes and the financial costs of doing accordingly. Yet, that's simply not true (Nidumolu, Prahalad and Rangaswami, 2015).

In a study of more than 30 large corporations conducted from Nidumolu, Prahalad and Rangaswamy (2015), it is demonstrated that sustainability is a mother lode of organizational and technological innovations that yield both bottom-line and top-line returns. Becoming environment-friendly lowers costs due to the fact that companies arrive finally at reducing the inputs they employ. In addition, the process generates additional revenues from improved products and enables companies to create novel businesses.

3.1.4 Corporate sustainability defined.

In the article “*Defining and measuring sustainability: are we there yet?*” (Montiel and Delgado-Ceballos, 2014), researchers have grouped all the definition published in top academic management and practitioners journals and they observed that a standardized definition of Corporate Sustainability does not exist yet. This is only an exemplification of the disagreement among academics in relation to the topic of sustainability.

The origin of the concept appears to be linked to the Brundtland report (WCED, 1987), where sustainable development is defined as the “*development that meets the needs of the present without compromising the ability for future generations to meet their own needs*”. Additionally, Wu et al., (2013) give another definition of sustainable development in their article regarding the firm’s strategic change toward sustainability, arguing that “*sustainable development opportunities are those that firms can use to generate environmental and social values for the public as well as economic values for themselves*” (Wu et al., 2013, p.259). Furthermore, their definition is consistent with the one given by Bansal (2005), who defined “corporate sustainable development” as a tridimensional construct based on economic prosperity, social equity and environmental integrity.

More recently, in 2011, Hart and Dowell claimed that “*sustainable development strategy does not merely seeks to do less environmental damage, but to actually produce in a way that can be maintained indefinitely into the future*” (2011, p.1466).

They further state that sustainable development does not circumscribe environmental concerns only, yet it conjointly involves economic and social concerns.

A more recent approach uses the term “*sustaincentrism*” to describe a step toward a proactive orientation to sustainability. Firms need to find ways to interconnect social, economic and ecological systems using “*coordinated approaches that harness the collective cognitive and operational capabilities of multiple local and global social, ecological and economic stakeholders operating as unified network or system*” (Valente, 2012, p. 586).

Hence, in this research regarding L’Oréal Group, we will use the terms “corporate sustainability” and “sustainable development” implying the tridimensional construct: economic, social and environmental performances. If one aims to analyse only one term of the triptych, the correct denomination should then be *corporate economic sustainability*,

corporate social sustainability and corporate environmental sustainability, respectively (Montiel and Delgado-Ceballos, 2014, p.123).

In like manner, these three elements are defined in the “*Triple Bottom Line*” concept. In 1994, John Elkington, who argued that “*companies should be preparing three different (and quite separate) bottom lines*” (The Economist, 2009), was the first to coin the phrase “*triple bottom line*”. The first one is the traditional bottom line, with profit and loss account; the second measures how socially responsible an organisation has been; the third is the measure of how environmentally responsible the organisation has been.

“*The triple bottom line (TBL) thus consists of three Ps: profit, people and planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time*” (The Economist, 2009). The fundamental principle behind this tridimensional measure is that “*what you measure is what you get, because what you measure is what you are likely to pay attention to. Only when companies measure their social and environmental impact will we have socially and environmentally responsible organisations*” (The Economist, 2009).

3.2 Introducing Dynamic Capabilities for Sustainability

As in any strategic change program inside a company, the one towards sustainable development requires alignment between the internal resource base of the firm and its competitive environment. As Teece (2007) claimed, this alignment can be reached through the so-called “*dynamic capabilities*”.

Dynamic capabilities are “*higher-level competences that determine the firm’s ability to integrate, build, and reconfigure internal and external resources/competences to address, and possibly shape, rapidly changing business environments* (Teece, 2007, 2010; Teece et al., 1990, 1997)” (Teece, 2012, p.1395). They determine how fast the firm’s resources can be realigned to match the novel requirements of the business environment and so as to generate positive returns.

The concept of Dynamic Capabilities is rooted in the Resource-Based Theory (RBT): “*the key element of RBT is its focus on factors internal to the firm that lead to sustained competitive advantage. The RBT emphasizes that in order to provide an opportunity for sustained*

competitive advantage, a resource must be valuable, rare, inimitable, and supported by tacit skills or socially complex organizational processes” (Hart and Dowell, 2012, p.1445).

However, the work of Teece et al. (1997) goes a step further. In fact, they specify the necessity to align the internal resource base to the competitive environment. They argue that the RBT does not include how firms can renew their resource of competitive advantage, especially in highly unsteady environments. Moreover, they emphasize the need for firms to *“integrate, build, and reconfigure internal and external competencies to address rapidly changing environments”* (Hart and Dowell, 2010, p. 1472); these activities must be performed expertly if the firm wants to survive to the market and technology’s modifications.

“Strong dynamic capabilities are critical to success, especially when an innovating firm needs to pioneer a market, or a new product category” (Teece, 2012, p.1396), which in our case study is sustainability.

After a deep analysis of the literature regarding both Dynamic Capabilities and Sustainability, we identified a number of relevant studies of what have been renamed *“Dynamic Capabilities for Corporate Sustainability”* (Wu et al. 2013).

In their article *“Implementing Dynamic Capabilities for Corporate Strategic Change Toward Sustainability”*, Wu et al. assert that the way in which a firm develops and manage its dynamic capabilities can make a difference on whether the firm will react passively to stakeholders’ concerns or will proactively seek for new opportunities deriving from modifications in the market environment (2012).

Thus, in their view, top management needs to have a clear and dedicated vision toward these changes in strategy and the dynamic capabilities view is the point of departure for their conceptual framework, which examines the capabilities needed for gaining competitive advantage through sustainability.

Moreover, Wu et al. (2013) argue that there are essentially three kinds of dynamic capabilities for sustainability, which are distinct but always interrelated, namely: *monitoring* capabilities, *seizing* capabilities and *reconfiguring* capabilities. Each dynamic capability for corporate sustainability has its foundations in a series of activities that companies need to perform and that we listed in Table 1.

Type of Dynamic Capability for Sustainability	Activities underpinning Dynamic Capabilities for Sustainability
Monitoring Capability	<ul style="list-style-type: none"> - Establishing formal and informal communication channels with external stakeholders. (Wu, He and Duan, 2013) - Engaging in an active dialog with external stakeholders regarding sustainability issues through meetings, conferences and newsletters. (Wu, He and Duan, 2013) - Steering new sustainable development strategies through public consultation process. (Wu, He and Duan, 2013) - Explanations about company's strategic sustainability plans and asking for the feedback from external stakeholders. (Wu, He and Duan, 2013) - Constantly updating the knowledge base of new environmental information collected from the outside (Wu, He and Duan, 2013) - Using the information collected from the emerging customer preferences to guide the development of green market strategy. (Wu, He and Duan, 2013)
Seizing Capability	<ul style="list-style-type: none"> - Designing strategic plans to systematically navigate the development of new sustainable initiatives. (Wu, He and Duan, 2013) - Keeping a formal governance structure to manage the broad research about the emerging best practices and technology regarding sustainability. (Wu, He and Duan, 2013) - Encouraging and supporting employees to share good practices and new sustainable ideas (Wu, He and Duan, 2013) - Keeping various dedicated teams to guide and manage collaborative sustainability projects with external stakeholders groups. (Wu, He and Duan, 2013). - Focusing on the development of practices that have a lower level of environmental impact. (Wu, He and Duan, 2013)
Reconfiguring Capability	<ul style="list-style-type: none"> - Performing auditing and risk analysis about the potential factors that cause environmental impacts. (Wu, He and Duan, 2013) - Periodically measuring the efficiency levels of the resources used. (Wu, He and Duan, 2013). - Providing training for employees and suppliers concerning sustainability. (Wu, He and Duan, 2013) - Managing external factors that cause negative sustainable impacts through the all value chain.

Table 1: Type of Dynamic Capability for Sustainability and Activities underpinning them.

We will now explain more in detail each one of the three dynamic capabilities for sustainability and the activities that underpin their development.

3.2.1 Monitoring Capabilities.

Monitoring capabilities involve several actions that focus on data gathering and subsequent sense-making activities. Such practices involve, among others, the establishment of formal and informal communication channels with external stakeholders, the disclosure of company's strategic sustainability plans and feedback request, and a constant knowledge base-updating activity on new environmental information. These practices help firms to always stay alert about signals reflecting emerging modifications in their competitive environment. More exactly, they enable the firm to listen to the voices of all the company's stakeholders, especially those indirect stakeholders that are usually distant from the firm.

Hence, *“the dynamic capability to monitor the emerging sustainability needs can be treated as a broad information processing mechanism for firms to share news sustainable development insights with both direct and indirect stakeholders”* (Wu, He and Duan, 2013, p.261). Moreover, as the sustainability expectations of such indirect stakeholders are often far and unfamiliar to the firm, *“deliberate managerial commitment is needed to delineate explicit information searching routines and processes with firm's existing organization structure”* (Wu, He and Duan, 2013, p.261).

3.2.2 Seizing Capabilities

Knowing stakeholder's sustainability expectations is necessary but not enough. Indeed, firms need to identify and secure sustainable development opportunities in order to simultaneously meet economic, social and environmental targets. In order to accomplish this goal, companies need to perform a series of activities, such as entertaining *“close collaborations with external stakeholders like NGO's and higher education institutes, to generate novel techniques and solutions to the existing sustainability problems”* (Wu, He and Duan, 2013, p.262). Other key activities concern the development of strategic plans and governance structures aimed at creating brand-new sustainability initiatives, as well as foster employees in sharing good practices and new sustainable ideas. Furthermore, once these initiatives are recognized as successful, they can be spread by intra-organizational information sharing processes, in the manner that the entire organization can benefit from them. Wu et al. (2013) state: *“firms’*

seizing capability to identify new sustainable development opportunities involves two key elements: first, clearly defined sustainable development strategy and governance structure, and second, extensive boundary-spanning inter-organizational and intra-organizational knowledge sharing” (2013, p.262).

3.2.3 Reconfiguring Capabilities.

In the dynamic capability view, the reconfiguring capabilities are believed to be critical for firms to avoid what has been commonly named the “*capabilities trap*” (Wu, He and Duan, 2013, p.262), which refers to the firm’s tendency to persist with those capabilities that have ensured a reliable and efficient result in the past. In fact, firms are often reluctant to alter the way in which they operate even when their resource-base is clearly misaligned with their competitive landscape.

Overcoming such “capability trap” is even more important in corporate sustainable development, as the link between sustainable development related activities and the company’s economic performance is not always so straightforward. For instance, “*to avoid the disturbance in their current operations, many firms prefer the short-term end-of-pipe approach to solve the imposed sustainability problems, even though such an approach actually entails huge, non-productive costs*” (Wu, He and Duan, 2013, p.262). Companies that aim to successfully overcome this issue usually make use of measuring, auditing and risk analysis practices, in order to assess the sustainable efficiency of their operations. Furthermore, such companies usually collaborate with their partners along the entire value chain, in order to manage together sustainability issues and foster up-stream and down-stream innovation. To conclude, “*the organizational process reconfiguration toward sustainability is often supported by learning and training activities*” (Wu, He and Duan, 2013, p.263), not only for employees but also for supply chain partners.

3.2.4 Integrating Corporate Sustainability into Strategy

Drawing on the theories discussed so far, it is clear that only companies that consider sustainable development as a central part of their strategy will be able to meet simultaneously each dimension of the triple bottom line construct. In fact, they will be able to improve their

environmental and social performance without compromising their economic outcomes, achieving instead innovativeness, responsiveness and competitive advantage.

This is demonstrated by Hart & Dowell, who argue that *“managerial attention and the framing of environmental issues have been identified as affecting firms’ abilities to profitably enact environmentally proactive strategies”* (2010, p.1468). Likewise, they suggest that these factors are vital in flourishing a sustainable development strategy. Nonetheless, this is confirmed further by B.Giacomo e M.Giacomo (2010), who once again argue that the best way to pursue corporate sustainability is to include it into the firm’s strategy.

A practical explanation of how to include corporate sustainability into the firm’s strategy comes with Mosgaller (2012), who centres his argument on the concept of performance. In fact, he argues that three elements of performance (*“the three P’s of performance”*, namely, *purpose, process* and *people*) are essential to shift a company approach to sustainability and to integrate it as a daily practice into the organization.

The first P stands for *“purpose”* and implies that the people who work in the organization need to know why sustainability is so worthy of the organization’s attention, if they are to embrace the values of social responsibility. In fact, *“the will to sustain the change required to foster social responsibility in any organization is linked directly to the degree of dedication people have to the purpose defined. Without that clarity of purpose, social responsibility tend to be transient, and the people who work in those systems become conditioned to seeing the commitment as merely marketing materials without substance”* (Mosgaller, 2012, p.39).

The second P, *“process”*, implies the necessity of a definition of clear actions for executing social responsibility commitments. In addition, it requires methods and discipline in order to transform these processes in the foundations for the continuous improvement of sustainable development targets.

The third P stands for *“people”* and it’s concerned with the purpose of involving people to *“participate in creating the processes essential to execute the organization’s social responsibility aims effectively”* (Mosgaller, 2012, p.39).

Hence, if an organization is able to use this framework thoughtfully as a powerful instrument for systematically committing to social responsibility, the result should be long-term sustainability.

This model explained by Mosgaller (2012) can be easily connected to the discipline of strategic change management, which will be discussed in the following paragraph.

In particular, “purpose” is linked to the importance of a clear vision and the role of top management in driving strategic change.

In addition, the second and the third dimension (process and people) are easily associated to two other key variables for strategic change, which are its implementation and how it impacts the people involved.

Moreover, the reason why the 3P’s framework will be reintroduced in the following paragraph related to change management is that the three dimensions (purpose, people, process) are not only essential for shifting approach toward sustainability and integrate it into the organization’s daily practices, but also they are in like manner considered the three pillars of strategic change in general.

3.3 Strategic Change Management

3.3.1 Why Organizations Change

When including sustainability in the company’s core strategy, managers need to relate their sustainability vision and goals to tangible decisions, processes and resources.

Moreover, sustainability requires novel products and processes that will challenge existing values and practices. All of this puts again managers face to face with a paradox. *“They are told to change their organizations or risk them perishing; at the same time, they are told that their organizations are at risk of perishing because of the disruptive impact of change”*. (Palmer, Dunford and Akin, 2009, p.45).

Generally speaking, pressure for transformations may come from several sources such as external environment, the discovery of new standards and trends, the managerial fashions, from new desires and visions for the future or from the nature of the organization itself.

The nature and the expected result of change is a paradox itself. As stated by Palmer, Dunford and Akin *“managers are called upon to stabilize the unstable and destabilize the rigid; adapt to the present and anticipate the future; improve what is and invent what is to be; lead a*

renaissance while preserving tradition, the possibilities for which are grounded in the belief that progress is possible and that managers can make a difference” (2009, p.50).

In the following paragraphs, we’re going to explain the main pressures for change (i.e. the environmental and organizational pressures) and formerly, building on the consideration of the 3 P’s of Performance previously explained, we’re going to introduce the three key variables for change management: vision for the future (purpose), the implementation process (process) and the people affected by it (people).

3.3.1.1 Environmental pressure for change

External pressure can be one of the preeminent reasons why organizations are faced with the need to change; six fundamental environmental pressures for change have been recognized by Palmer, Dunford and Akin (2009), and three of them are particularly relevant to the aims of our work. These criteria have also been recognized by practitioners as key drivers when implementing activities toward corporate sustainability.

- *Pressure from outside agencies:* “Change is sometimes forced onto an organization through formally mandated requirements” (Palmer, Dunford and Akin, 2009, p.54). Firms need to comply with social and environmental requirements in order to avoid problematic issues if such requirements are not respected. In fact, fines, workers’ compensation cases, criminal convictions and payment of clean-up costs, can lead to financial performance erosion.
- *Hyper-competitive business pressures:* one of the cardinal triggers that motivate the adoption of the sustainability construct is the need/opportunity for differentiation. Indeed, organizations in rigid industries and saturated markets can use sustainability as a way to differentiate themselves from competitors.
- *Corporate reputation and credibility with stakeholders:* “change is associated with maintaining proper corporate governance mechanisms to ensure a positive corporate reputation. Corporate reputation is an intangible but important corporate asset, being

positively correlated with the organizational performance. Maintaining and enhancing corporate reputation is therefore an important part of managing firm survival” (Palmer, Dunford and Akin, 2009, p.59).

3.3.1.2 Organizational pressure for change

On the opposite side, pressure for change can also derive from the inside of an organization. Building on this, we can individuate two key aspects for managing strategic change, especially for managing strategic change toward sustainable development: *the key role played by top management in driving change and vision for the future.*

The key role played by top management

In the last decades, the activities of businesses have been under observation by a crescent number of stakeholders; ecological aspects such as emissions and effluent, eco/efficiency, green buildings, water consumption and wastes, along with employees’ conditions and salary concerns and philanthropy, have gained huge space among stakeholders and consumers (Tollin and Vej, 2012). One facilitator has surely been the massive digitalization and the information democratization that has characterized the last ten years, led by the capillary and furious diffusion of social networks.

People are informed and want to take informed decisions about their consumption, and the consequence it implies.

In such a context, the sustainability agenda takes a prominent role in many industries and markets. *“In particular, it is apparent that more attention needs to be paid to the meaning of the sustainability construct in business, and to internal aspects triggering and enabling companies to embark on a sustainable path, for example, organizational culture, power structures, stakeholder and innovation orientation, areas of capabilities and knowledge, and the motivations of individual managers to drive sustainability” (Tollin and Vej, 2012, p.625).*

More importantly, *“top managers’ mind-sets (or mental models) play a key role in understanding the pattern of a company’s behaviour and the triggers and enablers that are needed in order to develop and change strategy”* (Tollin and Vej, 2012, p.626).

In particular, mental models are defined as a *“cognitive structure that forms the basis of reasoning, decision making, and, with the limitations also observed in the attitudes literature, behaviour. They are constructed by individuals based on their personal life experiences, perceptions, and understandings of the world. They provide the mechanism through which new information is filtered and stored”* (Jones et al., 2011).

Thus, top management's mind-sets and mental models *“are seen as vital in framing and integrating the sustainability construct into the organization”* (Tollin and Vej, 2012, p.626).

In fact, top management is considered to be the carrier of the capabilities for prescribing and evaluating changes to the configuration of the assets, both internal and external to the organization (Teece, 2012).

In addition to that, the managerial role is considered vital also when speaking about dynamic capabilities. De facto, top management’s entrepreneurial and leadership skills around sensing, monitoring and seizing, are essential to sustain dynamic capabilities. Managers need to achieve periodic *“asset orchestration and renewal, including the redesign of routines”* (Teece, 2012, p. 1398) that aims at minimizing internal conflicts and maximizing complementarities within the company’s environment.

They also have the duty of identifying the next opportunity or challenge together with the way to address it.

3.3.2 Vision for the Future

Managers need to have a clear vision for the future if they want to achieve successful organizational change. *“It is imperative for change to be aligned with a clear vision and a business strategy, and that subsequent activities and interventions are coordinated and consistent”*. (Palmer, I., Dunford, R. and Akin, G. 2009, p.249).

Vision should be at the base of any entrepreneurial activity or major corporate program. *“Having a strategic vision is linked to competitive advantage, enhancing organizational*

performance and achieving sustained organizational growth". (Palmer, I., Dunford, R. and Akin, G., 2009, p.249).

A clear vision enables board members to identify gaps between the current and the ideal situation to which they aim to bring the organization, conjointly with assisting and motivate employees for achieving both personal and organizational goals.

The visioning process itself can enhance self-esteem and engagement of the people who participate in the transformational change, in the way that they could be able to foresee the potential fruits of their new routines and tasks.

Thus, vision is a key element when assessing the need for change and it must not be trivialized. It is important to avoid developing a vision that is either too abstract, and therefore provides little detail about how the future should look like, or too specific, and support only incremental improvements and foster short-term focus, metrics and targets.

A helpful and useful vision stays in the middle between these two opposites, *"providing an engaging picture of the future with sufficient detail and description so that people can relate to them in a meaningful way"* (Palmer, I., Dunford, R. and Akin, G. 2009, p.250).

A vision is also influenced by three key elements: vision content, the context in which it is developed, and the process by which it emerges. We'll now discuss more in detail each one of these three components of strategic vision.

Vision Content

The first element that composes vision is "content". The vision content concerns the vision's attributes and its meanings. Pendlebury, Grouard, and Meston (1998) identify three main components of a meaningful vision. The first one is the reason why the change is needed. The second component is the aim of such change, which helps to identify the gap between the current situation and the envisioned future. Lastly, the third component is concerned with how change activities will be delivered and performed, i.e. change actions that will be employed.

However, many writers have provided their definition of a meaningful vision that shares common characteristics such as it being clear, desirable, challenging, feasible and easy to communicate (Palmer, I., Dunford, R. and Akin, G. 2009).

Vision context

The context in which the vision is created includes organizational and cultural factors. Precisely, the ability to produce visionary change varies according to the degree of acceptance of the need to change (*change susceptibility*) and to the extent in which resources are on hand to engage in strategic change (*resource availability*). Following the four organizational contexts evaluated by Nutt and Backoff in terms of their ability to produce visionary changes (1997), we developed a matrix (Figure 4) where on the y-axis we inserted “*resource availability*”, while on the x-axis we inserted “*change susceptibility*”.

- “*Rigid organizations*” are those that possess neither resource availability nor change susceptibility; they are frequently highly hierarchical and inflexible.
- “*Bold organization*” use to be very flexible and ready to embrace change, but at the same time they do not own high levels of resources. Typical examples are companies that focus on new entrepreneurial activities and start-ups.
- “*Over-managed organizations*” stay at the opposite; they usually have a high level of resource availability, but low acceptance of the need for change. Typical examples are companies that belong to static industries.
- “*Liberated organizations*” are those that possess high resource availability and that are at the same time highly flexible; this combination allows them to easily embrace visionary processes and to implement them successfully.

Resource Availability	High	Over-Managed Organization High resource availability but little acceptance of the need for change. Associated to a more static environment and dominated by past practices that are seen to have worked well and to remain relevant, they are limited in their ability to accept the need for a new vision" (Palmer, Dunford and Akin, 2009).	Liberated Organization "are those where visionary processes are likely to be more successful" (Palmer, Dunford and Akin, 2009). Such organization typically have an acceptance of the need for a new vision along with high availability of resources, which can be used in the strategic change process.
	Low	Rigid Organization "Little in the way of availability of resources and lack acceptance of the need for change, they are likely to be highly hierarchical and inflexible" (Palmer, Dunford and Akin, 2009).	Bold Organization They usually have an high acceptance for change but at the same time owns low resources. Typical of this is the situation of new entrepreneurial activity and start ups. "Is the context in which visionary leadership is most likely to emerge" (Palmer, Dunford and Akin, 2009).
		Low	High
		Change Susceptibility	

Figure 4: Resource Availability – Change Susceptibility matrix.

Vision Process

This third component focuses on how vision emerges. There are two main opinions on where the vision should emerge: the former sees vision coming from a collaborative activity that involves not only the CEO and the executives, but also those who will be affected by it, such as employees and stakeholders; the latter opinion believes that vision should be created with a top-down approach (the CEO creates a vision and delivers it to the staff).

The choice between the two approaches is critical to the extent that diverse methods will have diverse consequences in people's engagement, which is a key variable for a successful implementation of the change process.

In order to highlight once again the importance of a clear strategic vision, Metais (2000) argues that it helps to produce a feeling of incompetence that results from the gap, referred as a "*stretch*", between the current and the desired situation. Furthermore, a clear strategic vision helps to identify novel and innovative ways to use the current organizational resources, and

this process is referred to as “leverage”: *“together, stretch and leverage can be used to identify new strategic ways of achieving the vision”* (Palmer, Dunford, Akin, 2009, p.270).

To briefly sum up, the role of top management in crafting a skilful vision for the future of the company become central in the strategic change process, as they can purposefully pressure the organization toward change actions. Those change actions, if adequately communicated and accepted by people, will enable the successful implementation of change activities needed to reach a desired future position for the company, which in our case study is a shift towards sustainability.

This is the reason why we considered vision to be equivalent to the “*purpose*” dimension of the 3 P’s of the performance framework explained previously: vision is what drives change towards sustainability (i.e. what gives a purpose).

In the following paragraph, we will discuss the other two pillars of change management: *people* and *process*.

3.3.3 People - Support and Resistance to Change.

When companies are in the implementation phase of any strategic change plan, support or resistance to change are likely to be decisive for the successful or unsuccessful implementation of change. As also stated by Palmer et al. (2009) *“one of the commonly cited causes for the lack of success of organizational change is resistance to change”* (Palmer, Dunford and Akin, 2009, p.159).

Indeed, it is possible that some people affected by the change implementation process will try to resist it, hindering the accomplishment of such operation. Resistance to change has been recognized as a tridimensional construct, involving affective (how people feel about change), cognitive (how people think about change) and behavioural (how people respond in the face of a change) components. The behavioural response can be disassembled in two further sub-categories, namely active and passive responses, for which Hultman (1995) identifies a series of symptoms related to each one.

Symptoms of active resistance are, among others, being critical, ridiculing, sabotaging, manipulating, starting rumours and distorting facts. Symptoms of passive resistance are procrastinating, withholding information, suggestions, help, or support and what has been defined as “*malicious compliance*” (Palmer, Dunford and Akin, 2009), that is, agreeing verbally but not following through.

However, it is in like manner useful to understand why people tend to resist change. Among other reasons, discomfort with uncertainty, perceived negative effect on interests, attachments to the established organizational culture, lack of conviction that the change is needed, seem to be the key influencing variable on peoples' readiness toward change.

Discomfort with uncertainty depends on the subjective sphere of each person, even though could be argued that all people are to certain extent discomfort with uncertainty; said so “*to the extent that the strategic intent is not complemented by clarity as to expected actions, the chances increase that employees will fail to convert a change initiative in supporting action at their level of the organization*” (Palmer, Dunford and Akin, 2009, p.163).

People will also consider how such change is expected to affect their interests; “*people find it easier to be supportive of the changes that they see as no threatening such interests and may resist those that are seen as damaging to these interests*” (Palmer, Dunford and Akin, 2009, p.163).

Another important issue concerns well-established organizational cultures. In fact, organizations are often referred to as cultural systems that comprise beliefs, values and artefacts, and positiveness toward change may be significantly affected by the degree of attachment to the existing culture.

Moreover, whereas a widespread belief that a modification is necessary will help its implementation, a lack of conviction on the same subject may foster negative reactions in the people affected by such change. There are copious reasons that may account for such resistance, but one is particularly frequent and relevant to our previous observation: the capability trap.

The capability trap is expected to rise due to a “*track record of success and the lack of any visible crisis*” (Palmer, Dunford and Akin, 2009, p.165).

Finally, people's experiences of previous organizational changes are likely to be the ground on which they develop "*mental models*", that will influence how the next change process is going to be like.

However, even if such resistance to change is a central topic in the change management literature, it is imperative to note that people don't always behave in such manner. Instead, they often welcome change and work with enthusiasm in its support, for plenty potential reasons. Kirkpatrick (2001) identified several possible outcomes that are inclined to foster people's positive reactions to change: security, improved working conditions, self-satisfaction and improvement in operational efficiencies.

3.3.4 Process - Implementing Change: Change Management and Processual Approaches.

Writers and practitioners have been remarking the role of images on how we interpret organizations and therefore what we think is happening, what it needs to happen and how it should happen in a certain organization. Occasionally we hold these images (also referred to as metaphors, frames or perspectives) without even being aware either of their existence or of how they affect our perceptions. They act as mental models, guiding us towards certain directions in order to make sense of the world that surrounds us.

For example, if organizations are thought to be political arenas, it is probable that hidden agendas behind decisions are constantly trying to be sought out. Alternatively, organizations can be considered as small societies or cultures. In this case, we are prone to be constantly searching for "*the way things get done around here*" and thinking about how to encourage the organizational values that are best aligned to the type of work the organization executes (Palmer, Dunford and Akin 2009).

The same situation applies to managers of change. These images, metaphors, or frames that we hold, both of managing and of change, influence the ideas of what managing change should be about. Palmer, Dunford and Akin (2009) identify six images of managing change, each of which is dependent on the images held of managing and of whether intentional

change outcomes can be achieved. However, for the purpose of this work, only the “*Change Manager as Director*” image will be discussed here.

The “*director image*” is based on an image of *management as control* and of *change outcomes being achievable*: “it is therefore up to the change manager to direct the organization in particular ways in order to produce the required change. The assumption is that change is a strategic choice that managers make and the survival and general well-being of the organization depend on them” (Palmer, Dunford and Akin 2009, p. 27).

The theories that underpin this Image are usually the “n-step” models or theories of change. These theories, in fact, assume as an image of the change manager the *director*.

Moreover, according to Palmer et al. (2009), such perspective assumes that change managers have an essential influence on all the change implementation phases. Numerous models of “*Change Management*” exist and all of them share one key assumption, which is “*a multistep model of how to achieve large-scale, transformational change*” (Palmer, Dunford and Akin, 2009, p.220). We decided to focus on a classic of the change management field, which is the “*Eight-step model*” of John Kotter (1996). He argues that, even if his model simplifies the change implementation process, following this eight-step path is the key for achieving successful change.

The model can be simplified as follows:

1. Establish a sense of urgency;
2. Ensure the presence of a powerful group that will lead the change.
3. Develop a clear and powerful vision;
4. Communicate such vision;
5. Empower the staff;
6. Ensure the presence of short-term wins;
7. Consolidate gains;
8. Embed the change into the organizational culture;

Step	Actions
1. Establish a sense of urgency	Market analysis. Determination of problems and opportunities Make people focus on the importance of change to face problems and seize opportunities
Ensure the presence of a powerful group that will lead the change	Create structures to drive the change Ensure they have enough power to achieve desired change
Develop a Clear and powerful Vision	Develop a Vision that provides focus for the change
Communicate such Vision	Use multiple channel to constantly communicate the Vision, both internally and externally
Give power to the staff	Simplify the organization, removing organizational structures that hinder achievement of the vision Encourage risk taking activities
Ensure there are short term wins	They help support need for change Rewarding wins helps to provide motivation
Consolidate Gains	Continue removing organizational structures and processes that inhibit change Reward advocate of change
Embed the change into the organization culture	Link change to organizational performance and leadership.

Figure 5: Simplification of John Kotter's eight-step model (1996)

4.0 ANALYSIS

4.1 Introduction to the Case Study

4.1.1 Introduction: L'Oréal Group.

Eugène Schueller, a young chemist with an entrepreneurial spirit, founded L'Oréal in 1909. It all began with one of the first hair dyes he formulated, manufactured and sold to Parisian hairdressers. With this, the founder of the group forged the first link in what is still the DNA of L'Oréal: research and innovation in the service of beauty (Loreal.com, 2016).

Nowadays, L'Oréal is the first cosmetics group worldwide. It covers all the lines of cosmetics: hair care, colouring, skin care, makeup and perfume, with a unique brand portfolio of 32 complementary brands.

The group is organized into four major divisions: the *Consumer Products Division*, *L'Oréal Luxe*, the *Professional Products Division* and the *Active Cosmetic Division*.

L'Oréal produces 87% of the units of products sold in its 40 factories around the world, so as to ensure a fast response to the end consumer. Moreover, its responsiveness is accentuated by the presence in 130 countries over five major geographical zones.

As the 2015 annual report shows, L'Oréal “*recorded a strong growth in 2015, supported by a positive monetary effect, and outperformed the beauty market in three of its four divisions. The growth in sales, earning per share and dividend illustrates the quality and the robustness of the L'Oréal business model*” (L'Oréal - Annual report 2015, 2016)

In fact, its sales showed a positive increment of 12,1% based on reported figures, with an operating profit of 4.4 Bn, and an increment of 14.8% in dividend per share.

4.1.2 Sustainability History of L'Oréal

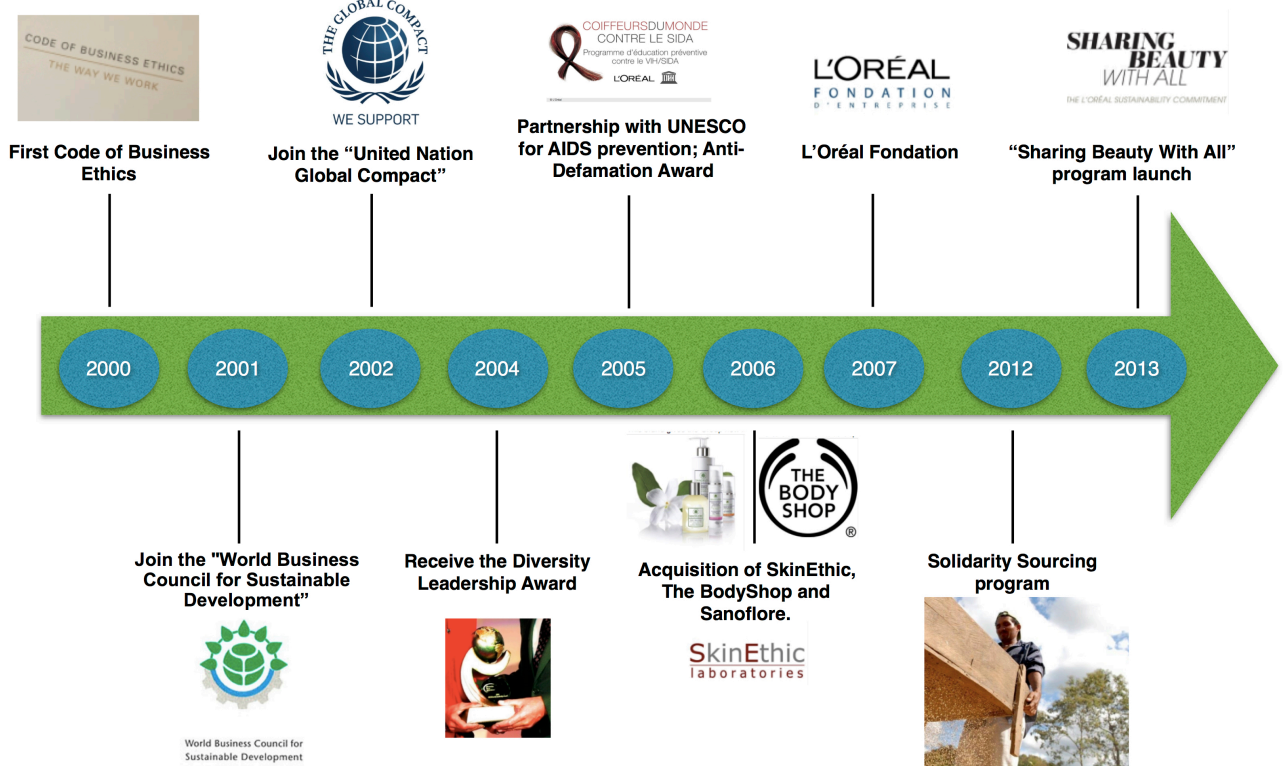


Figure 6: L'Oréal Sustainability timeline from 2000's

L'Oréal sustainability commitments can be found back in its history, but we decided to concentrate the analysis on the years 2000s, when L'Oréal became the leading company in the beauty industry.

In February 2000, the company launched its first *Code of Business Ethics*, formalising its values and guiding principles. A second edition of the Code of Business Ethics was launched in 2007.

In 2001 L'Oréal joined the "*World Business Council for Sustainable Development*", an association of over 150 companies from all major industries whose mission is to promote the exchange of know-how in environmental, economic and social matters. A year later, L'Oréal endorsed to the ten principles of the "*Global Compact*", a UN sustainable development initiative inaugurated in 2000.

In 2004, L'Oréal's earned its first "*Diversity Leadership Award*" for a company from the "*Diversity Best Practices Organisation*". The company was rewarded for its commitment in addressing the diversity of its employees, customers, suppliers and models of beauty. The president and founder Mrs. Edie Fraser claimed: "*L'Oréal's efforts to make diversity a business imperative as much as a social one are not just worthy of recognition, they are an extraordinary example for other companies to follow.*" (Loreal.com, 2016)

A year later, L'Oréal received another award for its attention to diversity, in particular for its fight against discrimination and visible minorities protection. In New York, Lindsay Owen-Jones, who at the time was L'Oréal CEO, received the "*Anti-Defamation League's International Leadership Award*". Abraham H. Foxman, National Director of the ADL, says that "*Sir Lindsay has taken his vision and put it into practice, making L'Oréal not just the leading cosmetic company in the world, but a leader in promoting diversity and respect for culture and identity setting standards to be emulated. L'Oréal and ADL have a shared vision of celebrating 'A Planet of Diverse Beauty'.*" (Loreal.com, 2016).

In the same year, L'Oréal's Professional Products Division and UNESCO signed a cooperation agreement concerning AIDS prevention using the global network of hair salons. In fact, the idea was to mobilise the network of L'Oréal trainers and to support hairdressers to spread the message to their customers. This new social responsibility initiative earned the "*Group the Global Business Coalition against HIV*" prize in London.

In 2006, the corporation started a series of acquisitions targeted to sustainability. Firstly, Episkin, the Group subsidiary dedicated to reconstructed skin technology, acquired SkinEthic, one of the leading international connoisseurs in tissue engineering, thus confirming L'Oréal's commitment to developing alternative methods to animal testing, which culminated in 2007 when L'Oréal's Episkin reconstructed skin kit was approved as a full replacement method for cutaneous irritation by the ECVAM (European Centre for Validation of Alternative Methods). Secondly, the Group acquires The Body Shop, a brand created by Anita Roddick and reputed for its natural products, its ethical values of defending the environment, fair-trading and social responsibility. This acquisition provided the Group with brand-new insights for sustainable development and offered valuable retail expertise.

Lastly, in the same year, L'Oréal acquired the French pharmaceutical company Sanoflore, specialised in natural cosmetics produced by organic farming. Supported by the Active

Cosmetics Division, this frontier-settler attempted to expand globally and became a world reference in organic cosmetics. Sanoflore offers wholly natural, paraben-, colouring- and silicon-free products, which are not tested on animals.

In 2007, L'Oréal put a milestone in its history. In fact, after years of promoting women in science, helping prevent AIDS and promoting social beauty care for women cancer patients; L'Oréal creates its Corporate Foundation. The aim of this foundation is to encourage education, to promote scientific research and help vulnerable people.

With this initiative, L'Oréal presented a vigorous manifesto of social responsibility, and took a considerable step forward as a corporate citizen.

Five years later, L'Oréal officially launched “*Solidarity Sourcing*”, a solidarity agenda that contributed to job creation for the economically vulnerable throughout the countries in which the Group operates.

Finally, on 23 October 2013, Jean-Paul Agon, Chairman and CEO of L'Oréal, announced the cutting-edge commitments the Group made to reduce by 2020 the company's footprint while achieving its business ambition. L'Oréal committed to integrate sustainability all along its value chain, from research to operations. “*Sharing Beauty With All*” therefore comprises four areas: *Innovating sustainably* - *Producing sustainably* - *Living sustainably* - *Developing sustainably* with employees, suppliers and communities.

4.1.3 Sharing Beauty With All: the L'Oréal Sustainability program.

“*Our objective is clear: to become one of the leaders of a new economic development model, which is increasingly ecological, responsible and inclusive*”, says L'Oréal Chairman and Chief Executive Officer Jean-Paul Agon when speaking about the recent launch of the sustainability program “*Sharing Beauty With All*” (L'Oréal - Annual report 2014, 2015).

The program aims to reach different goals in four major areas:





- *Innovating sustainably*: L'Oréal aims at reducing the environmental footprint of its formulas, to preserve biodiversity, to optimize the packaging and to achieve zero deforestation.

- *Producing sustainably*: the group wants to reduce its CO2 emissions, its water consumption and its waste.
- *Living sustainably*: by assessing the footprint of its products and by raising consumer awareness about sustainability issues.
- *Sharing sustainably*: L'Oréal promotes access to employment and social inclusion and it joins forces with its suppliers around the world in order to be able to universalize its social model.

The objective by 2020 is to improve the social or environmental profile of products by 100% and the group has reached 74% in only two years from the launch.

4.1.4 Sustainability Results

Innovating sustainably

2020 TARGETS		2014 RESULTS	2015 RESULTS
100% of the products will have a positive environmental or social benefit. Every time a product is invented or updated, the environmental or social profile will be improved against at least one of the following criteria:		67% of new products have an improved environmental or social profile	74%
	- the new formula uses renewable raw materials that are sustainably sourced or raw materials derived from Green Chemistry	46% of new or renovated products have a new formula using renewable raw materials sustainably sourced or raw materials derived from Green Chemistry	22%
	- the new formula reduces the environmental footprint	54% of new or renovated products have an improved environmental profile thanks to a new formula reducing the environmental profile	22%
	- the new packaging has an improved environmental profile	INDICATOR NOT AVAILABLE FOR 2014	14%
	- the new product has an improved environmental profile	17% of new or renovated products have an improved social profile thanks to a positive social impact	43%






Source: 2014 and 2015 Progress Report

As previously explained, “*Innovating Sustainably*” aims at reaching a positive environmental or social benefit by 2020.

From the table above, it can be inferred that L’Oréal improved its result from a 67% in 2014 to 74% in 2015. The 2015 results reflect products that are new or renovated in terms of formula or packaging and that were made for the first time in 2015.

As far as the “*new packaging*” variable is concerned, the indicator was not available because it was being calculated. A year later, L’Oréal has improved the environmental profile thanks to a reduction in the environmental footprint of packaging.

Producing sustainably

	2020 TARGETS	2014 RESULTS	2015 RESULTS
	Reduction of the CO ₂ emissions at plants and distribution centers by 60% in absolute terms, from a 2005 baseline.	CO ₂ emissions reduced by 50.2% from a 2005 baseline	56%
	Reduction by 20% of CO ₂ emissions from transportation of products (in grams of CO ₂ per unit of finished product and per km), from a 2011 baseline.	INDICATOR NOT AVAILABLE FOR 2014	289.244 tonnes of CO₂
	Reduction of water consumption by 60% per finished product unit, from a 2005 baseline.	Water consumption was reduced by 36% from a 2005 baseline.	45%
	Reduction of wastage by 60% per finished product unit, from a 2005 baseline.	Waste generation reduced by 23.1% from a 2005 baseline.	31%
	Zero waste to landfill.	Only 3.8% of waste was sent to landfill	2%





Source: 2014 and 2015 Progress Report

“*Producing sustainably*” aims at the reduction of CO₂ emissions by 60% in absolute terms and at the reduction of water consumption and waste generation. The calculation of CO₂ emissions concerns plants and distribution centers and is calculated in absolute value from a 2005 baseline.

As can be observed from the above table, the reduction from transportation of products in 2015 amounts to 289.244 tonnes of CO₂, which means 0.021 grams of CO₂ per sales unit per km.

As far as “Zero waste to landfill” is concerned, the number has decreased, hence showing an improvement in this area. Moreover, “The percentage of waste sent to landfill is calculated for the given year by dividing the amount of waste sent to landfill (2,891 tonnes) by the amount of transportable waste, excluding reusable packaging (90,066 tonnes) and reusable packaging rotation (41,878 tonnes)” (Progress Report, 2015).

Living sustainably

	2020 TARGETS	2014 RESULTS	2015 RESULTS
	A Product Assessment Tool will be used to evaluate the environmental and social profile of 100% new products, and all brands will make this information available to allow consumers to make sustainable life choices.	INDICATOR NOT AVAILABLE FOR 2014	INDICATOR NOT AVAILABLE
	All brands will assess where they have the largest environmental and social impact, and make commitments to improve their footprint.	22% of brands have evaluated their environmental or social impact.	66,6%
	Every brand will report on its progress and raise awareness among consumers about sustainable lifestyle choices.	25.4% of brands have evaluated their environmental or social impact.	34%
	Consumers will be able to influence sustainability actions through the consumer sustainability panel.	INDICATOR NOT AVAILABLE FOR 2014	INDICATOR NOT AVAILABLE

Source: 2014 and 2015 Progress Report

As for “Living Sustainably”, the Group aims at including consumers in the sustainability program: they share information to help them make sustainable lifestyle choices.

The assessment of environmental and social impact conducted by all the brands under the L’Oréal umbrella is calculated on the share of 2013 consolidate turnover.

The percentage of brands that have done this assessment is increased from only 22% to 68.6%. However, the percentage of progress report and progress sharing with consumers has only increased by 8.6%, and the “*Consumer Sustainability Panel*” has still not been implemented.




This shows the difficulty in involving the end consumer in this program.

“*Developing Sustainably*” is the part of “*Sharing Beauty With All*” that aims at involving the company’s stakeholders and at unfolding the Group’s vision of responsible corporate citizenship.





They want their employees around the world to benefit from the best social practices of the countries of their residence, they want their suppliers to participate in the sustainable commitments and to enable access to work for the communities around the Group.

From the tables below, L’Oréal demonstrated an overall improved performance, showing a strong ability to involve its stakeholders in the program.





Developing sustainably with employees

	2020 TARGETS	2014 RESULTS	2015 RESULTS
	Health coverage aligned to the best practice of the country where the employees are based will be provided	85.3% of the Group’s permanent employees have healthcare coverage	86,6%
	All brands will assess where they have the largest environmental and social impact, and make commitments to improve their footprint.	70.1% of the Group’s permanent employees receive financial protection in the event of personal injury, such as death or permanent disability.	78,4%
	Every L’Oréal employee will have access to at least one training session per year wherever they are in the world.	81.7% of the Group’s employees attended at least one training session in 2014.	72,6%

Developing sustainably with suppliers

2020 TARGETS	2014 RESULTS	2015 RESULTS
 <p>All strategic suppliers will be evaluated and selected on environmental and social performance.</p>	<p>43% of the Group's strategic suppliers have been evaluated and selected based on their environmental and social performance.</p>	<p>51%</p>
 <p>All strategic suppliers will have completed a self assessment of their sustainability policy with L'Oréal support.</p>	<p>50% of strategic suppliers have completed a self assessment of their sustainability policy with L'Oréal support.</p>	<p>74%</p>
 <p>All suppliers will have access to L'Oréal training tools to improve their sustainability policies.</p>	<p>INDICATOR NOT AVAILABLE FOR 2014.</p>	<p>INDICATOR NOT AVAILABLE</p>
 <p>20% of strategic suppliers will be associated with the "Solidarity Sourcing" programme.</p>	<p>4% of strategic suppliers are involved in the Group's Solidarity Sourcing programme.</p>	<p>4%</p>

Developing sustainably with the communities around L'Oréal

2020 TARGETS	2014 RESULTS	2015 RESULTS
 <p>By 2020, more than 100,000 people, equivalent to L'Oréal global workforce, from underprivileged communities will access work through the following programs:</p>	<p>More than 54,000 people from underprivileged communities in social or financial difficulty were provided access to work.</p>	<p>60.600</p>
 <p>- Solidarity Sourcing;</p>	<p>52.000 people accessed work through the Solidarity Sourcing Program</p>	<p>57.200</p>
 <p>- Beauty Professionalisation;</p>	<p>1400 people accessed work through the Beauty for a Better Life programme.</p>	<p>2.700</p>
 <p>- Employment of disabled people and under-represented socioethnic groups.</p>	<p>815 people with disabilities work for L'Oréal</p>	<p>773</p>

Source: 2014 and 2015 Progress Report

4.2 Introduction to the analysis

The aim of this analysis is to provide an answer to the research question at the root of our project, declared in the introductory chapter. Proceeding toward the final conclusion, this section will combine empirical data collected with the use of unstructured interviews, with theories and perspectives discussed in the literature review, and that were used as a guiding framework for the course of analysis. As mentioned in the “*Data Analysis*” paragraph, we followed four sequential steps. In the first place, we tried to identify in the interview transcriptions the presence of activities underpinning the three dynamic capabilities for corporate sustainability (Monitoring, Seizing, Reconfiguring). Secondly, we conducted the same identification process for the three pillars of strategic change management (Vision, Process, People). In both occasions, we used color-coding to isolate relevant quotations; further, we assigned to each one of them a number. In the third step we combined the quotation belonging to each category by putting the related numbers in a table. This allowed us to provide an even more significant evidence of their interrelation. Conclusively, we analyzed the main financial indexes of the L’Oréal group over the last 3 years, trying to provide a further backup for our theories.

4.3 Step 1: The identification of the Dynamic Capabilities

4.3.1 Monitoring Capabilities: the ability to listen and dialogue with your stakeholders.

The first group of dynamic capabilities that we investigated was “*monitoring capabilities*”. Referring to the literature review proposed in this work, it’s reasonable to say that this capability and the activities underpinning its presence or development are symptomatic of the firm’s ability to proactively engage in continuous formal and informal dialogues with its external stakeholders. Such ability it’s of primary importance, especially for global companies that interact with numerous stakeholders in many different markets. Indeed, monitoring capabilities allow such companies to always be alert of the mutable needs and trends and to develop strategies and practices to always align their internal resource-base with their external environmental requirements. As we previously mentioned, sustainability is now a top concern

for the vast majority of stakeholders, and the ability of L'Oréal group was being at the forefront in recognizing it.

This can be easily inferred by examining the words of the Chief Sustainability Officer, Mrs. Alexandra Palt. In fact, in an interview with businessgreen.com she stated: *"You need to recognize cultural differences when tackling climate change, [...] for example, people who regularly experience drought will be much more open to the idea of saving water, while other countries, like Germany, appear to have recycling ingrained in their societies already. So if we want to involve the consumers, which is absolutely necessary, we also have to understand the cultural differences in sustainability that apply to consumers"* (businessgreen.com, 2015).

L'Oréal developed the ability to create formal and informal channel with its stakeholders also by workshops, open innovation initiatives and international meetings like the "COP21" or "Business and Climate Summit", where governments' exponents, NGO's and consumers' associations met together to share visions and practices, and to reach agreements on long-term relationships and goals.

The openness and predisposition of top management are of key importance in order to profitably benefit from these events. In the case of L'Oréal, Alexandra Palt states: *"A lot of companies are afraid when they organize these kind of stakeholder forums. They think, 'oh my God, what is going to happen and so on; instead, you can understand what kind of information and what degree of transparency they want"*. The interview continues as follows: *"This global consultation process served as a "reality check". Some issues that L'Oreal thought were important for the public fell on deaf ears, and vice versa; some non-priority issues turned out to be far bigger concerns than the company anticipated. The drawing of lines worked both ways"* (theguardian.com, 2013).

The website responsible for the interview comments Mrs. Palt's words as follow: *"Palt was able to clarify certain misconceptions, particularly around the philanthropic nature of L'Oreal's plans ("strategy sustainability" is one of her favorite and most repeated terms). Such an approach fits with what L'Oreal calls its "culture of confrontation". This sees individuals being actively encouraged to defend their own opinions, as well as confronting those of others. The result is often "loud and dynamic", but it sometimes takes guts to speak out, said Palt"* (Businessgreen.com, 2015).

This predisposition toward stakeholders' monitoring has been confirmed also in the interview we had with Mrs. Sonja Christensen, Communication Director at L'Oréal Denmark A/S, which states: *"When the company launched the program "Sharing Beauty With All", they had stakeholder contacted all over the world; then they organized a conference in Paris on how to make sustainability attractive for the consumer, and other companies, like Carlsberg were invited. It was very much about sharing practices and learning from each others in order to make sustainability attractive for the consumers and teach them to behave sustainably".* Moreover, she explained that a further injection in this direction was the arrival of Alexandra Palt and the launch of the *"Sharing Beauty With All" program*: *"Another big change occurred with the arrival of Alexandra Palt; before launching this "strategy", she travelled around the world to meet our stakeholders, including NGO's, and asked them how do they see us. She also presented our current performances and operations and disclosed our 2020 target, which underline the gap between where we are right now and where we want to be. That shows we're not perfect".*

4.3.2 Seizing Capabilities

As we discussed in the literature review, knowing stakeholders' sustainability expectations is necessary but not enough. In order to meet stakeholders' sustainability demands, companies necessitate to seize sustainable development opportunities by performing several activities and simultaneously achieve environmental, social and economic performances. An example of such activities is the focus on the development of practices that have a lower level of environmental impact (Wu, He and Duan, 2013), and the creation of dedicated teams to guide and manage collaborative sustainability project along all the value chain. We identified the presence of these kinds of activities in the L'Oréal group. Once again the words of Mrs. Alexandra Palt and the Communication Director of L'Oréal Denmark A/S provide concreteness to our arguments. In an interview with amara.org, at the question *"Why did you choose this particular location to talk about sustainable development?"* (2016), the Chief Sustainability Officer answered: *"We're in one of L'Oreal's research centers, and research and innovation are at the very core of our accomplishments. This is where the value chain begins and we take sustainable development into account from the very beginning by focusing*

on sustainable innovation”. Furthermore, she follows talking about the other steps in the value chain: *“After research and innovation comes production and we manufacture 90% of our products in-house. We have set the bar very high for ourselves in order to reduce our impact on the environment. For 2015 we plan to achieve a 50% reduction in carbon dioxide emissions in absolute value terms and a 50% reduction in our water usage and a 50% reduction in waste materials per finished product. We’re well on the way to meeting those goals”*. Lastly, she also commented about the challenges that lie at the final step of the value chain: *“When it comes to marketing, all of our social and environmental responsibility activities are grouped under what we call Responsible Consumption. So, of course, this begins with offering consumers’ eco-designed products that have less impact on the environment and off responsible marketing and communications strategies, which create relationships based on trust. This results in making customers aware of the importance of sustainable development and how they can potentially contribute to it”*.

A more technical confirmation comes from the words of the Nordic Service Quality Director, Mr. Bo Lund Mathisen, which discussed with us several sustainability initiatives implemented in recent years: *“We invested in disparate improvement, both in processes and equipment which improved the job conditions of our employees, reduced our environmental footprint and impacted positively in the bottom line by virtue of cost savings”*. *“For example”* - he follows - *“we invested in a new gate that by a specific hermetic system allow us to dramatically reduce the heat dispersion in the inbound phase; this means a better temperature for workers and less energy consumption. Also the general heating system has been changed; we partnered with other companies in the area and the authorities and we now get hot water from a natural gas heating district which allowed us to cut off 58% our CO2 emissions overnight”*.

4.3.3 Reconfiguring Capabilities

Reconfiguring capabilities are of key importance for companies that want to achieve sustainable development. Once the firms have collected data and sentiment from the environment through monitoring activities, and once sustainability opportunities have been

recognized and the activities to seize them has been undertaken, the organization resource-base and the processes that add value to them will need to change in order to adapt to the new stakeholder exigencies. This ability to reconfigure its resource-base is critical in order to avoid the so-called “*capability trap*”. Overcoming such “*capability trap*” is even more important in corporate sustainable development, as the link between sustainable development-related activities and the economic performance of the company is not always so straightforward. As we discussed in the literature review, all the three dynamic capabilities for sustainability are distinct but always interrelated and their performing often overlay. Thus, it has been difficult to isolate the reconfiguring capabilities from the others, for the reason that the reconfiguration process should touch the majority of the organizational processes. Precisely, reconfiguring capabilities and seizing capabilities are often interrelated and interdependent. In the case of L’Oréal, as it could be presumable following our reasoning, the reconfiguration process enclosed the whole value chain, and impacted the mindset of the entire Group level as well as the initiatives of the single brands. In an interview with “theguardian.com” (2013), Alexandra Palt provides evidence about this saying: “*Brands need to get off the "horrible, guilty, negative part" of the sustainability story, she said. Threatening folk with rising sea levels and apocalyptic futures will never budge them. Far better to make "beautiful products that are desirable" – oh, and then ensure they're sustainable. We don't want to say to people, 'buy our products because they are sustainable. This is not working'".* She continues further: “*The same goes for behavior change. Haranguing people to become more sustainable is a waste of breath. No, (I say) behave like this because it's the most inspirational, nicest, best way to live your life*” (theguardian.com, 2013). The Communication Director for L’Oréal Denmark A/S, Mrs. Sonja Christensen, echoes saying: “*The most considerable challenge for us is when the consumers use our products to the extent that, from an environmental point of view, the highest environmental footprint is from the consumer’s use of the product. What we are focusing on at the moment is how to educate the consumers. We want to make possible for them to make an informed choice when they buy their products, meaning: how can we make it sexy for the consumer to use sustainable products?*” She also gave us a few insights for the recognition of reconfiguring capabilities from a more technical point of view, talking about changes in the upper level of the value chain: “*One example of this transformational change is one of our plants: we brought our packaging*

supplier in-house. We still do not produce anything, but our provider operates inside the factory so that there's no transportation cost, which allows us to save a lot of CO2 emission and money. This means a lot in terms of energy consumptions, an issue that required a lot of work. We try very hard to make our factories more efficient. Moreover, this program is helping us in the selection of suppliers which, like us, focus on sustainability and corporate social responsibility".

Additionally, she also talked about change in the Group organizational framework: *"We had a huge change in the way we are organized. It has always been Paris at the center of the world and French people traveling all over the world to control everything; now it's more divided into zones and there is a manager for each zone; so it's less centralized and the company is also much more international. In terms of consumer focus and research, we have a R&D center in France of course, but also five other centers around the world, where we actually look at people, how do they take their bath, how do they wash their hair, how do they behave in the sun, if they like to have long or curl hair, so that we have much more knowledge about the consumer; it's much more decentralized".*

This seems to suggest a profound organizational transformation, undertaken in order to provide the group with the agility, responsiveness and dynamism necessary to be always alert to changes in each one of the context where the company operates. Such transformation is mentioned also by the CEO, Mr. Mr. Jean Paul Agon, in the "Annual Report 2014" stated: *"L'Oréal has undergone substantial strategic transformations this year to reinforce our competitive advantage in the beauty market; [...] several strategically important internal transformations also took place this year. We have started a huge simplification initiative. I am quite convinced that the more complex the world becomes, the more we need to simplify our approach, so as to be fast, agile, responsive, and capable of seizing up-and-coming trends and taking advantage of all opportunities. The aim of these transformations is to adapt the group to a fast-changing world, and to prepare it for future success. We want to be a leader with the spirit of a challenger, and a large company with the spirit of a start-up".*

4.4 Step 2: The identification of the three pillars of Change Management

4.4.1 Vision - The internal driver for change

In the literature review, we thoroughly discussed the importance of a clear vision in the initiation of strategic change processes, and especially of strategic changes toward sustainability. We mentioned the characteristics that it should contain, the context and the processes necessary to develop a clear and sound vision. Moreover, we focused on the image of change managers as “*directors*”. In this particular image, the vision is crafted by the top management and then communicated to the lower organizational levels, providing the main guidelines for the change implementation. Evidence of this top-down approach is given by Mrs. Sonja Christensen, who said: “*Our initiative is very top down. We have a very strong management, who has this vision; everybody was told; “Now we have this target, do something!” So now this is our target, -60% in 2020 from the 2005 baseline*”.

She goes further: “*It is definitely top-down; our top management has always had a focus on sustainability from the very beginning. Now, the management of each country is responsible to do something, but still, the main guidelines are developed at our headquarters and then communicated to all the lower managerial levels. This is very efficient in my opinion; having a very precise target and “forcing” people to find new ways to achieve it, because it fosters creativity and innovation, in this case sustainable innovation*”.

This suggests supplementary considerations about the importance of vision in driving change. Indeed, vision is a powerful mean for “stretching” (understanding the gap between the current and the desired situation) and “leveraging” (use the current company’s resources in new ways) the company’s current resource base in order to creatively generate innovation. Mrs. Sonja Christensen confirms this again: “*The 2020 target, underlines the gap between where we are right now and where we want to be! That shows we’re not perfect*”.

Evidences in the same direction come from Mrs. Alexandra Palt: “[...] *in France people say ‘we communicate it when we prove it’, but that’s not sufficient today on sustainability because if you do not commit and set the bar quite high and stretch it, then we will not go fast enough*” (businessgreen.com, 2015).

Another important theme relevant to change process in general and especially for strategic change toward sustainability is the top management role and its mindset in recognizing

sustainable opportunities and trends, for then envisioning a desirable future position for the firm. Tracks of a mindset focused on sustainability initiatives are easily recognizable in the words of both the Communication Director at L'Oréal Denmark A/S and the Nordic Service Quality Manager, as well as in L'Oréal official documents and, lastly in the interviews with Alexandra Palt that we find on the web. We start precisely with the statements of the Chief Sustainability Officer, who in an interview with www.devex.com, when asked *"You've been chief sustainability officer at L'Oréal since 2012. Which of your achievements are you most proud of?"* (www.devex.com, 2016), answered: *"I would not say 'proud of' because it is always a team that collectively works with a chief sustainability officer. Any successful accomplishment results from the involvement of a whole group of managers, and the leadership of our CEO. And we're lucky at L'Oréal to have a CEO [Jean-Paul Agon] with a very strong commitment to those issues [...]. Thanks to this whole team, we managed to adopt a long-term vision of sustainability at L'Oreal for 2020 through our [*"Sharing beauty with all"*](#) strategy, which completely transforms our business and the way we're doing business"*.

It is not a case, then, the fact that she has been working for a long time for several associations and NGO's, such as Amnesty International, and when asked if her background is important for her current job, she answered:

"It does help, because I know how NGOs function and what they expect from corporations. So it's perhaps easier to respond to their needs".

A previous commitment within the sustainability field is also confirmed by Mrs. Sonja Christensen: *"There have always been a high focus on the environment and on the measurement of our consumption and footprint, but we have not been talking about it or, better, we haven't been communicating about it, internally or externally. I've been with the company for 30 years and we have always measured our environmental impact, so it's not new at all, it's not a reaction to something. It's of course to force ourselves to do better, that's why we have the 2020 target"*.

Finally, it is the CEO, Mr. Jean Paul Agon, who himself talks about such previous commitment in the *"Progress Report 2014"*: *"Our group already had a long tradition of sustainable development initiatives; we were trailblazers in sustainable innovation, and we made substantial advances in Green Chemistry for example. As for the environmental footprint of our production, in 2005 we set ourselves the target of halving our CO2 emissions*

in absolute terms, as well as our water consumption and the volume of our waste per finished unit by 2015. Furthermore, for more than 10 years we have been supporting and implementing the principles of the United Nation Global Compact, a commitment that we renewed in 2014. Our sustainability policy flows from L'Oréal's Code of Ethics and our strong Ethical Principles - Integrity, Respect, Courage and Transparency. Through Sharing Beauty With All we wanted to go even further”.

4.4.2 Process - The Implementation phase.

When a clear vision for the future has been developed and well communicated across the organization, a change process must begin in order to bring the organization from the current situation to the desired future envisioned by the top management.

In Chapter 3, we talked about what in the literature about change management has been called, indeed, a Change Management approach. In such approach, the top management should be able to successfully implement a strategic change by following a series of well-defined steps; we took into consideration the eight-step model of Kotter (1996), whose steps seem to be recognizable also in our case study.

Indeed, a sense of urgency seems to appear in the words of Alexandra Palt: “...if you do not commit and set the bar quite high and stretch it, then we will not go fast enough”.

Then, the presence of the CSO among the executive as well as a dedicated position in each country in which the company operates, links to the second step of Kotter's model: “ensure there is a powerful change group to guide the change”.

The third and the fourth step, that concern the development of a strong and guiding vision communicated across the organization and along the whole value chain, have been widely described and proved in the previous paragraph.

Signs of the link to the fifth step, “empower staff” can be recognized in the new decentralized governance structure previously commented by the same Communication Director of L'Oréal Denmark A/S, along with the freedom given to each manager in the daily work. This was also confirmed by the Nordic Service Quality Director, Mr. Bo Mathisen, who told us: “we receive many information and data from Paris, but we have very large freedom on a daily basis”.

Further, one particular statement of the CEO Mr. Jean Paul Agon in the “*Annual Progress Report 2015*”, suggests the importance of short-term wins and improvement reward’s, which foster motivations to change and that has been recognized by Kotter (1996) as the sixth step in his implementation model.

Indeed L’Oréal CEO, stated: “[...] *sustainable development affects us all, we also plan, as of 2016, to integrate performance targets related to the program into the bonus systems for all L’Oréal executives. This will allow their individual contributions to be acknowledged and will make the success of the program a new key performance indicator*”.

The penultimate step, “*consolidate gains*”, suggests a mindset oriented toward continuous improvements, in all the organizational processes and practices. This is something that L’Oréal own in its culture and that arise also in the words of the Nordic Service Quality Director, who said: “[...] *this is something that has always been in L’Oréal’s culture; it is the way in which we operate, continuously looking for improvements*”. Such a mindset has been confirmed also by Mrs. Sonja Christensen: “[...] *they have already changed years ago the lightening system and the heating system. Later, we had a project manager who worked on cardboards and on how we could improve their use, in order to achieve “0 waste to landfill”. However, we still want to reduce our waste [...] there have always been a high focus on the environment and on consumption and footprint measurements*”.

Lastly, the same considerations on the previous point are consistent and relevant also with the last step of Kotter’s model (1996); that is, to “*embed the change into the organizational culture*”.

In the Annual Report 2014, the CEO Mr. Jean Paul Agon, stated: “*In 2020, for example, 100% of our products will have a demonstrable positive environmental or social benefit. This means that social and environmental criteria will be just as important in evaluating our future products as their efficacy or their contribution to the company’s value creation*”. This is a proof of how sustainability is, and will be even more in the future, embedded in the organization and in the measurement of its performances.

4.4.3 People - Support for change

As we explained in the previous chapter, the change implementation process is expected to have some sort of impact on the people involved in it. Such impact, and more importantly the way in which people react to it, is expected to be decisive for a successful implementation of the strategic change. In the case of L'Oréal, we could observe that there are no symptoms of neither active nor passive resistance toward the new vision for 2020, and consequently towards the implementation of the "Sharing Beauty With All" program. In the literature we cited "*discomfort with uncertainty*" as one example of the possible reasons why people could resist change, and in this respect L'Oréal's employees weren't exposed to significant degrees of uncertainty for the reason that the company's culture has always been oriented towards operational improvements. This is highlighted also by the Communication Director for L'Oréal Denmark A/S, Mrs Sonja Christensen, who said: "*I would say it was a change for a few people, in the way they work*". Also the Nordic Service Quality Director gave us insights into this direction: "*People didn't have to change their mind-set because they were already used to work in this way, always look for a better way of doing things*".

Another potential driver for change resistance is the belief that change is not needed; Mr Bo Lund Mathiesen stated instead that with "*the continuous measurement activities we could make people aware, and in this way they feel they can make a difference*".

Instead of the symptoms of potential resistance to change, we individuated practices that are recognized in the literature as underpinning its support. Indeed, the L'Oréal Group has set-up several activities in order to involve employees in the generation of new ideas and has shared its sustainable growth with them, improving already high standards in western countries and generating new ones in eastern countries and new markets.

The words of the CEO, Mr. Jean Paul Agon, gives us again some useful examples of such activities: "*Another major step forward in 2014 was the very good start made by the L'Oréal Share & Care program, which aims to provide the best social benefits to our employees in all the countries in which we operate by 2015. Let's take two examples: in Malaysia and Dubai, maternity leave has been doubled to 14 weeks on full pay; and in Nigeria, 100% of employees are now insured, and are guaranteed a payment of two years of their gross wage in the event of death or disability, when no benefit of this type previously existed. The universalization of our social policy within the Group also enables us to extend social protection worldwide. In my view, this is also the role of major companies*".

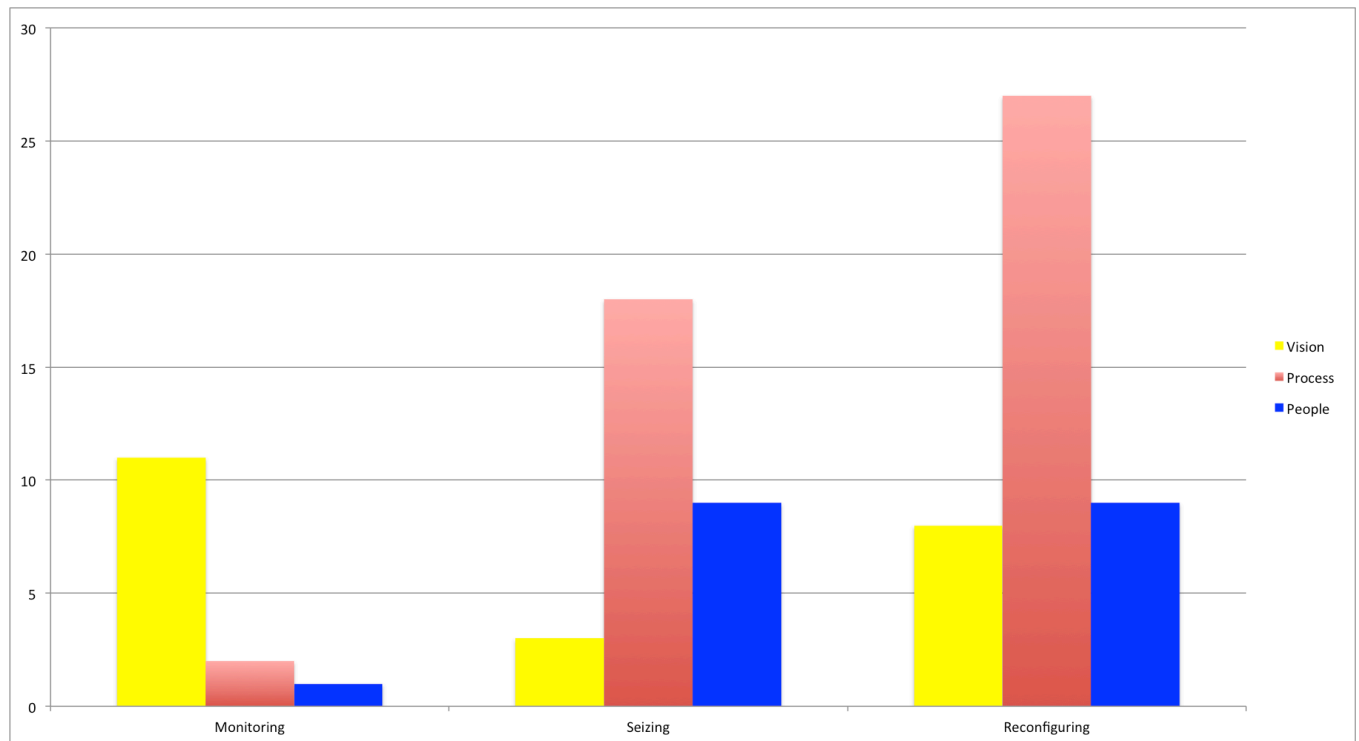
The same aim to improve employees' conditions is acknowledged by Mrs Alexandra Palt, in an interview with www.devex.com: *"We share our growth with our employees, through our social performance program "Share and Care" L'Oréal always had an ambitious social model in France. As we are global, we want to extend this social performance. We want every L'Oréal employee in the world to get the best available health care system in their country. In addition, everywhere in the world, women will have access to 14-week maternity leave. In a lot of countries, maternity leave is not a legal requirement"* (www.devex.com, 2016).

4.5 Step 3: Dynamic Capabilities and Change Management: two sides of the same coin.

Now that we identified several traits of the dynamic capabilities for sustainability as well as the activities and characteristics underpinning a profound strategic change process, we'll now look at how and why these two fields are intertwined, a relation that is at the nucleus of our research.

To this extent, as previously explained, we have examined the data via colour-coding: firstly, we examined the transcribed interviews in order to find dynamic capabilities (Step 1 of our analysis), applying the definitions gave by Wu et al. (2013) and secondly, we examined the same interviews through the lenses of change management, in order to identify the presence of the change pillars (Step 2). What we tried to figure out in Step 3 was the intersection between these two disciplines.

We decided to insert the results in a table where we "*counted*" how many times one capability was linked to a change management pillar and which capability was paired to which pillar.



Graph 1: Dynamic Capabilities and Change Management in L'Oréal

We are aware of the limitations of this method. The aim is not to extend the findings or to provide a sound and universal truth, but to provide an in-depth analysis of L'Oréal.

Moreover, the limited number of interviews we could examine may flaw these results. We could have achieved a higher grade of validity through a bigger sample, but due to a limitation in time and resources, and to the possibility to access data, this was not possible. We displayed the results of this interconnection activity in Graph 1. We're going to discuss further the results of our analysis in the following paragraphs.

4.5.1 Monitoring and Vision.

When speaking about "*Monitoring*", we can argue that this capability most frequently underpins L'Oréal's vision. De facto, the company's ability to effectively monitor the environment in which operates is closely interrelated to the visioning process.

The monitoring and the visioning process can be seen as an on going and mutually influencing process, which possess different focus depending on the mind-set of the top-

management. In the case of L'Oréal, a managerial mind-set already previously oriented toward sustainability initiatives, has brought the top management to focus its attention toward potential opportunities of sustainable development. This, in turn, oriented L'Oréal monitoring capabilities to all those stakeholders that could provide precious data and information regarding potential threats, opportunities and future trends. It is not a case, then, that the Chief Sustainability Officer, Alexandra Palt, possesses a background with experiences with several NGO's as for instance Amnesty International which, by her same admission, helps her in the performance of monitoring activities: *"It does help, because I know how NGOs function and what they expect from corporations. So it's perhaps easier to respond to their needs"* (www.devex.com, 2016).

On the other hand, it is reasonable to say that L'Oréal's vision for the future and the resulting *"Sharing Beauty With All"* program has been influenced by its capacity to listen to all the countless stakeholder involved and affected by the Group's activities around the globe. Indeed, the ability to continuously monitor the environment and thus always be alert to the changing needs of all the various stakeholders, enable the company to anticipate trends, recognize opportunities and set clear targets for the long-term; in the case of L'Oréal, the result was the *"Sharing Beauty With All"* program.

Considering that monitoring capabilities are aimed at scanning the external environment, and that the company's vision for the future is supposed to rise from the inside, the key point here is to continuously keep a strategic alignment between the external demands of its environment and its internal system of resources, processes and visions for the future. These ambivalence of internal and external pressures toward sustainability, it is easily recognizable also in the words of Mrs Sonja Christensen: *"It has come from the top management to say 'we need to be more on corporate responsibility in general'; so it's very top-down. It's not like there has been a movement that come from somewhere. But I also believe that it is in the air, it's a trend, and also the fact that we acquired The Body Shop in 2005 is part of that trend"*.

An even more enlightening insight comes from an interview of Mrs Alexandra Palt, Chief Sustainability Officer, with theguardian.com (2013), where, talking about a recently concluded global workshop on sustainability, she said that this global consultation process served as a *"reality check"*. This helped to clarify which issues were important for the public and which were not, so that the company could align its strategy to the stakeholders' want.

4.5.2 Seizing - The trigger for the change implementation Process.

Seizing capabilities concern the identification and development of the strategic plans and the consequent necessary activities needed to reach the envisioned future. In the L'Oréal Group, we identified the presence of such capabilities in several activities: a high focus on the development of practices that have a lower level of environmental impact (Wu, He and Duan, 2013), the creation of dedicated teams to guide and manage collaborative sustainability project along all the value chain, and finally the attempt to encourage employees in sharing good practices and new sustainable ideas. Such capabilities are linked to “*process*” and “*people*” to the extent that they trigger the change implementation phase, which in turn will affect the people involved in it. Examples of such capabilities come from the words of Mrs. Sonja Christensen, who specifically explained how a definite governance model and various dedicated teams have been created to seize sustainable opportunity across the globe: “*Now there is a specific role among the executives (Alexandra Palt) and a team working with her; since this program rolled out, in each country we operate we have been establishing committees to follow up where we are locally and of course reporting what we're doing locally in terms of initiatives. For instance, we have a Nordic group, in which I'm representing Denmark and others are representing each one of the Nordic countries*”. She also gave us some examples of how the company is fostering the sharing of good practices and sustainable ideas: “[...] *we're informing about initiative in the warehouses and distribution centers, and we now have a meeting each year where our CEO Mr. Jean Paul Agon and the managers of each country have a chat with employees; this year it was decided to have a kind of idea crowdsourcing with the employees, asking their point of view on what should be done and how could the group improve [...]*”.

Alexandra Palt, instead, explained how the “Sharing Beauty With All” program is the way through which L'Oréal is tackling sustainable development opportunities, and the both its internal and external stakeholders, profit from its successful implementation: “*Human values are at the very heart of our business, so we aim for growth that is shared and responsible. We share this growth with our employees through innovative human resources policies, with our suppliers because we partner with them for our sustainable development initiatives and, as*

well, with the communities where we operate. We try to help all of our stakeholders profit from our accomplishments and successes”.

Investing in the communities just mentioned, is another example of how L’Oréal Group intends to seize sustainable opportunities, by shifting for example its procurement processes, as mentioned again by Alexandra Palt in the “*Annual General Meeting 2015*”: “*in all the areas where we work, it is important to forge strong, close ties with local communities, as having access to raw materials in the best possible conditions in markets that are often with frightened by volatility, it is also an economic challenge; as a result, sustainable development is good for everyone, both for the company and the local communities*”.

4.5.3 Reconfiguring - a holistic, on-going and overlaying process.

Once the vision has been developed, and the strategic plans to achieve it have been recognized and defined, the company will need to reconfigure its resources and the way by which they are combined, in order to reach its envisioned future. At this point, when the strategic change enters its implementation phase, reconfiguring capabilities play their main role. Our analysis seems to confirm this, as the main convergence between reconfiguring capabilities and the three pillars of change management has been identified within “process” and “people”. That does make sense because the existing organization’ processes and the organizational culture are the areas most likely to be challenged during the implementation of any strategic change. In the case of L’Oréal, as sustainability is fully integrated in the core company strategy, the reconfiguration process took place in the daily operational work (for example, with the “gate investment previously mentioned) and from an holistic point of view, it affected the whole organizational structure.

As we previously showed, such organizational transformation is mentioned also by the CEO, Mr. Jean Paul Agon, in the “*Annual Report 2014*”: “*L’Oréal has undergone substantial strategic transformations this year to reinforce our competitive advantage in the beauty market [...] several strategically important internal transformations also took place this year. We have started a huge simplification initiative. [...] The aim of these transformations is to adapt the group to a fast-changing world, and to prepare it for future success*”.

For what concerns “people” and the organizational culture, as we previously explained, L’Oréal did not experience particular resistance in gaining the support of its employees, as the company has always owned a mentality oriented towards sustainability and operational improvement. What seems to be still lacking, however, is a more fierce participation from the lower level of the workforce, even if initiatives aimed to foster bottom-up participation have been proposed. This is consistent with what said by Mrs. Sonja Christensen, when asked about people’s resistance to the “*Sharing Beauty With All*” program: “*No, no resistance, but a lack of consciousness about how they [employees – ed.] behave and what they can do at a micro-level; [...] so no resistance I would say, but most of the times when people think and talk about sustainability, they mostly think about philanthropy, which is not what we’re doing here*”.

Additionally, from our analysis also emerges that, even if to different extents, the reconfiguring process embrace all the three pillars of strategic change management, in a continuous dynamism in which the company’s internal system of vision, values and routines keep changing, providing the firm with the ability to always align to the external environments in which it operates. Indeed, considering what we said about how vision and monitoring capabilities are mutually influencing, and that monitoring capabilities require deliberate managerial attention (mind-set) in order to create communication channels with external stakeholders, the company will need to reconfigure also its existing communication and listening practices. Once again, proofs of our argumentations can be found in the word of the Chief Sustainability Officer, Mrs. Alexandra Palt: “*When it comes to marketing, all of our social and environmental responsibility activities are grouped under what we call Responsible Consumption. So, of course, this begins with offering consumers’ eco-designed products that have less impact on the environment and of responsible marketing and communications strategies, which create relationships based on trust. This results in making customers aware of the importance of sustainable development and how they can potentially contribute to it*”.

4.6 Step 4: Analysis of Economic Performances

The final part of our analysis examined the economic performances of L'Oréal Group; such analysis is relevant to our study to the extent that it concerns the third dimension of the Triple Bottom Line construct.

Moreover, we hope that it can provide solidity to the findings that answer to our research question, i.e. how companies shift toward corporate sustainability “*without eroding their economic performance*”.

As stated by Palepu et al. (1996), the value of a firm is believed to be a function of growth and profitability. Hence, among the many different measures existing for addressing profitability and growth, we decided to examine growth in sales, return on equity and return on sales.

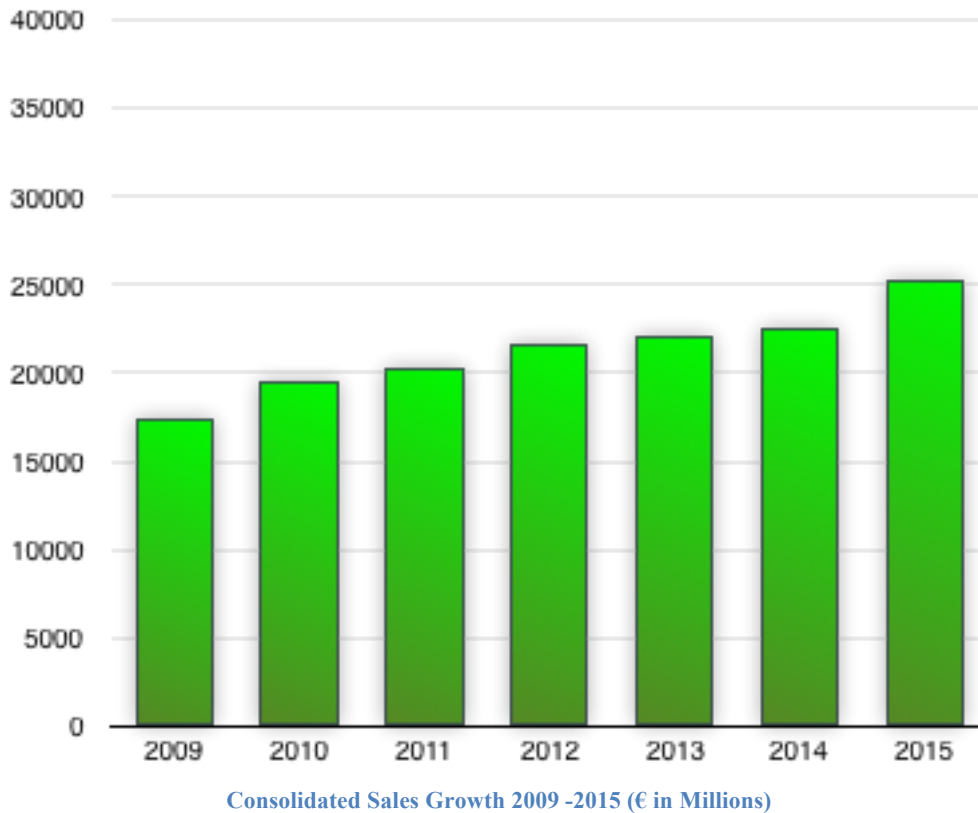
As Ruf et al. assert: “*Growth in sales was selected because of the importance that sales and sales forecasts play in developing firm valuation models. Return on equity is probably the most widely reported profitability measure and is the measure of great interest to. Return on equity can be decomposed into return on sales, asset turnover, and financial leverage*” (2001, p.147).

Moreover, Palepu et al. (1996) claim that any change in return on equity is seen first in a change in profit margins (i.e. ROS). Hence, return on sales was also selected as a profitability measure for the reason that it is not exposed to the same critiques of return on investment and due to its sensitivity as an all-embracing indicator of profitability.

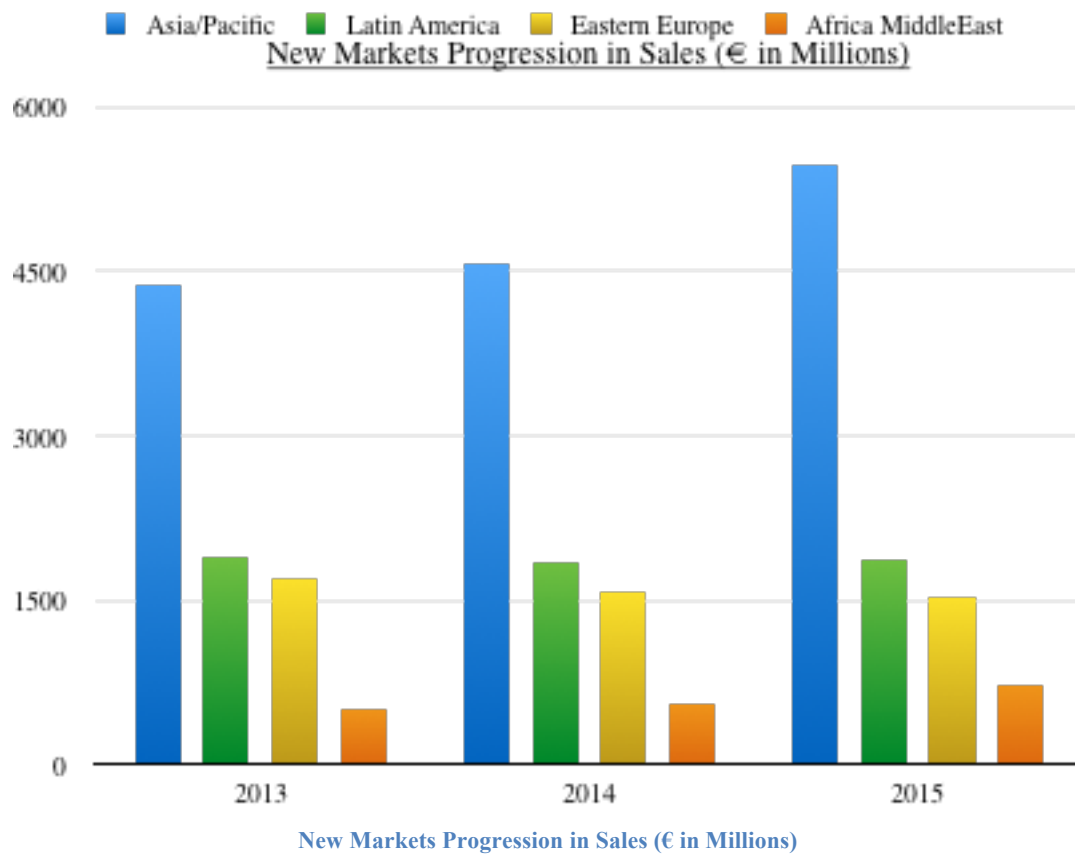
We decided to focus on measures of economic performance in order to avoid the potential effect of non-recurring items, as for example, extraordinary operation that do not concern the core business activities of the company. As a time-framework, we mainly took the period since the launch of the “*Sharing Beauty With All*” program, that is, 2013-2014-2015, with some additional data about Growth in Sales from 2009. We also made some considerations about operating profit again in the period 2013-2015.

The graph “*Consolidated Sales Growth 2009-2015*” shows how the company has experienced a steady growth since 2009. What it is interesting is that from 2013 to 2014, the sales growth rate has been 1,8%, while the operating profit in the same interval of time grew of the 4,5%; the same tendency is confirmed in the period 2014-2015, where in the face of a sales growth

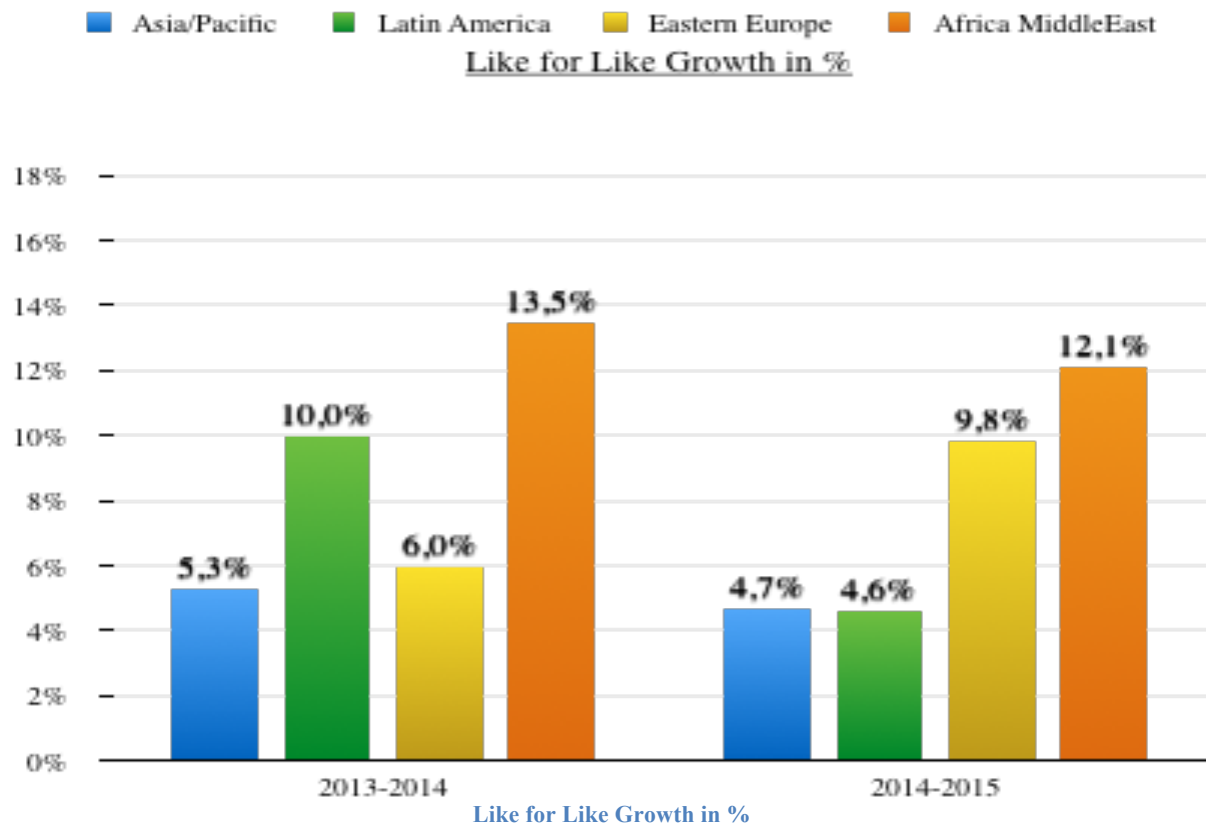
rate of 3,5%, the operating profit grew of a 12,77%. This can suggest an improvement in its operations that translate in the reduction of costs, which we could see as a possible outcome of the implementation of the “*Sharing Beauty With All*” program.



Another significant result, it is L'Oréal performance in “*New Markets*”. In the following graph “*New Markets Progression in Sales*”, we could see how the group experienced steady growth in the Asia/Pacific area, maintained its performances stables in Latin America and Eastern Europe and experienced growth in Africa and Middle East.

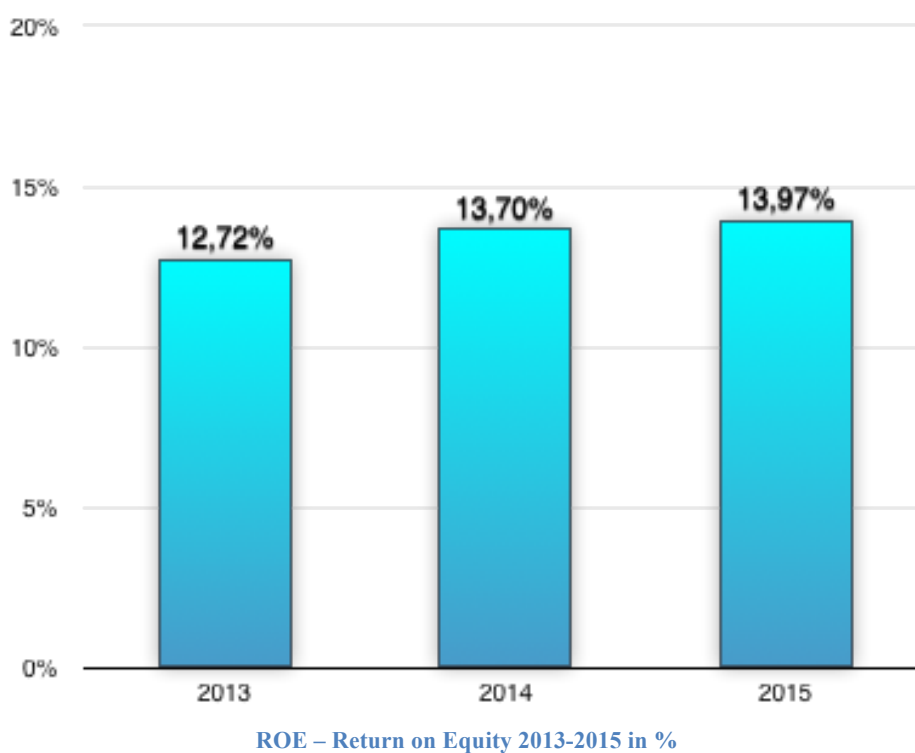
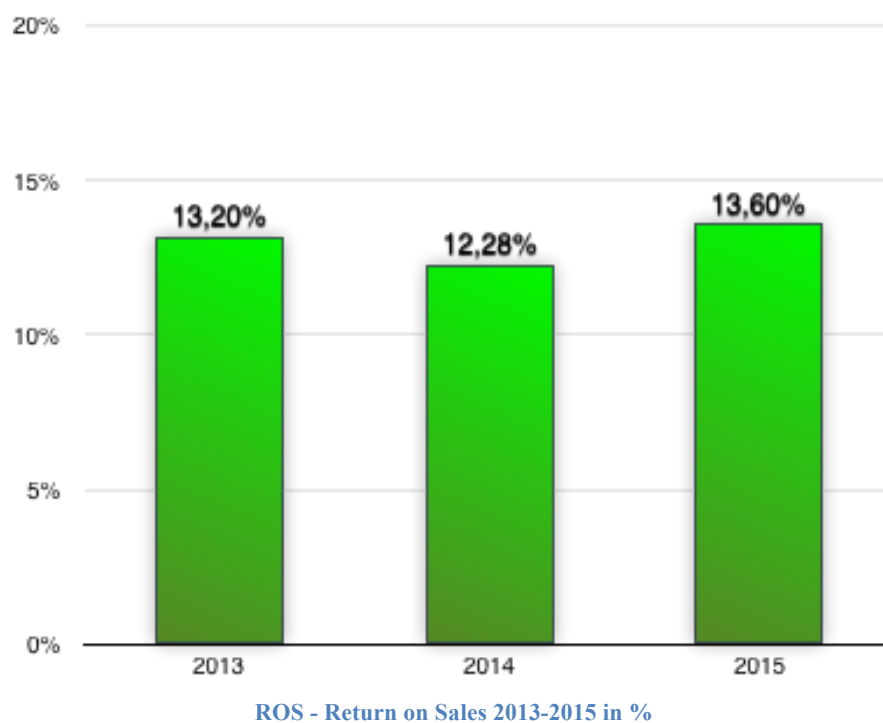


However, what is more interesting is the analysis in detail of the growth rates depicted in the next graph “*Like for Like Growth*”, where “*Like for Like Growth*” is defined as “*a comparison of this year's sales to last year's sales in a particular company, taking into consideration only those activities that were in effect during both time periods. Like-for-like sales is a method of valuation that attempts to exclude any effects of expansion, acquisition or any other event that artificially enlarge a company's sales*” (Investopedia.com, 2003). What is particularly rightful of attention is the outstanding growth in the Africa/Middle East area, in both periods.



Additionally, we analysed Return on Sales (ROS) and Return on Equity (ROE), as the former is considered to be a meaningful measure of the company profitability and the latter is considered to be an important measure of the ability of the company to effectively manage its operations. Return of sales slightly decreased from 2013 to 2014, but has grown again in the following period of a 10,75%, reaching the 13,60% of sales.

Return of Equity also grew, 7,7% from 2013 to 2014 and around 2% from 2014 to 2015, almost reaching the 14% in this last year. In general, we could observe how the economic performances of L'Oréal have not been eroded since the launch of the "*Sharing Beauty With All*" program, which officially put the sustainability construct at the core of the company's strategy. This strengthens the validity of our model and of our research.



4.7 The “DC-CM” Model for Sustainable Development

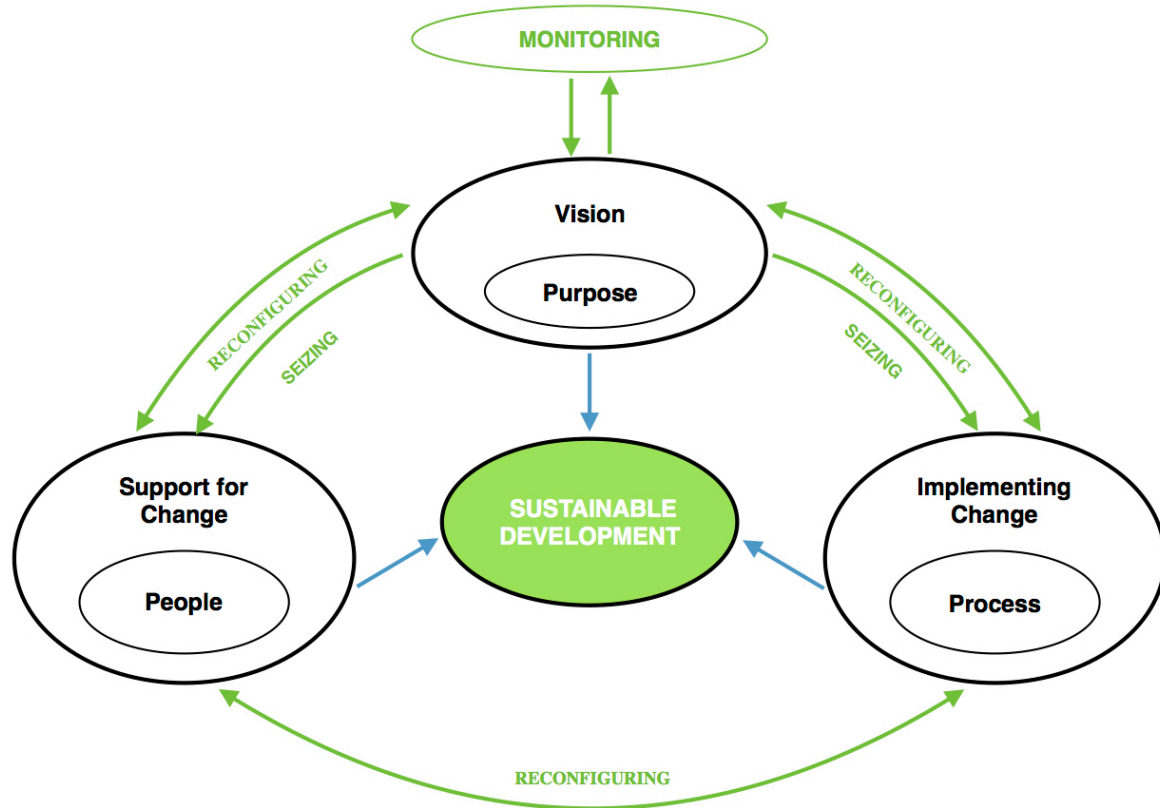


Figure 7: The “DC-CM” Model for Sustainable Development

From our analysis, we could derive this model that combines the concept of dynamic capability for corporate sustainability with the theories of change management.

As previously explained, we saw how the “*Monitoring Capability*” was influencing and/or was influenced by the Vision and, more particularly by the top management mind-set.

In fact, the ability to develop a clear vision toward sustainability depend on a set of capabilities that the company needs to own and that, as demonstrated through the data analysis, L’Oréal owns, due to its entrepreneurial past and innovation-oriented mindset. Vice versa, if the management’s mind-set is oriented on itself towards sustainability, it will be more probable that the informal/formal communication channels with external stakeholder will be implemented, along with the constant update of the knowledge base, in order to navigate securely toward the development of a sustainable strategy.

Moreover, L'Oréal possess the characteristics of what we defined in the literature review as a "*Liberated Organization*"; its high resource availability together with its high flexibility allowed to embrace such a visionary process and, so far, to implement it successfully (Figure 4, p.42).

In addition, as explained in the literature review section, we compared the "Purpose" P of performance to Vision, for the reason that these two concepts are highly interrelated. Once a clear vision toward sustainability is developed, the company needs to identify how to reach this sustainable development.

If monitoring can be described as the capability that enables an organization to define where to go, more specifically, to form and shape a vision (i.e. I am in point A and I want to go to point B.), "*Seizing*" can be described as the strategic plan through which the organization decides how to move from A to B (i.e. "Sharing Beauty with All" program).

In addition, as from the definition of Wu et al. (2013), "*Seizing*" concerns the company's ability to design strategic plans to navigate the development of cutting-edge sustainable initiatives and, at the same time, to encourage employees to share best practices and brand-new sustainable ideas.

From Graph 1 (p.73) emerges that this capability is most frequently linked to Process. This makes perfect sense, as this capability is more concerned with driving change and enabling the company to modify its processes toward a sustainable future.

However, the second highest number in the graph is "people" and this is the reason why we decided to link seizing to this change management pillar. Indeed, if a modification process has to be implemented and managed, the people involved in it and their reaction will need to be managed synchronously.

At this point, once the organization has decided which strategic plan to implement, the successive step is to reconfigure the internal resources in order to reach the desired future. In fact, the organization needs to modify the internal processes of the organization and to receive "*support for change*" from the people involved in the process.

These two pillars (people and processes) must be managed simultaneously, as it is meaningless to modify the organization's routines and processes if the people involved will oppose resistance. Vice versa, it is aimless to aspire at convincing people that the shift is needed, without changing processes in order to achieve it.

Finally, as we could observe from Graph 1 (p.73), “Reconfiguring” is mainly linked to “process”. This seems to be perfectly reasonable due to the intrinsic processual nature of this capability, concerned with the modification of the company’s processes and practices.

However, from the definition of Reconfiguring itself and from the words of our interviewees, this capability continuously influences all the three change management pillars, as it is concerned with auditing and risk analysis, with periodic measures of the efficiency levels and the management of external factors that may cause negative sustainable impact through all the value chain.

Therefore, as a result of these analyses of management processes, people will revise their attitudes and beliefs, processes will need to be re-adjusted from time to time and vision will need to be re-shaped if discovered that the company focuses on matters that are not entirely critical for external stakeholders.

A practical example of this model at work was handed out to us from Mr Bo Lund Mathisen, who explained how the Group recently substituted the gates at the warehouse.

They’re departure point A was the heat waste that occurred every time a truck approached the warehouse. In fact, the difference in dimension between the building and the truck was responsible for the heat loss, especially in winter. They’re desired arrival point B was a reduction in heat loss. What they did was to investigate the possible ways to solve this problem (monitoring) and formerly to decide to build a seal that inflates around the truck (Seizing). This modified the inbound delivery process and the procedure by which the employees empty the trucks (Reconfiguring).

The result was a reduction in heat loss, in heating expenses and an improved temperature in the warehouse. With only one initiative, they touched all the three points of the triple bottom line: they reduced the CO₂ emissions (environmental), they improved employees’ working conditions (social) and they reduced the warehouse expenses (economic).

The model we developed can be virtually multiplied by all the initiatives L’Oréal has undertaken since its first commitment to sustainability (Figure 8); in fact, this is only one operational example of how the organization is working: one minor component of a broad scenario that is “*Sharing Beauty with All*” program.

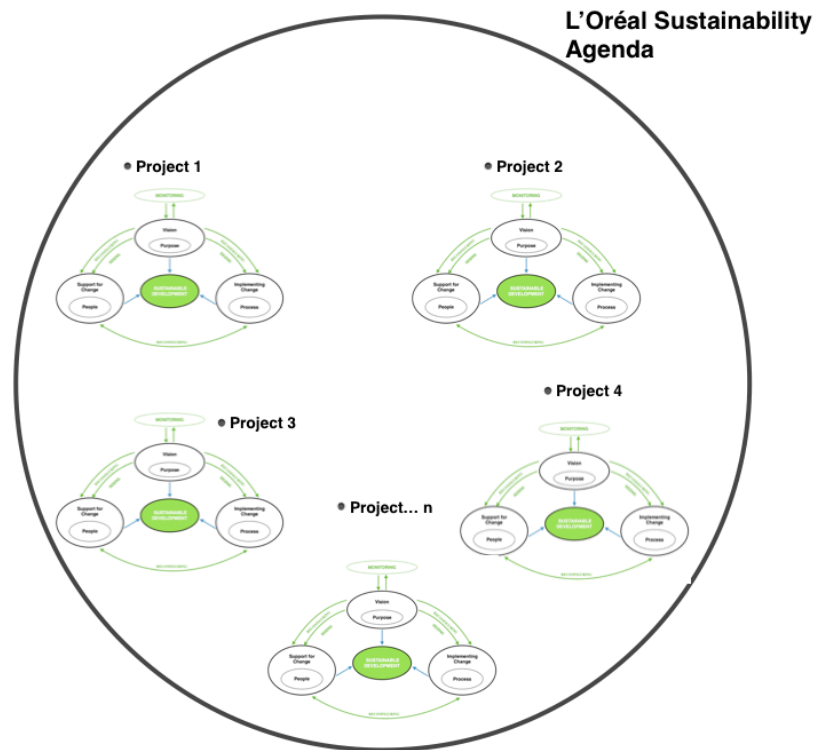


Figure 8: L'Oréal Sustainability Agenda

The strategic program “*Sharing Beauty with All*” helps the single countries and country managers prioritize projects: now, when they are obliged to decide between investing in different initiatives, they give precedence to the sustainable ones, as Mr. Mathisen told us during the warehouse visit.

As shown in the example above, L'Oréal demonstrated how the paradox between profitability and responsibility has become redundant and irrelevant. They proved to have a certain set of dynamic capabilities that enabled them to drive a shift toward sustainability without eroding economic performance.

What we can argue is that sustainability is “just” another strategic opportunity, as was the integration of technology into business or the “digitalization” a number of years ago. The ability of an organization to survive to the dynamics of the market depends on its capability to anticipate, manage and exploit these novel trends: sustainability is the state-of-the-art of business and companies that are not investing in it are at risk of perishing. This is also what has been declared by the L'Oréal's Chief Sustainability Officer, Alexandra Palt, during the

“Annual General Meeting” in 2015: “Sustainable development and economic performance are not a contradiction in terms. Our Sharing Beauty With All program favours employees’ retention and talent acquisition. We are ready for the future because we are already responsive to its environmental and societal changes. With Sharing Beauty With All we are preparing an environment that will allow L’Oréal to over perform the market over the long-term”.

It is obvious, however, that companies need to pick between the infinite numbers of possibilities that sustainability presents and they need to accomplish that by listening to all their stakeholders. Moreover, if they aspire to succeed in this process, they are compelled to pose sustainability at the core of their strategy and not to face it with an “end-of-pipe” approach.

5.0 CONCLUSION

A copious number of companies have already accomplished to improve the social and environmental consequences of their activities, yet these efforts were not nearly as productive as they could have been (Porter and Kramer, 2007).

If a company wants to succeed in the sustainable development, it is necessary to place sustainability at the core of its strategy, to the extent that is not relegated to an “end-of-pipe” approach, but that is more oriented toward the medium-long term.

As observed through the study of L'Oréal, the company was able to succeed in the implementation of a sustainable development for the reason that sustainability was recognized as a strategic matter and therefore placed at the center of its vision.

Moreover, they were able to manage the shift toward sustainability as they would have managed any other change process. As the Chief Sustainability Officer, Mrs. Alexandra Palt, said:

“You have to be a very good change manager, not a sustainability expert. There are 100,000 sustainability experts out there, but what we need most are people who know how to lead change on sustainability”(www.devex.com, 2016).

They recognized the importance of involving “people” (especially through top management’s sustainability-oriented mindset and an organizational culture oriented to innovation and entrepreneurship) and “processes”, by changing their approach to business along the entire value chain.

One of the variables that could have contributed to the success of “Sharing Beauty With All” is the “dynamic capabilities for corporate sustainability”. We identified in L'Oréal the aptitude to monitor the external environment and to shape the vision accordingly, the capacity to seize the moment by matching its strategy with the stakeholders’ desires, and the ability to reconfigure its internal assets (processes and people) in order to gain a sustainable competitive advantage.

What is more interesting is that since the launch of “Sharing Beauty With All” in 2013, L'Oréal has not eroded its profitability, but instead it has increased it.

This demonstrates that the paradox between profitability and responsibility has lost its meaning and that sustainability, if managed correctly, it's a source of competitive advantage, innovation and profit.

6.0 PERSPECTIVES

As for the future development of this research, it would be interesting to try to extend this analysis to other companies in a way that the “*DC-CM Model for Sustainable Development*” could be generalized to a broader environment.

Moreover, as it could be inferred from the observation of L'Oréal Progress Report 2014 and 2015, the company is experiencing some difficulties in involving the end consumer. It would be interesting to analyze this issue from a branding perspective, focusing on all the brands that the Corporation owns, and to analyze the consumers' perspective about L'Oréal brands' behavior in sustainability.

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8.0 APPENDICES

8.1 Appendix 1

Transcription of in depth unstructured interview: Sonja Christensen, Communication Director, L'Oréal Denmark A/S

Transcribed Interview

Sonja Christensen

Communication Director

L'Oréal Denmark A/S

Date and Time for interview: 31th March – h: 12.00

Place: Havneholmen 25 – L'Oreal Nordic Headquarter

GR: Giulia Ricci

RB: Riccardo Berlucchi

SC: Sonja Christensen

GR: Do you think the paradox between responsibility and profitability exist?

SC: we don't see philanthropy as CSR, because philanthropy is something that we do without expecting anything in return, whereas CSR is part of the business. CSR is a very tight part of the business so that we want it to be part of every team we have and of every areas where we are working, along the all value chain and for the entire product life cycle. But it relates to our products and we want our products to be profitable Of course we also want the consumers to love our products.

The big challenge for us is when the consumers use our products actually, that's the big challenge because from an environmental point of view, the highest environmental footprint is from the consumer's use of the product; so what we are focusing on now is how to educate the consumer and make it possible for the consumer to make an informed choice when they

buy their products, meaning how can we make it sexy for the consumer to use sustainable products.

RB: Maybe also because it is the product life cycle phase that is less “controllable” by you.

SC: Yeah absolutely, but we want to find out what kind of tool we can use or how should we make the information available to the consumer; should it be on the packaging? we don’t like green labels everywhere! Or should it be on the website? So that’s the main issue right now, we’re not there at all because we do not have that information from the consumer. When we present our sustainability initiatives it is from a very holistic point of view, meaning that the entire company is involved, as it is the way in which we are working in every department, but it is not related to the product directly.

GR: So right now it is more related to the entire group more than from a product brand point of view, is it at a corporate level?

SC: yes it is, if you look, you know we have the program “Sharing Beauty With All”, where we gives figures in respect with our 2020 target, so that we can see how far we are (importante per la vision - Change Management - Purpose), in terms of reduction of CO2, water consumption, energy consumption etc.

GR: how these investments is reflecting on the costs and thus in the prices? We saw that the profit has not been reduced but instead it rose.

SC: I don’t think there is a paradox, between profitability and sustainability, on the contrary! If relook at the production chain, or the supply chain in general, it’s more an opportunity to have some costs savings. For instance, one example was in one of our plants, we brought the producer of our packaging “in-house”; we still do not produce anything, but our provider it is inside the factory so that there are no transportation cost, and of course this allow us to save a lot of CO2 emission. This is just one example; we have also worked a lot in order to make our factories more efficient. A lot of water has been saved; we have patterned with local farmers so they can get the organic waste from the cows, and then use it to produce biogas and provide energy to the factory and to the city or the house of the people living around the factory.

RB: you said that for the packaging, you put brought the packaging supplier “in-house”, and this means saving CO2 and transportation costs, which is a benefit for both parts...so, what came first? You were trying to reduce your CO2 performance and then you realize you could also save some money in that way, or it was the other way around?

SC: our initiatives it's very top down, so we have a very strong management, who has this vision; everybody was told, “Now we have this target, do something!” So now this is our target, -20% per 2020 from the 2005 base line. So it's about “forcing people to be creative” and find other solutions instead of going on with what we were used to do.

RB so the cost savings were a consequence of these new creative solutions?

SC: yes, they were!

GR: How has this focus on sustainability evolved over the years? What implication did it have in terms of organizational change?

SC: It was top down. There has always been an high focus on environment as such, and on measuring our consumption and footprint. However, we have not been talking about it or better, we haven't been communicating about it, internally and externally. We previously had some kind of “internal competition” on who was doing better in terms of energy consumptions and reporting it, but it was only from 2013, when we launched the program (SBWA), that we begun encompassing also HR Management, communication and so on, and that is very important, because it is good to know internally, but it's also good to share with other companies about how we do it and why we find it important, and also with our consumers of course so that they actually know what we're doing. Moreover, another big change with the arrival of Alexandra Palt who before launching this “STRATEGY”, travelled around the world to meet our stakeholders, including NGO's and all kind of organizations and asked them:

- 1 - How they see us?
- 2 - Presenting our performance and how we operates and where we are right now
- 3 - Talking about the 2020 target, which underline the gap between where we are right now

and where we want to be! That's show we're not perfect! Before we always wanted to be perfect before communicating it to other, but that's doesn't work because that's will be never the case. It's a very big mind-set and behavioural change! Now we look at the way in which we behave in all fields.

GR: How the organizational structure change at all levels, functional, business and corporate level in the pursuit of this new path?

SC: Now there is a specific role among the executives and a team working with her; since this program rolled out, in each country we operate we have been establishing committees to follow up where we are locally. And of course reporting what we're doing locally in terms of initiatives; for instance, we have a Nordic Group, in which I'm representing Denmark and others are representing each one of the Nordic countries. So this is just for let you know that we have not recruited people to do that, but it has also influenced us and the whole organization in the way we are asked to think because everybody can contribute. We focused on just in time production because we're not so good in planning how many resources we will need and also in recycling.

Moreover, this program is helping us in the selection of supplier which focus in sustainability and corporate social responsibility, which is very important in the supplier selection process. Our purchasing director held a conference for our preferred supplier last autumn, where he of course explained our policies and how we expect them to work as well.

RB: you said that the implementation of this program had a huge impact in the mind-set of everyone in the company, in the way they look at opportunities etc. Did you have any resistance to this mind-set shift, and how did you deal with that if that's the case?

SC: No, no resistance, but a lack of consciousness about how they (employees) behave and what they can do at a macro-level! Most of the times when people think and talk about sustainability, they mostly think about philanthropy, which is not what we're doing here. Now we have each year an ethic meeting where our CEO, Mr. Jean Paul Agon and the managers of each country have a chat with employees, and this year it was decided to have a kind of idea crowdsourcing from the employees, asking their point of view on what should be done and how could the group improve.

GR: Did you involve any kind of change agencies for the implementation of this program toward sustainability or it has been done everything internally?

SC: No, we had an internal group working on it and especially at the warehouses. They have already changed years ago the lightening system and the heating system. Later, we had a project manager who worked on cardboards and on how we could improve their use, in order to achieve “0 waste to landfill”. However, we still want to reduce our waste; There have always been a high focus on the environment and on consumption and footprint measurements”

GR: Concerning the monitoring capabilities, how does the group scan the environment in search for new trends? Do you have specific channels for listening and talking with your stakeholders?

RB: how do you collect data in the external environment about new trends and sustainability in general?

SC: Actually, when the company launched the program “Sharing Beauty With All”, they had a stakeholder contacts all over the world; then they organized this conference in Paris on how to make sustainability attractive for the consumer, and other companies have been invited, like Carlsberg for instance. It was very much about sharing practices and learning from each others in order to make sustainability attractive for the consumers and about how to teach consumers to behave sustainably. The idea at the time was to ask these people who have attended the meeting, to stay updated on how we were proceeding and also get some feedback.

RB: So you don’t have any ad hoc tool for gathering g information from the consumers?

SC: No; there have been some projects running for instance in France, where the brand Garnier, had a campaign where they asked people to have a trash bin in they bathroom so that they could sort the trash and of course they had consumers participating but I don’t know what the results were.

RB: is it still difficult to involve people on an everyday basis?

SC: Yes it is. Kiehl's now has its own store where they ask people to return the packaging, once they have empty the product, with a sort of incentive, where you get a product for free when you return 10 packaging. But people don't do it, they say they want to be conscious about what is going on and live in a more sustainable way but they don't do it actually. So it is what we are working on now. First of all you said we work on what we can control like packaging or products, trying to avoid transportation costs and so on, but the consumer side is key; we need to find a golden formula for teach the consumers how to take informed purchasing decisions and make sustainable products attractive for them.

SC: You should know that, by buying a Kiehl's product you are supporting a sustainable company, so consumers need to be much more aware of the holistic view of the company instead of for example just using organic products, because it doesn't mean anything,

GR: the strategic plans about this new sustainability program are top-down or bottom up?

SC: It is definitely top-down; our top management have always had a focus in sustainability for the very beginning. Now also the management of each country is responsible to do something, but still, the main guidelines are developed in our head quarters and then communicated in all the lower managerial levels. This is very efficient in my opinion; having a very precise target and "forcing" people to find ways for achieve it, foster creativity and innovation, in this case sustainable innovation.

RB: so the CEO set the targets and then these are spread around the countries to the country managers and to the different brands also?

SC: Yeah, but not really as a Brand, more at a group level; of course all the brands must contribute but since we do not develop any products, it's in the product development phase; but all brands must contribute.

RB: about the monitoring activity, it's clear that you look at sustainability from a strategic point view, and you said that the monitoring activity has been done before starting the "Sharing Beauty With All" project...so the question is: you monitored the environment and you recognized some opportunity and therefore you launched the program? Or it was

something that was already coming from the CEO and the top management? I mean did the CEO recognize opportunities in sustainable development and thus started the monitoring activity in order to understand how stakeholder were looking at the company and what could have been done for seize this opportunity or you first monitored the environment and then the CEO, together with the top management recognized opportunities in sustainable development?

SC: It has come from the top management to say “we need to be more on corporate responsibility in general” so it’s very top-down, it’s not like a movement that come from somewhere! But it is also in the air, it’s a trend, and also the fact that we purchased The BodyShop in 2005 is part of that trend.

GR: So It comes from further than 2013...

SC: Absolutely, absolutely. I’ve been with the company for 30 years and we have always been measuring our environmental impact, so it’s not new at all, it’s not a reaction to a sort of fashion. Nope; It’s of course to force ourselves to be better, that’s why we have the 2020 target.

SC: We’re really against green washing, or pink washing and that’s also why we have been so reluctant to talk about it. We always wanted to be perfect, but nobody is perfect, so it’s better to show the progress...

RB: so is important to have a vision for 2020 and show that you working on that and that, step-by-step, you’re going to reach it?

SC: yeah absolutely and you know we want to be completely transparent and open, so it’s good that is not just words.

RB: I took some CEO’ statements from the website, and he says that part of the implementation of this program is a huge simplification initiatives, do you have any example? What does he mean for simplification of the company?

SC: in terms of the organizations we had a huge change in the way we are organized; it has always been like Paris being the centre of the world and French people traveling all over the

world to sort of control everything. Now it's more divided into zones and there is a manager for each zone so it's less centralized and the company it's also much more international, recruiting everywhere. Also in terms of consumer focus and in terms of research, we have a R&D centre in France of course, but also five other centres around the world, where we actually look at people, how do they take their bath, how do they wash their hair, how do they behave in the sun, if they like to have long or curl hair, so that we have much more knowledge about the consumer. It's much more decentralized. We also have a team in the Nordics and a new organization in the Nordic countries, we are the headquarter for the Nordic in here where we have, one communication function, one production function, one support function for the four countries. Then, in the countries we have people who are in sales, very close to the consumers, so we are very focused on the way we put our products in the market and in the countries, but all the support functions are here. This is also an example of how to simplify the organization. We have called it simplify for growth! Plus it has allowed us, by putting the countries together, to have experts like a digital manager, or a tax manager, a lawyer for the 4 countries; people that we couldn't have had in-house before, and that we used to externalize. That's a change as well.

GR: How did these impacted people?

SC: there's still a lot of education to be done, and involvement; people need to be more involved and it's a matter of how should we do that, like. The people involved are those where it would have the biggest impact, right away, in the warehouse for instance, or in transports...

GR adds: it is also the most difficult thing to do, because as the literature says it's a lot about culture, and culture is not something that is created or changed from one day to another.

SC: Yeah absolutely. Another big issue is the continuous measuring and reporting of you social/environmental performances...for example we just move in this new building from the old one which was very unsustainable, but we don't have figures to compare them. This is too bad because of course it has made a huge change in terms of energy consumption, heating and so on and also the fact that we have moved close to the city having a lot of people living in the city and that bike to work instead of using their cars or other transport means.

RB: do you think that the implementation of sustainability in the business model, from a very strategic point of view, will provide the group with the capabilities for dealing better also with future change?

SC: Yeah I definitely think so; we have always been very ready to change at least for the time that I've been here (30 years). There's always a better way of doing things, we can always improve and that's why even though we have planned something, we do not stick to plan because if we find a better solution we would definitely use that solution, nothing is ever stable, we're extremely flexible so we are very change minded...also from an organizational point of view, we've changed a lot. In the way we work and how we do thing, there's never ever something like "this is how we do things here" so everything has to evolve and change...

8.2 Appendix 2

Transcription of in depth unstructured interview: Bo Lund Mathisen, Nordic Service Quality Director, L'Oréal Denmark A/S

Transcribed Interview

Bo Lund Mathisen

Nordic Service Quality Director

L'Oréal Denmark A/S

Date and Time for interview: 25th April – h: 9.00

Place: Greve Main 21 – L'Oreal Nordic Distribution Center

- 1) In your personal opinion and experience, do you believe that a paradox between profitability and sustainability exists? To what extent?
- 2) How has the strategic program "Sharing beauty with all" affected in practice all the processes in the supply chain?
- 3) And, how has this focus on sustainability evolved over the years?

- 4) From an economic point of view, could you see effective improvements since the launch of the program? If yes, where and how?
- 5) Do you think that the implementation of this program has impacted your subordinates in their mindset? And have you seen any resistance to change?
- 6) We know that you choose your suppliers relying on specific parameters that are in line with your strategic goals. In case one of your strategic partners do not fulfill such parameters, how do you deal with this issue?
- 7) Since the launch of “Sharing Beauty With All”, have you ever experienced a similar situation?

In 2009 we moved to a new building. It was a copy of the old one. We changed the lighting system to a LED one, and basically the CO₂ emissions were reduced overnight. + PROCESS. This type of activities look at the long term, it's part of our mission that started long before Sharing Beauty With All. We always had the highest possible standards.

We optimized the gate to keep the heat inside. Now it opens only when a truck arrives. + PROCESS

We needed to reduce by a 60% the CO₂ emissions on a 2005 baseline, and this building [D.C. in Greve] already achieved that.

It was worth to invest in the gate. It was easy in the Nordics, but other countries already have very low CO₂ emissions, so they're having problem to reduce it.

Talking about the LED system, we had the newest technology for that time that costs half a million dkk. Already in the first year the investment was paid back from savings. Of course we could go further, but it's not good from an economic point of view.

So when you're in front of this type of decisions, it is not a matter of good or bad investment anymore, it is a strategic move and the top management now imposes it.

But still, you need to consider the “investment part”. For example, adding solar panels will cost 4 millions and will have a 17 years payback. Of course the owner of the warehouse need to decide whether to do it or not and he surely doesn't do it for fun. He will need some kind of guarantees that we will stay for a long time, but we need to remain flexible, we continuously acquire new brands, so soon we're going to need a bigger space.

Of course if the government come in help and modify how taxes are deducted, the payback will go down to two years.

Beauty is not considered a primary need, so people could ask, “Why do you pollute at all”. However, changing the heating system was a game changer. We shifted to a district heating. We take heat from a decentralized company that sends hot water, we take out the heating and we send back colder water. The smaller the difference in water temperature between what we receive and what we send back, the less we pay. We were able to reduce by a 58% our CO₂ emissions overnight with this method.

All the owners in the area were motivated to shift to this district heating. It was easy in Denmark because people are willing to cooperate. Once again, the government has a big impact. In other countries, D.C. and warehouses were forced to do that alone.

Some ideas for the future could be the ground heating or solar panels. Or we could take water from rain, but you would need to build a totally new building. This building it's at its end. Nowadays there are types of buildings that not only don't pollute, but that have a positive effect on the environment.

What you do is that you look at all the costs and then you decide which one to reduce.

However, we only rent the warehouses.

RB: In case one of your strategic partners does not fulfill such parameters, how do you deal with this issue?

BLM: We try to convince them. Sometimes they don't have our same ambitions. They don't need to pay for their image and they don't see the long term return in this, but in the long-term they will be forced to switch to sustainability. But as for now, there will still be room for people who don't care.

For transportation, we selected only partners most emission-friendly. Our suppliers need to have the same ambitions of L'Oréal.

For example, DHL has the same targets as L'Oréal. It has built a new D.C. for Novo Nordisk, probably one of the most ethic companies. Probably we're working with them to build a partnership too.

We have a very large freedom on a daily basis, but we receive a lot of targets from Paris. People are simply loyally committed to these targets.

We monitor our electricity consumption on a daily basis; we want to know how, where and when we consume the most.

We used energy for IT, which now has moved to Paris, for charging the trucks and for the lightening system. The fact that the IT function has been centralized in Paris now will reduce the total footprint. It was not the primary reason why they decided to do that, but still they have achieved also that!

Sharing Beauty With All is helping us to priorities where to save money and consumptions.

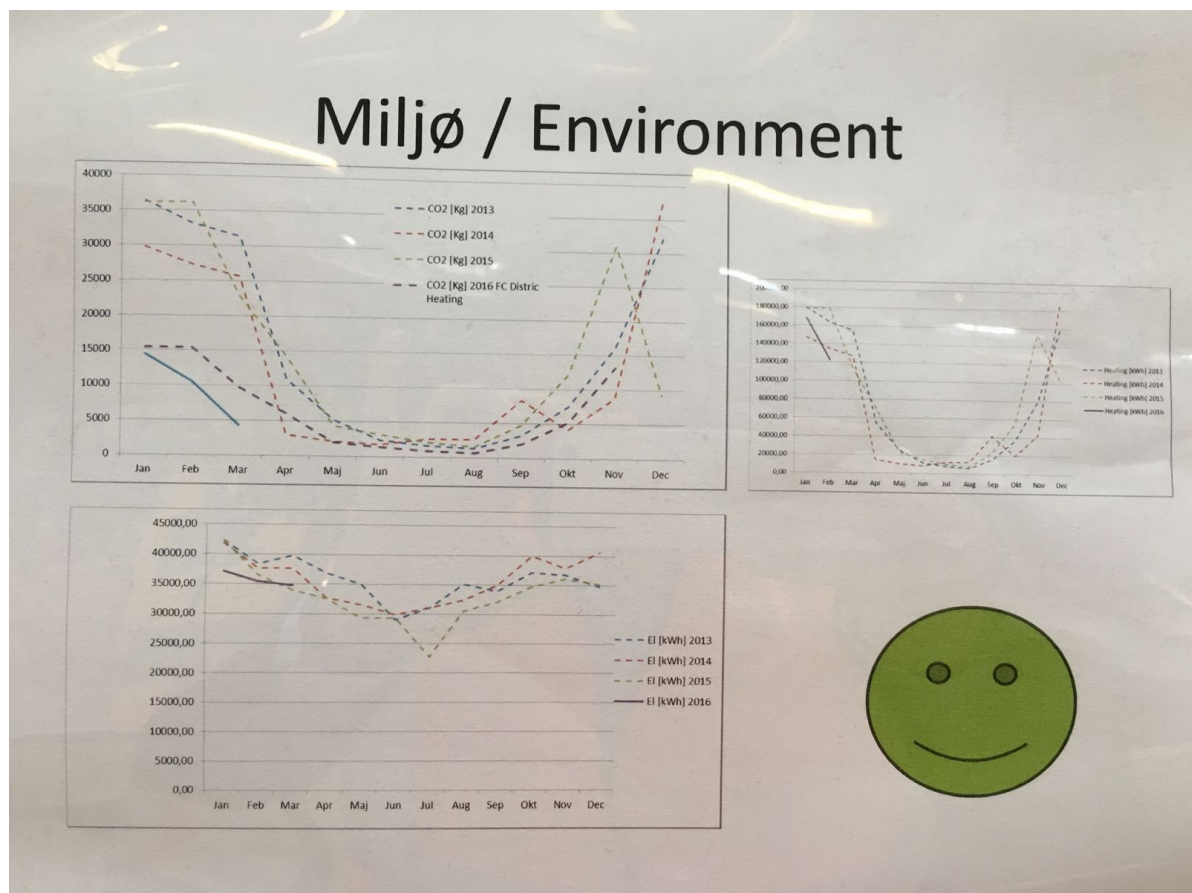
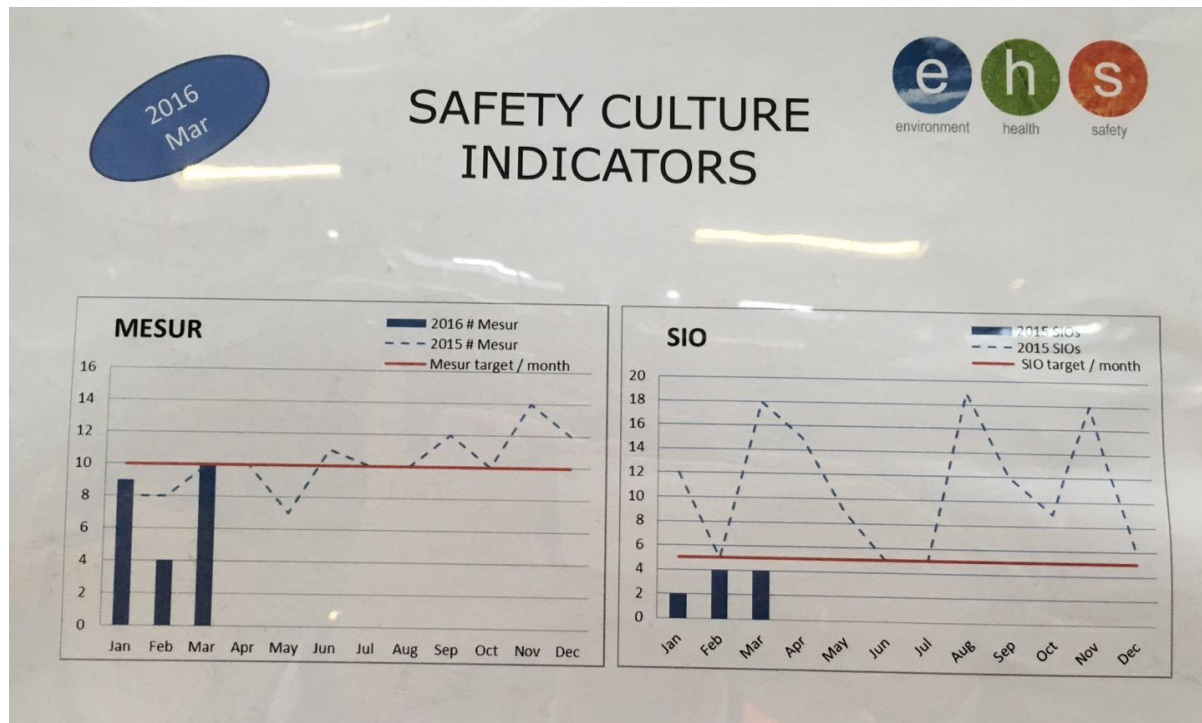
Here in the D.C. we have three social employees that would have been unemployed without us.

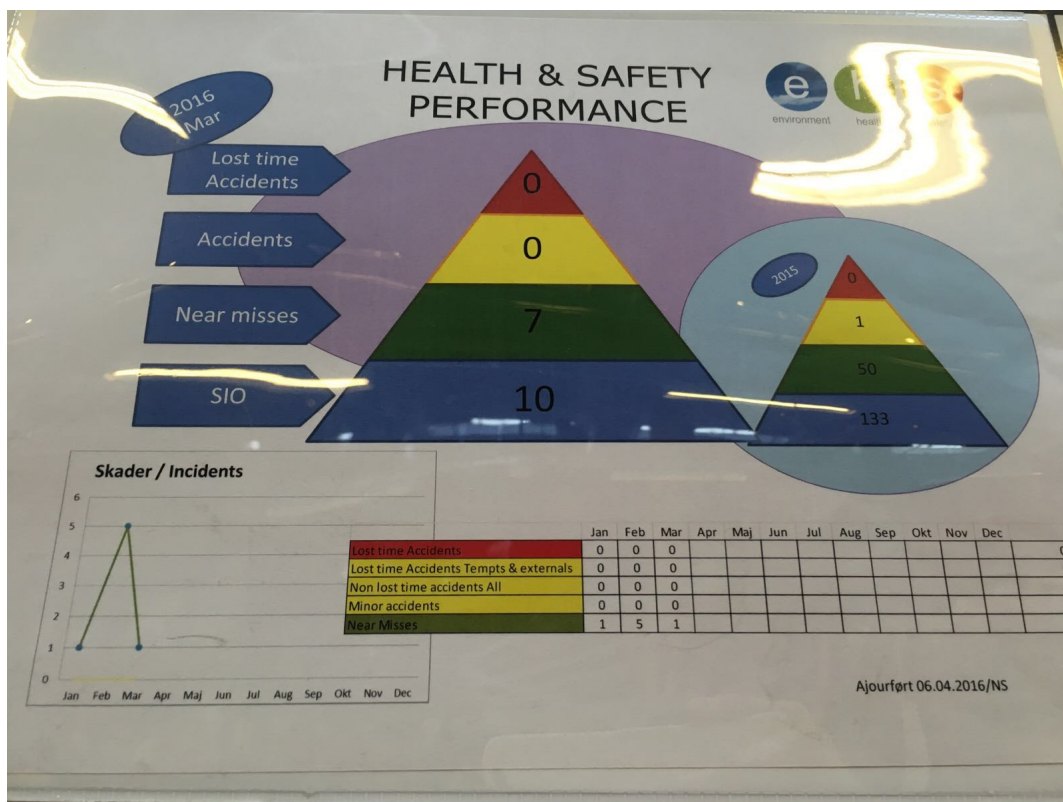
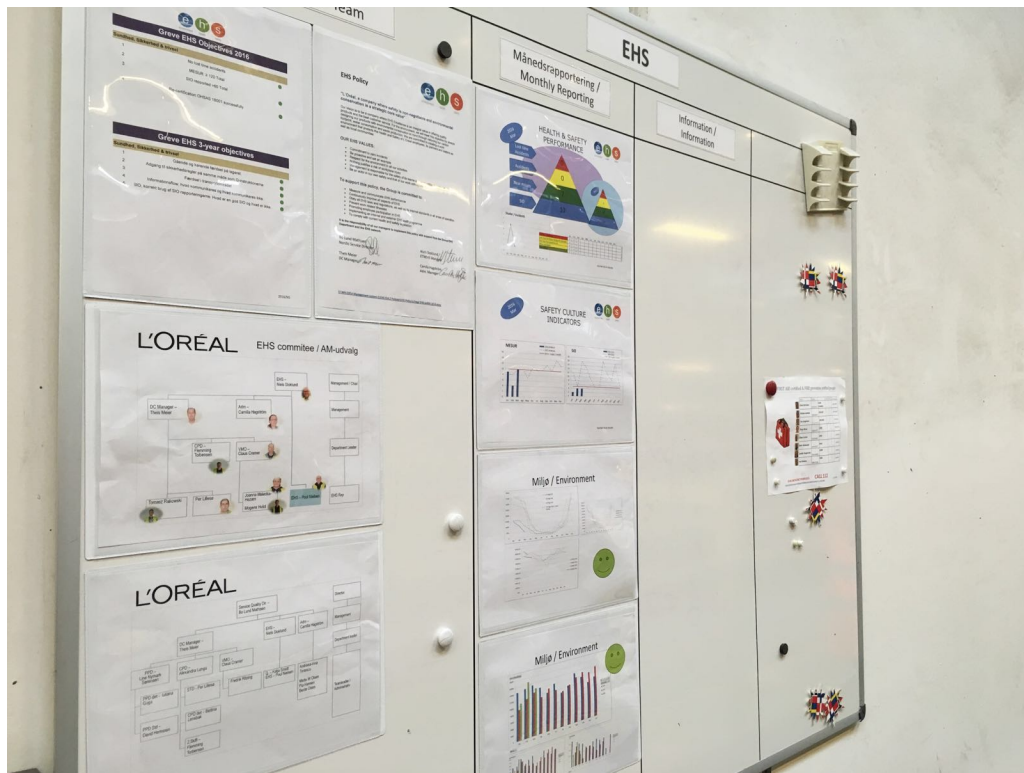
Here on this board we have the health, safety and environment performances. We had higher waste in 2016, because we receive a lot of cardboards that we don't send back to the factory, even though cardboard is not considered as a waste in Denmark, we measure it.

We're trying to find new ways to re-use the cardboard boxes, as for example we're working on building new boxes that have a lift, so we could place that instead of throwing away the box.

Miljø / Environment







Sharing Beauty With All is a name we gave on what was already part of our culture, it is just how L'Oréal operates. It didn't change people's mindset; it was already part of them.

Monitoring your activities makes people aware, you can make a difference if you want.

This program is strongly implemented in the daily work. Saving money was the first thing; now it has a name and a brand. It has always been part of our vision. CO₂ emissions have always been measured. It is "the hen and the egg" question. Big investments need to be defendable, and when they're not, there is this program that helps in making the decision. And also where you measure people on drives strategic decisions.

The reason why people are not aware of this program could be several. Maybe we're not doing enough, maybe we're waiting that someone else advertises this program for us, because it's always better if someone else recognize our merits instead of our own.

8.3 Appendix 3 – Transcription of interview with Alexandra Palt

Interview with Mrs Alexandra Palt (provided by Mrs Sonja Christensen)

Interviewers:

Thomas Mondemé

Camille Anais

"As a young student, I couldn't have imagined this would be my career path, but there is definitely a logic to it"

The thought comes with refreshing honesty concluding an informative conversation. Alawyer by training, having worked for several NGOs after specializing in human rights, Alexandra Palt is now L'Oréal's Chief Sustainability Officer, but she has kept the same passion, one that can be felt in her voice and tone, as she continues to plead for a better world

As we chat with her just after Paris COP21, she tells us how impressed she was by the (a awareness she witnessed there, especially qua the business side: "There were of course the Bourget negotiations, with all the government officials, but there were other initiatives on the side, at The Grand Palais for instance, and one could feel a very sincere ambition from the corporate world to be pnant of the solution, a will to find a binding agreement, an ambitious agreement. Companies are not the "bad enemies' who want to pollute us: Something has profoundly changed, and civil society is becoming aware of that"

One goal in mind

When asked when L'Oréal and others took notice of environmental issues, Alexandra Palt reminds us that awareness is "progressive": you don't "wake up one day and suddenly realize that there is a problem". She also insists on the fact that L'Oréal had already made a first commitment in 2009: a 50% reduction of its industrial footprint when it comes to CO2, waste, and water. In 2013, CEO Jean-Paul Agon, who Palt describes as "a visionary", set a more profound transformation" into motion, one that involves both a change of mentality and of method, with one goal in mind: sustainability

She points out that unlike some purely greenwashing" initiatives from others, L'Oréal's recent commitments have led to a complete transformation of the business model This shift is both global and specific: "There are some basic guidelines which are valid for the whole im L'Oréal group: We transform 100% of our products, which means that they all need to have an improved environmental or social profile by 2020. Also at the group level, and through its industrial activity, we have to reduce our environmental footprint by 60% (carbon, water, waste)". The second axis of this mobilisation is focused on engaging customers in a more "sustainable lifestyle This is really a brand-related commitment, in alignment with the brand's equity and sense of purpose. t can be around sustainable sourcing, around is recycling, or around social impact like skin cancer prevention for La Roche Posay.

But what does it mean concretely, and how does one evaluate it? The answer comes easily for Alexandra Palt: "In 2014, 67% of our ne products had shown an improved environmental footprint, meaning they had done three things: Either they had reduced their water footprint (a

lot of our impact can be on the water quality when rinsed-off products get into it) or had improved their biodegradability, or had used raw materials from fair trade or sustainable ingredients, like The Body Shop for instance. And we are monitoring these numbers every year.

And when it comes to results, the little things can make a big difference: "We've been able to replace the plastic by recycled plastic in the packaging, to redesign and lighten the packaging, and fit more bottles into a box, or more boxes in one pallet for instance, hence saving space, reducing transport cost, and CO2 emissions.

Along with this kind of initiative, which she refers to as the sustainable innovation" process come the various actions from the brands. La Roche Posay has launched the "Become a skin checker" campaign to raise awareness about the dangers of the sun in Brazil and many other countries; Armani has launched "Acqua for Life with UNICEF to make clean water accessible to populations in impoverished or remote areas and Garnier has worked with TerraCycle on recycling used packaging from beauty products "It is a complete transformation, at every level and it is completely integrated in what we do in our daily work," she says.

Thinking the box outside

Any such commitment comes with a fair amount of obstacles. Though people agree that it is important to have eco-conscious companies, not everyone acts accordingly. "Sometimes a more sustainable or lighter packaging may appear less attractive to some people, and that is of course a challenge for us; so we have to be very innovative and creative to rethink the whole thing: to make packaging as inspirational as possible and as sustainable as possible"

But Alexandra Palt remains greatly optimistic about the future. According to her, things are going to change very fast because the danger is now clearer than ever. She sees corporations playing a leading role in finding various solutions For the private sector, sustainability is also a source of innovation and efficiency. More and more people are going to look at it that way and not as an obstacle or a problem. It is an opportunity and not a constraint". Personifying through her career, she insists that the actions have to be common and global: "This int

change is only going to happen if we all work together, and if we all understand that solutions rely on shared efforts and collaboration. So consumers have a role to play, and NGOs have a role to play -they have to push further all the time, and I am positive that they will. Civil society corporations, governments, local governments, and city governments... Everybody has a role to play.”

8.4 Appendix 4 - Transcriptions of interviews found in the Internet

8.4.1 Transcription of interview: Alexandra Palt, Chief Sustainability officer, L’Oreal Group.

Interviewer:

Vialle, E. (2016) - www.devex.com

Alexandra Palt aims to set the tone for sustainability in the beauty sector, and is not resting on her laurels.

The chief sustainability officer at cosmetics giant L’Oréal, one of France's largest companies, wants the firm to integrate sustainability into its global business strategy — and along its entire value chain.

In order to accomplish her goals, Palt believes she has the right qualities and skillset.

“You have to be a very good change manager, not a sustainability expert,” she said during an exclusive interview with Devex in Paris. “There are 100,000 sustainability experts out there, but what we need most are people who know how to lead change on sustainability.”

Here are more highlights from our conversation.

You've been chief sustainability officer at L’Oréal since 2012. Which of your achievements are you most proud of?

I would not say “proud of” because it is always a team that collectively works with a chief sustainability officer. Any successful accomplishment results from the involvement of a whole group of managers, and the leadership of our CEO. And we're lucky at L’Oréal to have a CEO [Jean-Paul Agon] with a very strong commitment to those issues. So I'm proud of the

team spirit that allows us to better work towards our goal: building together an even more sustainable business model. Thanks to this whole team, we managed to adopt a long-term vision of sustainability at L’Oreal for 2020 through our "[Sharing beauty with all](#)" strategy, which completely transforms our business and the way we're doing business.

What exactly are the links between your CSR strategy and your business goals?

Sustainability is completely integrated into our business model; it is not a program apart. In order to be embedded into the business strategy, it has to cover the entire value chain. First innovation, then production.

For example, regarding production, we decided to reduce our environmental footprint by 60 percent . And then, we have our consumers to whom we want to propose the most sustainable products, so that they can make sustainable lifestyle choices. We try to encourage them in this direction.

In addition, we have decided to help our suppliers to improve their own sustainability strategy. We encourage them to reduce their environmental footprint and to increase their social impact.

We share our growth with our employees, through our social performance program "[Share and Care](#)." L’Oréal always had an ambitious social model in France. As we are global, we want to extend this social performance. We want every L’Oréal employee in the world to get the best available health care system in their country. In addition, everywhere in the world, women will have access to 14-week maternity leave. In a lot of countries, maternity leave is not a legal requirement. Additionally, employees will benefit from a security system, what we call “prevoyance” in France, that is to say payments in case of invalidity or death of the employee. Not to mention access to training for everybody.

L’Oréal has developed several programs in emerging markets, including, for example, a program aimed at empowering micro-entrepreneurs in Brazil who sell your hair care products ...

Yes, we have community programs with an important ambition: We want to enable 100,000 people from underprivileged communities to access work.

And you also work with the non-profit sector to achieve those goals?

We work with different partners for the achievement of our goals: it can be researchers, experts, NGOs, consumers' associations, institutions ... Regarding our "Share and Care" social performance program, for example, we work with the [International Labor Organization](#). As part of the community programs, for our micro distribution programs for example, we cooperate with national training institutions and banks. And for our responsible sourcing programs, we partner with fair trade organizations ... so we continuously work with a lot of partners in order to achieve our objectives.

Could you give us a concrete example of a partnership you've developed with an Nongovernmental organization?

For our argan oil-sourcing program in Morocco, we worked with our suppliers and an NGO called Yamana, which helped us create a social fund and the cooperative of argan oil produced by women. The international community recognized it as a best practice for the improvement of working and living conditions of Moroccan women collecting argan oil.

What are your main challenges now as a chief sustainability officer?

We have to continue our efforts with the same energy to achieve our targets. We have to be ever more innovative in order to change consumers' behaviours, through packaging innovation for example. How do we get the consumer on board? This is the most important challenge.

You don't work directly for the CEO, but you're attached to the communications department. Does this present any difficulties?

L'Oréal's sustainability strategy impacts its entire value chain and is fully supported by our CEO and the executive committee. All brands and entities are involved and it's my responsibility to work with them to help them achieve our objectives.

CSR is sometimes used as an argument to support PR campaigns. What is your point of view regarding CSR and communication?

At L'Oréal, sustainability goes far beyond communication, as we're about to live a transformation process of our entire value chain to meet our sustainability objectives. Communication is part of our strategy to make sustainability desirable by offering consumers sustainable products without compromising on performance or look.

What would be your key piece of advice to those working in CSR?

What is very important is to try to not just use catastrophic messages to get people on board. Sustainability has to become inspirational.

And if you had to name one thing that global development professionals should avoid regarding work around sustainability initiatives?

You have to be a very good change manager, not a sustainability expert. There are 100,000 sustainability experts out there, but what we need most are people who know how to lead change on sustainability.

What areas should NGOs improve regarding the way they work with private companies?

Of course NGOs have to continue to challenge companies. I really encourage NGOs to share constructive criticism to help us become better. But if they want to build new long-term relationship models, they really have to put themselves into our shoes and ask: what are their big business challenges and how can we help address environmental and social challenges while keeping in mind these business challenges?

Is it easy for a company like L'Oréal to work with NGOs?

It is never easy to work with anybody! Corporations, NGOs — we all have to try and work together on the basis of trust, with a constructive ambition and without a preconceived opinion.

You previously worked for NGOs, including [Amnesty International](#). Does this experience help you in your current role?

It does help, because I know how NGOs function and what they expect from corporations. So it's perhaps easier to respond to their needs.

8.4.2 Transcription of interview: Alexandra Palt, Chief Sustainability officer, L'Oreal Group.

Interviewer:

Amara. (2016)

Why did you choose this particular location to talk about sustainable development?

We're in one of L'Oreal's research centres, and research and innovation are at the very core of our accomplishments this is where the value chain begins and we take sustainable development into account from the very beginning by focusing on sustainable innovation. We have three strategic priorities in this area, which are: responsible sourcing of botanical raw materials, reducing our impact on water and using green chemistry.

L'Oreal has both factories and distribution centres. How do you integrate sustainable development practices into your manufacturing facilities?

Yes, after research and innovation comes production and we manufacture 90% of our products in-house. We have set the bar very high for ourselves in order to reduce our impact on the environment. For 2015 we plan to achieve a 50% reduction in carbon dioxide emissions in absolute value terms and a 50% reduction in our water usage and a 50% reduction in waste materials per finished product. We're well on the way to meeting those goals.

Another very important part of L'Oreal's business is marketing. How do you integrate social and environmental responsibility into your marketing activities?

When it comes to marketing, all of our social and environmental responsibility activities are grouped under what we call Responsible Consumption. So, of course, this begins with

offering consumer's eco-designed products that have less impact on the environment and by responsible marketing and communications strategies which create relationships based on trust. This results in making customers aware of the importance of sustainable development and how they can potentially contribute to it.

L'Oreal is a very big company with tens of thousands of people. How do they experience the company's sustainable development policies?

Human values are at the very heart of our business, so we aim for growth that is shared and responsible. We share this growth with our employees through innovative human resources policies, with our suppliers because we partner with them for our sustainable development initiatives and, as well, with the communities where we operate. We try to help all of our stakeholders profit from our accomplishments and successes

L'Oreal is known for its sustainable development initiatives. What challenges are still to be met?

There are many challenges left because sustainable development is an on-going process that is at the very heart of our company. One key challenge is to make sustainable development a goal that is shared by all of society and all of our stakeholders. It's very important to understand that sustainable development should not be left to a small number of experts working on their own to find a few technical solutions and innovations. We would like to help people understand that sustainable development can become a part of our lifestyle as a society, everyone's lifestyle, and that it can be appealing, desirable and even glamorous and, at the same time, have a positive impact on our communities and on our planet.

8.3.3 Transcription of interview: Alexandra Palt, Chief Sustainability officer, L'Oreal Group.

Interviewer:

Businessgreen.com, 2015.

L'Oreal's chief sustainability officer talks to BusinessGreen about the need to recognise cultural differences when tackling climate change

If you think companies have a tough time proving their commitment to ethical and sustainable practices here in the UK, you should try going to France, where, according to L'Oreal's chief sustainability officer Alexandra Palt, all corporates are considered guilty until proven innocent.

The world's largest cosmetics company has seen more than its fair share of controversies over the years, but there are also cultural reasons why French firms have traditionally been tight-lipped about their sustainability policies, says Palt.

"There's a saying in France: 'Less hidden less happiness'," she tells BusinessGreen, suggesting a political climate that can be hostile towards big businesses means firms sometimes conclude there is little upside in touting their environmental credentials.

French businesses kept their ethical behaviour on the down low, for fear of being accused of using it as a PR stunt, she reckons. "Very large companies said we'll do these things but we're not going to talk about it because when you're not talking about it, people are not going to criticise us," she says. "Even worse than Anglo-Saxon countries, there was always a big distrust to everything related to money, economy and companies."

Now, however, L'Oreal is keen to start talking publicly about an environmental record that has delivered significant improvements in recent years. Palt, who has been CSO at the company for the past three years, helped launch a series of climate change targets at the firm in 2013 covering innovation, production, changing consumer and employee behaviour. The latter perhaps was the most challenging to deliver on.

"[Transparency] is completely contradictory to French culture because in France people say 'we communicate it when we prove it', but that's not sufficient today on sustainability because if you do not commit and set the bar quite high and stretch it, then we will not go fast enough," she explains. "Now, at least at L'Oreal, everyone understands that communicating

and being transparent is a responsibility in order to be more collectively bold on sustainability."

Her efforts appear to be paying off – earlier this year the company announced it had halved its carbon footprint in absolute terms from a 2005 baseline while growing production 22 per cent over the same period. The decoupling of emissions and revenue has been achieved through the introduction of a range of green technologies at its operations around the world, including projects to power a plant in Yichang, China with hydroelectricity, invest in water filtration in Montreal, Canada, and install a biomass plant in Burgos, Spain.

But despite L'Oreal's public commitment to tackle climate change, all robustly backed by chief executive Jean-Paul Agon, Palt won't emulate IKEA and say how much L'Oreal is investing in the programme.

"In France, it's a big complexity to talk about money and it's even worse when you talk about money related to things that are right, correct to do," she tells BusinessGreen.

L'Oreal's silence on financial matters is somewhat at odds with the growing number of companies keen to highlight the financial business case for tackling climate change. During a major summit at the Unesco headquarters in Paris last month, chief executives lined up to highlight how investing in energy saving or renewable energy technology was good for their bottom line as well as the planet. Even French President François Hollande told delegates that the right actions would have "extremely positive consequences on economic actors, on future technologies, on employment and on growth".

But for Palt, the focus on financial issues can serve to ignore the cultural differences between countries and their attitudes towards sustainability. She is also concerned that many global companies are still failing to grasp how those cultural differences could impact on their sustainability messaging to customers. "For a long time, global companies thought the way they were going to engage consumers on sustainability would be the same everywhere," she notes. "But of course that's not true."

For example, people who regularly experience drought will be much more open to the idea of saving water, while other countries, like Germany, appear to have recycling ingrained in their societies already. "So if we want to involve the consumers, which is absolutely necessary, we

also have to understand the cultural differences in sustainability that apply to consumers," Vision Palt adds.

Given L'Oreal's track record as one of the world's premier marketing organisations, capable of tailoring messages for a wide range of different target audiences, it seems like sage advice.

However, despite her concerns about the tenor of some corporate sustainability programmes, Palt says she remains an optimist with regards businesses' ability to tackle climate change and the upcoming Paris Summit due to be held at the end of this year, where world leaders are expected to sign a global deal to tackle climate change. "I have a feeling we're at a tipping point both for businesses and in general," she reflects, recalling the [pre-Paris Summit business meeting last month in the same city](#). "When would you be able to gather 100 CEOs from around the world, all coming to talk about climate change and carbon pricing?"

But with the dust now settled after the Business and Climate Summit in May, she is keen to see corporates continuing to put pressure on world leaders in the run-up to the Conference of the Parties (COP21) summit in Paris.

L'Oreal will be launching an "open innovation" program in September, she reveals, although won't be drawn on what it will entail. She does, however, reveal the new tool will be shared with other businesses to help them also make the carbon reductions needed to limit global temperature rises.

"Companies should be aware of their fields and what they are competing for," she argues. "In fighting climate change, we are not competing."

8.4.4 Transcription of interview: Alexandra Palt, Chief Sustainability officer, L'Oreal Group.

Interviewer:

Balch, O. (2013).

Stepping into someone else's shoes and speaking your mind are Alexandra Palt's top tips for unlocking change

René Descartes, the French philosopher, had a word of advice for all those seeking after truth. It is necessary, he wrote, that at least once in your life "you doubt, as far as possible, all things". It's sound advice for those seeking after sustainability too.

After all, if you're ever going to stand a chance of winning folk to your cause, you need to know how they think. That requires stepping back from time to time, said Alexandra Palt, chief sustainability officer (CSO) at French cosmetics company L'Oreal: "If you're too involved, you're not convincing people, you're exhausting them."

But convince them you must. Even for those companies with the clearest policy commitments and most adroit leadership, sustainability doesn't come easy. If it did, every business would have been doing it for years.

[L'Oreal](#) is no different. Last month, the beauty products firm launched an ambitious [set of sustainability targets for 2020](#). Palt has been building up to the announcement since joining L'Oreal two years ago. The targets include an audacious commitment to reducing the company's environmental footprint by 60% while also reaching one billion new customers.

Culturally, it's a big step for a French firm, said 41-year-old Palt, who is Austrian by birth but who has been living in France for the last 14 years. As a rule, French companies prefer to talk about past achievements rather than future vision, she observed: "To say we will have difficult ambitions and we don't know if we'll achieve it...that's not very natural in France."

Effective empathiser

A big part of her success in convincing L'Oreal to "commit big" on sustainability derives from her ability to step into the shoes of others. Whenever she goes to speak to someone as CSO, she always has three questions in mind: "What is important for them? What is interesting for them? [And] In what way is what I'm doing going to help them to have an easier life".

She's not starting from zero, it should be said. L'Oreal's procurement managers already have responsibility for social auditing and inclusive purchasing written into their job descriptions, for instance. But she still knows the right buttons to press when necessary. Take employee diversity. Talking to a human resources manager on the subject, she'll stress the benefits around access to talent and innovation. It's the same with marketing. When discussing

sustainability, she homes in on the appeal to young people and aspirational buyers in emerging markets.

Convincing consumers about sustainability – something she identifies as one of L'Oreal's big challenges going forward – is where her knack for seeing how others think really kicks in. Brands need to get off the "horrible, guilty, negative part" of the sustainability story, she said. Threatening folk with rising sea levels and apocalyptic futures will never budge them. Far better to make "beautiful products that are desirable" – oh, and then ensure they're sustainable. 'We don't want to say to people, 'buy our products because they are sustainable. This is not working'', she argued. The same goes for behaviour change. Haranguing people to become more sustainable is a waste of breath. "No, (I say) behave like this because it's the most aspirational, nicest, best way to live your life."

Again, L'Oreal has been inching forward on this agenda since Palt occupied the CSO seat. The firm's luxury brand Biotherm, for instance, now boasts an aggressive campaign on water efficiency. Garnier and Kiehl's, on the other hand, are both giving a major push to recycling.

Active listener

Winning over the critical public requires a similar gift for empathy and understanding. Like any multi-national, L'Oreal faces a sceptical audience when it comes to sustainability. More specifically, its advertising tactics have courted controversy in the recent past. Palt's response is to open dialogue channels wherever possible. When preparing L'Oreal's proposed 2020 sustainability commitments, for example, she arranged workshops in more than half a dozen countries to gather public feedback.

"A lot of companies are afraid when they organise these kind of stakeholder forums. They think, 'oh my God, what is going to happen and so on', she said. In contrast, she said she "wasn't worried", a fact she attributes to her "militant" early days working for Amnesty International and an anti-racism charity. She retains a good feel for how advocacy groups think and operate: "You understand what kind of information and what degree of transparency they want."

This global consultation process served as a "reality check". Some issues that L'Oreal thought were important for the public fell on deaf ears, and vice versa; some non-priority issues turned out to be far bigger concerns than the company anticipated. The drawing of lines worked both ways. Palt was able to clarify certain misconceptions, particularly around the

philanthropic nature of L'Oreal's plans ("strategy sustainability" is one of her favourite and most repeated terms).

Conviction leadership

This willingness to speak her mind suggests that empathy isn't the only weapon in her management armoury. She isn't afraid to correct external audiences, for example, when they are wrong or – more likely – don't have all the facts to hand: "You have to have strong convictions to give some leadership, so people feel they can trust you on what you say, because on some issues you might know better."

Such an approach fits with what L'Oreal calls its "culture of confrontation". This sees individuals being actively encouraged to defend their own opinions, as well as confronting those of others. The result is often "loud and dynamic", but it sometimes takes guts to speak out, said Palt. And guts is what she feels every CSO needs.

"It's much easier to bring your company forward if you're courageous and not afraid for your job", she concluded. Descartes could hardly have said it better.

8.4 Appendix 4 – Colour coded interviews.

Color-coding for Dynamic Capabilities for Corporate Sustainability.

Pink: Monitoring Capabilities

Purple: Seizing Capabilities

Green: Reconfiguring Capabilities

At the end of each sentence, in the case it was related to one of the three change management pillar, we wrote the name of the related pillar with the following colors:

Yellow: Vision

Red: Process

Blue: People

Finally, we assigned a number to each sentences coded with one or more of the six colors.

Interview with Mrs. Sonja Christensen.

GR: Do you think the paradox between responsibility and profitability exist?

SC: we don't see philanthropy as CSR, because philanthropy is something that we do without expecting anything in return, whereas CSR is part of the business. CSR is a very tight part of the business so that we want it to be part of every team we have and of every areas where we are working, along the all value chain and for the entire product life cycle. But it relates to our products and we want our products to be profitable Of course we also want the consumers to love our products.

The big challenge for us is when the consumers use our products actually, that's the big challenge because from an environmental point of view, the highest environmental footprint is from the consumer's use of the product; so what we are focusing on now is how to educate the consumer and make it possible for the consumer to make an informed choice when they buy their products, meaning how can we make it sexy for the consumer to use sustainable products. **Process**. Num.1.

RB: Maybe also because it is the product life cycle phase that is less "controllable" by you.

SC: Yeah absolutely, but we want to find out what kind of tool we can use or how should we make the information available to the consumer; should it be on the packaging? we don't like green labels everywhere! Or should it be on the website? So that's the main issue right now, we're not there at all because we do not have that information from the consumer. **Process** Num.2. When we present our sustainability initiatives it is from a very holistic point of view, meaning that the entire company is involved, as it is the way in which we are working in every department, but it is not related to the product directly. **Vision** Num.3.

GR: So right now it is more related to the entire group more than from a product brand point of view, is it at a corporate level?

SC: yes it is, if you look, you know we have the program “Sharing Beauty With All”, where we gives figures in respect with our 2020 target, so that we can see how far we are in terms of reduction of CO2, water consumption, energy consumption etc. Vision Num.4.

GR: how these investments is reflecting on the costs and thus in the prices? We saw that the profit has not been reduced but instead it rose.

SC: I don't think there is a paradox, between profitability and sustainability, on the contrary! If relook at the production chain, or the supply chain in general, it's more an opportunity to have some costs savings. For instance, one example was in one of our plants, we brought the producer of our packaging “in-house”; we still do not produce anything, but our provider it is inside the factory so that there are no transportation cost, and of course this allow us to save a lot of CO2 emission. This is just one example; we have also worked a lot in order to make our factories more efficient. A lot of water has been saved; we have patterned with local farmers so they can get the organic waste from the cows, and then use it to produce biogas and provide energy to the factory and to the city or the house of the people living around the factory (Seizing and Reconfiguring) Process Num.5.

RB: you said that for the packaging, you put brought the packaging supplier “in-house”, and this means saving CO2 and transportation costs, which is a benefit for both parts...so, what came first? You were trying to reduce your CO2 performance and then you realize you could also save some money in that way, or it was the other way around?

SC: our initiatives it's very top down, so we have a very strong management, who has this vision; everybody was told “now we have this target, do something!”. So now this is our target, -20% per 2020 from the 2005 base line. Num.6. So it's about “forcing people to be creative” and find other solutions instead of going on with what we were used to do. Vision. Num.7.

RB so the cost savings were a consequence of these new creative solutions?

SC: yes, they were!

GR: How has this focus on sustainability evolved over the years? What implication did it have in terms of organizational change?

SC: It was top down. There has always been an high focus on environment as such, and on measuring our consumption and footprint. However, we have not been talking about it or better, we haven't been communicating about it, internally and externally. We previously had some kind of "internal competition" on who was doing better in terms of energy consumptions and reporting it, but it was only from 2013, when we launched the program (SBWA), that we begun encompassing also HR Management, communication and so on, and that is very important, because it is good to know internally, but it's also good to share with other companies about how we do it and why we find it important, and also with our consumers of course so that they actually know what we're doing. Moreover, another big change with the arrival of Alexandra Palt who before launching this "STRATEGY", travelled around the world to meet our stakeholders, including NGO's and all kind of organizations and asked them:

1 - How they see us?

2 - Presenting our performance and how we operates and where we are right now Vision Num.8.

3 - Talking about the 2020 target, which underline the gap between where we are right now and where we want to be! That's show we're not perfect! Vision Num.9. Before we always wanted to be perfect before communicating it to other, but that's doesn't work because that's will be never the case. So it's a very big mind-set and behavioural change! Now we look at the way in which we behave in all fields. People Num.10.

GR: How the organizational structure change at all levels, functional, business and corporate level in the pursuit of this new path?

SC: Now there is a specific role among the executives and a team working with her; since this program rolled out, in each country we operate we have been establishing committees to follow up where we are locally. And of course reporting what we're doing locally in terms of initiatives; for instance, we have a Nordic Group, in which I'm representing Denmark and

others are representing each one of the Nordic countries. Vision Num.11. So this is just for let you know that we have not recruited people to do that, but it has also influenced us and the whole organization in the way we are asked to think because everybody can contribute. People Num.12. We focused on just in time production because we're not so good in planning how many resources we will need and also in recycling. Moreover, this program is helping us in the selection of supplier which focus in sustainability and corporate social responsibility, which is very important in the supplier selection process. Num.13. Our purchasing director held a conference for our preferred supplier last autumn, where he of course explained our policies and how we expect them to work as well. Process Num.14.

RB: you said that the implementation of this program had a huge impact in the mind-set of everyone in the company, in the way they look at opportunities etc. Did you have any resistance to this mind-set shift, and how did you deal with that if that's the case?

SC: No, no resistance, but a lack of consciousness about how they (employees) behave and what they can do at a macro-level! Most of the times when people think and talk about sustainability, they mostly think about philanthropy, which is not what we're doing here. Now we have each year an ethic meeting where our CEO, Mr. Jean Paul Agon and the managers of each country have a chat with employees, and this year it was decided to have a kind of idea crowdsourcing from the employees, asking their point of view on what should be done and how could the group improve. People Num.16.

GR: Did you involve any kind of change agencies for the implementation of this program toward sustainability or it has been done everything internally?

SC: No, we had an internal group working on it and especially at the warehouses. They have already changed years ago the lightening system and the heating system. Later, we had a project manager who worked on cardboards and on how we could improve their use, in order to achieve "0 waste to landfill". However, we still want to reduce our waste; There have always been a high focus on the environment and on consumption and footprint measurements" Process Num.17.

GR: Concerning the monitoring capabilities, how does the group scan the environment in search for new trends? Do you have specific channels for listening and talking with your stakeholders?

RB: how do you collect data in the external environment about new trends and sustainability in general?

SC: Actually, when the company launched the program “Sharing Beauty With All”, they had a stakeholder contacts all over the world; then they organized this conference in Paris on how to make sustainability attractive for the consumer, and other companies have been invited, like Carlsberg for instance. It was very much about sharing practices and learning from each others in order to make sustainability attractive for the consumers and about how to teach consumers to behave sustainably. The idea at the time was to ask these people who have attended the meeting, to stay updated on how we were proceeding and also get some feedback. Vision Num.18.

RB: So you don't have any ad hoc tool for gathering g information from the consumers?

SC: No; there have been some projects running for instance in France, where the brand Garnier, had a campaign where they asked people to have a trash bin in they bathroom so that they could sort the trash and of course they had consumers participating but I don't know what the results were. Vision Num.19.

RB: is it still difficult to involve people on an everyday basis?

SC: Yes it is. Kiehl's now has its own store where they ask people to return the packaging, once they have empty the product, with a sort of incentive, where you get a product for free when you return 10 packaging. Num.20. But people don't do it, they say they want to be conscious about what is going on and live in a more sustainable way but they don't do it actually. So it is what we are working on now. First of all you said we work on what we can control like packaging or products, trying to avoid transportation costs and so on, but the consumer side is key; Process Num.21. we need to find a golden formula for teach the consumers how to take informed purchasing decisions and make sustainable products attractive for them. Num.21.

SC: You should know that, by buying a Kiehl's product you are supporting a sustainable company, so consumers need to be much more aware of the holistic view of the company instead of for example just using organic products, because it doesn't mean anything,

GR: the strategic plans about this new sustainability program are top-down or bottom up?

SC: It is definitely top-down; our top management have always had a focus in sustainability for the very beginning. Now also the management of each country is responsible to do something, but still, the main guidelines are developed in our head quarters and then communicated in all the lower managerial levels. This is very efficient in my opinion; having a very precise target and "forcing" people to find ways for achieve it, foster creativity and innovation, in this case sustainable innovation. Num.23.

RB: so the CEO set the targets and then these are spread around the countries to the country managers and to the different brands also?

SC: Yeah, but not really as a Brand, more at a group level; of course all the brands must contribute but since we do not develop any products, it's in the product development phase; but all brands must contribute.

RB: about the monitoring activity, it's clear that you look at sustainability from a strategic point view, and you said that the monitoring activity has been done before starting the "Sharing Beauty With All" project...so the question is: you monitored the environment and you recognized some opportunity and therefore you launched the program? Or it was something that was already coming from the CEO and the top management? I mean did the CEO recognize opportunities in sustainable development and thus started the monitoring activity in order to understand how stakeholder were looking at the company and what could have been done for seize this opportunity or you first monitored the environment and then the CEO, together with the top management recognized opportunities in sustainable development?

SC: It has come from the top management to say "we need to be more on corporate responsibility in general" so it's very top-down I think, it's not like a movement that come from somewhere! But I think it also in the air, it's a trend, and also the fact that we purchased

The BodyShop in 2005 is part of that trend I think. Vision Num.24.

GR: So It comes from further than 2013...

SC: Absolutely, absolutely. I've been with the company for 30 years and we have always been measuring our environmental impact, so it's not new at all, it's not a reaction to a sort of fashion. Nope; It's of course to force ourselves to be better, that's why we have the 2020 target. Num.25.

SC: We're really against green washing, or pink washing and that's also why we have been so reluctant to talk about it, I think because we always wanted to be perfect, but nobody is perfect, so it's better to show the progress...

RB: so is important to have a vision for 2020 and show that you working on that and that, step-by-step, you're going to reach it?

SC: yeah absolutely and you know we want to be completely transparent and open, so it's good that is not just words.

RB: I took some CEO' statements from the website, and he says that part of the implementation of this program is a huge simplification initiatives, do you have any example? What does he mean for simplification of the company?

SC: in terms of the organizations we had a huge change in the way we are organized; it has always been like Paris being the centre of the world and French people traveling all over the world to sort of control everything. Now it's more divided into zones and there is a manager for each zone so it's less centralized and the company it's also much more international, recruiting everywhere Process Num.26. . Also in terms of consumer focus and in terms of research, we have a R&D centre in France of course, but also five other centres around the world, where we actually look at people, how do they take their bath, how do they wash their hair, how do they behave in the sun, if they like to have long or curl hair, so that we have much more knowledge about the consumer. It's much more decentralized I think. Process Num.27. We also have a team in the Nordics and a new organization in the Nordic countries, we are the headquarter for the Nordic in here were we have, one communication function, one

production function, one support function for the four countries. Then, in the countries we have people who are in sales, very close to the consumers, so we are very focused on the way we put our products in the market and in the countries, but all the support functions are here. This is also an example of how to simplify the organization. We have called it simplify for growth! Plus it has allowed us, by putting the countries together, to have experts like a digital manager, or a tax manager, a lawyer for the 4 countries; people that we couldn't have had in-house before, and that we used to externalize. That's a change as well. **Process** Num.28.

GR: How did these impacted people?

SC: there's still a lot of education to be done, and involvement I think; people need to be more involved and it's a matter of how should we do that, like. The people involved are those where it would have the biggest impact, right away, in the warehouse for instance, or in transports... **People** Num.29.

GR adds: it is also the most difficult thing to do, because as the literature says it's a lot about culture, and culture is not something that is created or changed from one day to another.

SC: Yeah absolutely. Another big issue is the continuous measuring and reporting of you social/environmental performances **Process** Num.30. ...for example we just move in this new building from the old one which was very unsustainable, but we don't have figures to compare them. This is too bad because of course it has made a huge change in terms of energy consumption, heating and so on and also the fact that we have moved close to the city having a lot of people living in the city and that bike to work instead of using their cars or other transport means. **People** Num.31.

RB: do you think that the implementation of sustainability in the business model, from a very strategic point of view, will provide the group with the capabilities for dealing better also with future change?

SC: Yeah I definitely think so; we have always been very ready to change at least for the time that I've been here (30 years). There's always a better way of doing things, we can always improve and that's why even though we have planned something, we do not stick to plan because if we find a better solution we would definitely use that solution, nothing is ever

stable, we're extremely flexible so we are very change minded...also from an organizational point of view, we've changed a lot. In the way we work and how we do thing, there's never ever something like "this is how we do things here" so everything has to evolve and change...

People Num.32

Interview with Mr Bo Lund Mathisen

- 1) In your personal opinion and experience, do you believe that a paradox between profitability and sustainability exists? To what extent?
- 2) How has the strategic program "Sharing beauty with all" affected in practice all the processes in the supply chain?
- 3) And, how has this focus on sustainability evolved over the years?
- 4) From an economic point of view, could you see effective improvements since the launch of the program? If yes, where and how?
- 5) Do you think that the implementation of this program has impacted your subordinates in their mindset? And have you seen any resistance to change?
- 6) We know that you choose your suppliers relying on specific parameters that are in line with you strategic goals. In case one of your strategic partners do not fulfill such parameters, how do you deal with this issue?
- 7) Since the launch of "Sharing Beauty With All", have you ever experienced a similar situation?

In 2009 we moved to a new building. It was a copy of the old one. We changed the lightning system to a LED one, and basically the CO₂ emissions were reduced overnight. + PROCESS.

Num.44.

This type of activities look at the long term, it's part of our mission that started long before

Sharing Beauty With All. We always had the highest possible standards. Num.45.

We optimized the gate to keep the heat inside. Now it opens only when a truck arrives. +

Process Num.46.

We needed to reduce by a 60% the CO₂ emissions on a 2005 baseline, and this building [D.C.

in Greve] already achieved that + Process Num.47.

It was worth to invest in the gate. It was easy in the Nordics, but other countries already have very low CO₂ emissions, so they're having problem to reduce it.

Talking about the LED system, we had the newest technology for that time that costs half a million dkk. Already in the first year the investment was paid back from savings + Process

Of course we could go further, but it's not good from an economic point of view.

So when you're in front of this type of decisions, it is not a matter of good or bad investment anymore, it is a strategic move and the top management now imposes it.

But still, you have to consider the "investment part". For example, adding solar panels will cost 4 millions and will have a 17 years payback. Of course the owner of the warehouse need to decide whether to do it or not and he surely doesn't do it for fun. He will need some kind of guarantees that we will stay for a long time, but we need to remain flexible, we continuously acquire new brands, so soon we're going to need a bigger space.

Of course if the government come in help and modify how taxes are deducted, the payback will go down to two years. Num.49.

Beauty is not considered a primary need, so people could ask, "Why do you pollute at all".

However, changing the heating system was a game changer. We shifted to a district heating

We take heat from a decentralized company that sends hot water, we take out the heating and we send back colder water. The smaller the difference in water temperature between what we receive and what we send back, the less we pay. We were able to reduce by a 58% our CO₂ emissions overnight with this method.

All the owners in the area were motivated to shift to this district heating. It was easy in Denmark because people are willing to cooperate. Once again, the government has a big impact. In other countries, D.C. and warehouses were forced to do that alone. + Process

Num.50.

Some ideas for the future could be the ground heating or the solar panels. Or we could take water from rain, but you would have to build a totally new building. This building it's at its end. Nowadays there are types of buildings that not only don't pollute, but that have a positive effect on the environment.

What you do is that you look at all the costs and then you decide which one to reduce

+ Vision + Reconfiguring Num.51.

However, we only rent the warehouses.

RB: In case one of your strategic partners does not fulfill such parameters, how do you deal with this issue?

BLM: We try to convince them. Sometimes they don't have our same ambitions. They don't need to pay for their image and they don't see the long term return in this, but in the long-term they will be forced to switch to sustainability. But as for now, there will still be room for people who don't care.

For transportation, we selected only partners most emission-friendly. Our suppliers need to have the same ambitions of L'Oréal. + Process Num.52.

For example, DHL has the same targets as L'Oréal. It has built a new D.C. for Novo Nordisk, probably one of the most ethic companies. Probably we're working with them to build a partnership too. Num.53.

We have a very large freedom on a daily basis, but we receive a lot of targets from Paris. People are simply loyally committed to these targets. + People Num.54.

We monitor our electricity consumption on a daily basis; we want to know how, where and when we consume the most. + Process Num.55.

We used energy for IT, which now has moved to Paris, for charging the trucks and for the lightening system. The fact that the IT function has been centralized in Paris now will reduce the total footprint. It was not the primary reason why they decided to do that, but still they have achieved also that! Num.56.

Sharing Beauty With All is helping us to priorities where to save money and consumptions. Num.57.

Here in the D.C. we have three social employees that would have been unemployed without us. Num.58.

Here on this board we have the health, safety and environment performances. We had higher waste in 2016, because we receive a lot of cardboards that we don't send back to the factory, even though cardboard is not considered as a waste in Denmark, we measure it.

We're trying to find new ways to re-use the cardboard boxes, as for example we're working on building new boxes that have a lift, so we could place that instead of throwing away the box. We have a monthly meeting where the employees share new ideas or issues and we try to

find creative way to solve them. Many problems with the cardboards has been signaled by our employees

+ People + Process Num.60.

Sharing Beauty With All is a name we gave on what was already part of our culture, it is just how L'Oréal operates. It didn't change people's mindset; it was already part of them. + People Num.61.

Measuring your activities makes people aware, you can make a difference if you want. Num.62.

This program is strongly implemented in the daily work. Saving money was the first thing I think; now it has a name and a brand. It has always been part of our vision. CO₂ emissions have always been measured. It is "the hen and the egg" question. Num.63.

Big investments need to be defendable, and when they're not, there is this program that helps in making the decision. And also where you measure people on drives strategic decisions.

The reason why people are not aware of this program could be several. Maybe we're not doing enough, maybe we're waiting that someone else advertises this program for us, because it's always better if someone else recognize our merits instead of our own.

Interview with Mrs Alexandra Palt (provided by Mrs Sonja Christensen)

Interviewers:

Thomas Mondemé

Camille Anaïs

“As a young student, I couldn't have imagined this would be my career path, but there is definitely a logic to it”

The thought comes with refreshing honesty concluding an informative conversation. A lawyer by training, having worked for several NGOs after specializing in human rights, Alexandra Palt is now L'Oréal's Chief Sustainability Officer, but she has kept the same passion, one that can be felt in her voice and tone, as she continues to plead for a better world. Num.34.

As we chat with her just after Paris COP21, she tells us how impressed she was by the (a awareness she witnessed there, especially qua the business side: "There were of course the Bourget negotiations, with all the government officials, but there were other initiatives on the side, at The Grand Palais for instance, and one could feel a very sincere ambition from the corporate world to be part of the solution, a will to find a binding agreement, an ambitious agreement. Companies are not the "bad enemies" who want to pollute us: Something has profoundly changed, and civil society is becoming aware of that". Num.35

One goal in mind

When asked when L'Oréal and others took notice of environmental issues, Alexandra Palt reminds us that awareness is "progressive": you don't "wake up one day and suddenly realize that there is a problem". Num.36 She also insists on the fact that L'Oréal had already made a first commitment in 2009: a 50% reduction of its industrial footprint when it comes to CO2, waste, and water. In 2013, CEO Jean-Paul Agon, who Palt describes as "a visionary", set a more profound transformation" into motion, one that involves both a change of mentality and of method, with one goal in mind: sustainability. + Reconfiguring Num.37

She points out that unlike some purely green washing" initiatives from others, L'Oréal's recent commitments have led to a complete transformation of the business model This shift is both global and specific: "There are some basic guidelines which are valid for the whole L'Oréal group: We have to transform 100%of our products, which means that they all need to have an improved environmental or social profile by 2020. Also at the group level, and

through its industrial activity, we have to reduce our environmental footprint by 60% (carbon, water, waste)". + Process Num.38 The second axis of this mobilisation is focused on engaging customers in a more "sustainable lifestyle. "This is really a brand-related commitment, in alignment with the brand's equity and sense of purpose. It can be around sustainable sourcing, around is recycling, or around social impact like skin cancer prevention for La Roche Posay". + Process Num.39.

But what does it mean concretely, and ho does one evaluate it? The answer comes easily for Alexandra Palt: "In 2014, 67% of our ne products had shown an improved environmental footprint, meaning they had done three things: Either they had reduced their water footprint (a lot of our impact can be on the water quality when rinsed-off products get into it) or had improved their biodegradability, or had used raw materials from fair trade or sustainable ingredients, like The Body Shop for instance. And we are monitoring these numbers every year. + Process Num.40.

And when it comes to results, the little things can make a big difference: "We've been able to replace the plastic by recycled plastic in the packaging, to redesign and lighten the packaging, and fit more bottles into a box, or more boxes in one pallet for instance, hence saving space, reducing transport cost, and CO2 emissions. + Process Num.41.

Along with this kind of initiative, which she refers to as the sustainable innovation" process come the various actions from the brands. La Roche Posay has launched the "Become a skin checker" campaign to raise awareness about the dangers of the sun in Brazil and many other countries; Armani has launched "Acqua for Life with UNICEF to make clean water accessible to populations in impoverished or remote areas and Garnier has worked with TerraCycle on recycling used packaging from beauty products "It is a complete transformation, at every level and it is completely integrated in what we do in our daily work," she says. + Process + Vision Num.42.

Thinking the box outside

Any such commitment comes with a fair amount of obstacles. Though people agree that it is important to have eco-conscious companies, not everyone acts accordingly. "Sometimes a more sustainable or lighter packaging may appear less attractive to some people, and that is of course a challenge for us; so we have to be very innovative and creative to rethink the whole thing: to make packaging as inspirational as possible and as sustainable as possible"

+Vision Num.43.

But Alexandra Palt remains greatly optimistic about the future. According to her, things are going to change very fast because the danger is now clearer than ever. She sees corporations playing a leading role in finding various solutions For the private sector, sustainability is also a source of innovation and efficiency. More and more people are going to look at it that way and not as an obstacle or a problem. It is an opportunity and not a constraint". Personifying through her career, she insists that the actions have to be common and global: "This int change is only going to happen if we all work together, and if we all understand that solutions rely on shared efforts and collaboration. So consumers have a role to play, and NGOs have a role to play -they have to push further all the time, and I am positive that they will Civil society corporations, governments, local governments, and city governments... Everybody has a role to play."

Interview with Mrs Alexandra Palt, Chief Sustainability Officer, L'Oreal Group

Interviewer:

Vialle, E. (2016) - www.devex.com

Alexandra Palt aims to set the tone for sustainability in the beauty sector, and is not resting on her laurels.

The chief sustainability officer at cosmetics giant L'Oréal, one of France's largest companies, wants the firm to integrate sustainability into its global business strategy — and along its entire value chain.

In order to accomplish her goals, Palt believes she has the right qualities and skillset.

“You have to be a very good change manager, not a sustainability expert,” she said during an exclusive interview with Devex in Paris. “There are 100,000 sustainability experts out there, but what we need most are people who know how to lead change on sustainability.”

Here are more highlights from our conversation.

You've been chief sustainability officer at L'Oréal since 2012. Which of your achievements are you most proud of?

I would not say “proud of” because it is always a team that collectively works with a chief sustainability officer. Any successful accomplishment results from the involvement of a whole group of managers, and the leadership of our CEO. And we're lucky at L'Oréal to have a CEO [Jean-Paul Agon] with a very strong commitment to those issues. So I'm proud of the team spirit that allows us to better work towards our goal: building together an even more sustainable business model. Thanks to this whole team, we managed to adopt a long-term vision of sustainability at L'Oreal for 2020 through our "[Sharing beauty with all](#)" strategy, which completely transforms our business and the way we're doing business. Num.68

What exactly are the links between your CSR strategy and your business goals?

Sustainability is completely integrated into our business model; it is not a program apart. In order to be embedded into the business strategy, it has to cover the entire value chain. First innovation, then production.

For example, regarding production, we decided to reduce our environmental footprint by 60 percent. + Process Num.69. And then, we have our consumers to whom we want to propose the most sustainable products, so that they can make sustainable lifestyle choices. We try to encourage them in this direction.

In addition, we have decided to help our suppliers to improve their own sustainability strategy. We encourage them to reduce their environmental footprint and to increase their social impact. + Process Num.70.

We share our growth with our employees, through our social performance program "[Share and Care](#)." L'Oréal always had an ambitious social model in France. As we are global, we want to extend this social performance. We want every L'Oréal employee in the world to get the best available health care system in their country. In addition, everywhere in the world,

women will have access to 14-week maternity leave. In a lot of countries, maternity leave is not a legal requirement. Additionally, employees will benefit from a security system, what we call “prevoyance” in France, that is to say payments in case of invalidity or death of the employee. Not to mention access to training for everybody + People Num.71.

L’Oréal has developed several programs in emerging markets, including, for example, a program aimed at empowering micro-entrepreneurs in Brazil who sell your hair care products ...

Yes, we have community programs with an important ambition: We want to enable 100,000 people from underprivileged communities to access work. Num.72.

And you also work with the non-profit sector to achieve those goals?

We work with different partners for the achievement of our goals: it can be researchers, experts, NGOs, consumers' associations, institutions ... Regarding our "Share and Care" social performance program, for example, we work with the [International Labor Organization](#). As part of the community programs, for our micro distribution programs for example, we cooperate with national training institutions and banks. And for our responsible sourcing programs, we partner with fair trade organizations ... so we continuously work with a lot of partners in order to achieve our objectives. + Process + People. Num.73.

Could you give us a concrete example of a partnership you've developed with an Nongovernmental organization?

For our argan oil-sourcing program in Morocco, we worked with our suppliers and an NGO called Yamana, which helped us create a social fund and the cooperative of argan oil produced by women. The international community recognized it as a best practice for the improvement of working and living conditions of Moroccan women collecting argan oil. + Process + People. Num.74.

What are your main challenges now as a chief sustainability officer?

We have to continue our efforts with the same energy to achieve our targets. We have to be ever more innovative in order to change consumers' behaviours, through packaging innovation for example. How do we get the consumer on board? This is the most important challenge.

You don't work directly for the CEO, but you're attached to the communications department. Does this present any difficulties?

L'Oréal's sustainability strategy impacts its entire value chain and is fully supported by our CEO and the executive committee. All brands and entities are involved and it's my responsibility to work with them to help them achieve our objectives.

CSR is sometimes used as an argument to support PR campaigns. What is your point of view regarding CSR and communication?

At L'Oréal, sustainability goes far beyond communication, as we're about to live a transformation process of our entire value chain to meet our sustainability objectives. Communication is part of our strategy to make sustainability desirable by offering consumers sustainable products without compromising on performance or look.

What would be your key piece of advice to those working in CSR?

What is very important is to try to not just use catastrophic messages to get people on board. Sustainability has to become inspirational.

And if you had to name one thing that global development professionals should avoid regarding work around sustainability initiatives?

You have to be a very good change manager, not a sustainability expert. There are 100,000 sustainability experts out there, but what we need most are people who know how to lead change on sustainability.

What areas should NGOs improve regarding the way they work with private companies?

Of course NGOs have to continue to challenge companies. I really encourage NGOs to share constructive criticism to help us become better. But if they want to build new long-term relationship models, they really have to put themselves into our shoes and ask: what are their big business challenges and how can we help address environmental and social challenges while keeping in mind these business challenges? Num.75.

Is it easy for a company like L'Oréal to work with NGOs?

It is never easy to work with anybody! Corporations, NGOs — we all have to try and work together on the basis of trust, with a constructive ambition and without a preconceived opinion.

You previously worked for NGOs, including [Amnesty International](#). Does this experience help you in your current role?

It does help, because I know how NGOs function and what they expect from corporations. So it's perhaps easier to respond to their needs. + Vision Num.76.

Interview with Mrs Alexandra Palt, Chief Sustainability Officer, L'Oréal Group

Interviewer:

Amara (2016) - www.amara.org

Why did you choose this particular location to talk about sustainable development?

We're in one of L'Oreal's research centers, and research and innovation are at the very core of our accomplishments this is where the value chain begin and we take sustainable development into account from the very beginning by focusing on sustainable innovation.

+ Reconfiguring + Process Num.77.

We have three strategic priorities in this area, which are: responsible sourcing of botanical raw materials, reducing our impact on water and using green chemistry.

L'Oreal has both factories and distribution centers. How do you integrate sustainable development practices into your manufacturing facilities?

Yes, after research and innovation comes production and we manufacture 90% of our products in-house. We have set the bar very high for ourselves in order to reduce our impact on the environment. For 2015 we plan to achieve a 50% reduction in carbon dioxide emissions in absolute value terms and a 50% reduction in our water usage and a 50% reduction in waste materials per finished product. We're well on the way to meeting those goals. + Process Num.78.

Another very important part of L'Oreal's business is marketing. How do you integrate social and environmental responsibility into your marketing activities?

When it comes to marketing, all of our social and environmental responsibility activities are grouped under what we call Responsible Consumption. So, of course, this begins with offering consumers eco-designed products that have less impact on the environment + Process

Num.79. And by responsible marketing and communications strategies that create relationships based on trust. This results in making customers aware of the importance of sustainable development and how they can potentially contribute to it. Num.80.

L’Oreal is a very big company with tens of thousands of people. How do they experience the company’s sustainable development policies?

Human values are at the very heart of our business, so we aim for growth that is shared and responsible. We share this growth with our employees through innovative human resources policies, +People Num.81 with our suppliers because we partner with them for our sustainable development initiatives and, as well, with the communities where we operate. We try to help all of our stakeholders profit from our accomplishments and successes.

Reconfiguring +Process Num.82

L’Oreal is known for its sustainable development initiatives. What challenges are still to be met?

There are many challenges left because sustainable development is an ongoing process that is at the very heart of our company. One key challenge is to make sustainable development a goal that is shared by all of society and all of our stakeholders. It’s very important to understand that sustainable development should not be left to a small number of experts working on their own to find a few technical solutions and innovations. We would like to help people understand that sustainable development can become a part of our lifestyle as a society, everyone’s lifestyle, and that it can be appealing, desirable and even glamorous and, at the same time, have a positive impact on our communities and on our planet. + Vision

Num.84

Interview with Mrs Alexandra Palt, Chief Sustainability Officer, L'Oréal Group

Interviewer:

Green (2015) – www.businessgreen.com

L'Oreal's chief sustainability officer talks to BusinessGreen about the need to recognise cultural differences when tackling climate change Num.85.

If you think companies have a tough time proving their commitment to ethical and sustainable practices here in the UK, you should try going to France, where, according to L'Oreal's chief sustainability officer Alexandra Palt, all corporates are considered guilty until proven innocent.

The world's largest cosmetics company has seen more than its fair share of controversies over the years, but there are also cultural reasons why French firms have traditionally been tight-lipped about their sustainability policies, says Palt.

"There's a saying in France: 'Less hidden less happiness'," she tells BusinessGreen, suggesting a political climate that can be hostile towards big businesses means firms sometimes conclude there is little upside in touting their environmental credentials.

French businesses kept their ethical behaviour on the down low, for fear of being accused of using it as a PR stunt, she reckons. "Very large companies said we'll do these things but we're not going to talk about it because when you're not talking about it, people are not going to criticise us," she says. "Even worse than Anglo-Saxon countries, there was always a big distrust to everything related to money, economy and companies."

Now, however, L'Oreal is keen to start talking publicly about an environmental record that has delivered significant improvements in recent years. Palt, who has been CSO at the company for the past three years, helped launch a series of climate change targets at the firm

in 2013 covering innovation, production, changing consumer and employee behaviour. The latter perhaps was the most challenging to deliver on.

"[Transparency] is completely contradictory to French culture because in France people say 'we communicate it when we prove it', but that's not sufficient today on sustainability because if you do not commit and set the bar quite high and stretch it, then we will not go fast enough," Num.86. she explains. "Now, at least at L'Oreal, everyone understands that communicating and being transparent is a responsibility in order to be more collectively bold on sustainability."

Her efforts appear to be paying off – earlier this year the company announced it had halved its carbon footprint in absolute terms from a 2005 baseline while growing production 22 per cent over the same period. The decoupling of emissions and revenue has been achieved through the introduction of a range of green technologies at its operations around the world, including projects to power a plant in Yichang, China with hydroelectricity, invest in water filtration in Montreal, Canada, and install a biomass plant in Burgos, Spain.

But despite L'Oreal's public commitment to tackle climate change, all robustly backed by chief executive Jean-Paul Agon, Palt won't emulate IKEA and say how much L'Oreal is investing in the programme.

"In France, it's a big complexity to talk about money and it's even worse when you talk about money related to things that are right, correct to do," she tells BusinessGreen.

L'Oreal's silence on financial matters is somewhat at odds with the growing number of companies keen to highlight the financial business case for tackling climate change. During a major summit at the Unesco headquarters in Paris last month, chief executives lined up to highlight how investing in energy saving or renewable energy technology was good for their bottom line as well as the planet. Even French President François Hollande told delegates that the right actions would have "extremely positive consequences on economic actors, on future technologies, on employment and on growth".

But for Palt, the focus on financial issues can serve to ignore the cultural differences between countries and their attitudes towards sustainability. She is also concerned that many global companies are still failing to grasp how those cultural differences could impact on their sustainability messaging to customers. "For a long time, global companies thought the way

they were going to engage consumers on sustainability would be the same everywhere," she notes. "But of course that's not true."

For example, people who regularly experience drought will be much more open to the idea of saving water, while other countries, like Germany, appear to have recycling ingrained in their societies already. "So if we want to involve the consumers, which is absolutely necessary, we also have to understand the cultural differences in sustainability that apply to consumers," Palt adds.

+ Vision Num.87

Given L'Oreal's track record as one of the world's premier marketing organisations, capable of tailoring messages for a wide range of different target audiences, it seems like sage advice.

However, despite her concerns about the tenor of some corporate sustainability programmes, Palt says she remains an optimist with regards businesses' ability to tackle climate change and the upcoming Paris Summit due to be held at the end of this year, where world leaders are expected to sign a global deal to tackle climate change. "I have a feeling we're at a tipping point both for businesses and in general," she reflects, recalling the [pre-Paris Summit business meeting last month in the same city](#). "When would you be able to gather 100 CEOs from around the world, all coming to talk about climate change and carbon pricing?" + Vision

Num.88

But with the dust now settled after the Business and Climate Summit in May, she is keen to see corporates continuing to put pressure on world leaders in the run-up to the Conference of the Parties (COP21) summit in Paris.

L'Oreal will be launching an "open innovation" program in September, she reveals, although won't be drawn on what it will entail. She does, however, reveal the new tool will be shared with other businesses to help them also make the carbon reductions needed to limit global temperature rises.

"Companies should be aware of their fields and what they are competing for," she argues. "In fighting climate change, we are not competing."

Interview with Mrs Alexandra Palt, Chief Sustainability Officer, L'Oréal Group

Interviewer:

(Balch, 2013) – www.theguardian.com

Stepping into someone else's shoes and speaking your mind are Alexandra Palt's top tips for unlocking change

René Descartes, the French philosopher, had a word of advice for all those seeking after truth. It is necessary, he wrote, that at least once in your life "you doubt, as far as possible, all things". It's sound advice for those seeking after sustainability too.

After all, if you're ever going to stand a chance of winning folk to your cause, you need to know how they think. That requires stepping back from time to time, said Alexandra Palt, chief sustainability officer (CSO) at French cosmetics company L'Oreal: "If you're too involved, you're not convincing people, you're exhausting them."

But convince them you must. Even for those companies with the clearest policy commitments and most adroit leadership, sustainability doesn't come easy. If it did, every business would have been doing it for years.

[L'Oreal](#) is no different. Last month, the beauty products firm launched an ambitious [set of sustainability targets for 2020](#). Palt has been building up to the announcement since joining L'Oreal two years ago. The targets include an audacious commitment to reducing the company's environmental footprint by 60% while also reaching one billion new customers.

Culturally, it's a big step for a French firm, said 41-year-old Palt, who is Austrian by birth but who has been living in France for the last 14 years. As a rule, French companies prefer to talk about past achievements rather than future vision, she observed: "To say we will have difficult ambitions and we don't know if we'll achieve it...that's not very natural in France."

Effective empathiser

A big part of her success in convincing L'Oreal to "commit big" on sustainability derives from her ability to step into the shoes of others. Whenever she goes to speak to someone as CSO,

she always has three questions in mind: 'What is important for them? What is interesting for them? [And] In what way is what I'm doing going to help them to have an easier life.'

Num.88.

She's not starting from zero, it should be said. L'Oreal's procurement managers already have responsibility for social auditing and inclusive purchasing written into their job descriptions, for instance. But she still knows the right buttons to press when necessary. Take employee diversity. Talking to a human resources manager on the subject, she'll stress the benefits around access to talent and innovation. It's the same with marketing. When discussing sustainability, she homes in on the appeal to young people and aspirational buyers in emerging markets.

Convincing consumers about sustainability – something she identifies as one of L'Oreal's big challenges going forward – is where her knack for seeing how others think really kicks in. Brands need to get off the "horrible, guilty, negative part" of the sustainability story, she said. Threatening folk with rising sea levels and apocalyptic futures will never budge them. Far better to make "beautiful products that are desirable" – oh, and then ensure they're sustainable. 'We don't want to say to people, 'buy our products because they are sustainable. This is not working'', she argued. The same goes for behavior change. Haranguing people to become more sustainable is a waste of breath. "No, (I say) behave like this because it's the most aspirational, nicest, best way to live your life.' + Process Num.89

Again, L'Oreal has been inching forward on this agenda since Palt occupied the CSO seat. The firm's luxury brand Biotherm, for instance, now boasts an aggressive campaign on water efficiency. Garnier and Kiehl's, on the other hand, are both giving a major push to recycling.

Active listener

Winning over the critical public requires a similar gift for empathy and understanding. Like any multi-national, L'Oreal faces a sceptical audience when it comes to sustainability. More specifically, its advertising tactics have courted controversy in the recent past. Palt's response is to open dialogue channels wherever possible. When preparing L'Oreal's proposed 2020 sustainability commitments, for example, she arranged workshops in more than half a dozen countries to gather public feedback.

"I think a lot of companies are afraid when they organise these kind of stakeholder forums. They think, 'oh my God, what is going to happen and so on'', she said. In contrast, she said

she "wasn't worried", a fact she attributes to her "militant" early days working for Amnesty International and an anti-racism charity. She retains a good feel for how advocacy groups think and operate: "You understand what kind of information and what degree of transparency they want."

This global consultation process served as a "reality check". Some issues that L'Oreal thought were important for the public fell on deaf ears, and vice versa; some non-priority issues turned out to be far bigger concerns than the company anticipated. The drawing of lines worked both ways. Palt was able to clarify certain misconceptions, particularly around the philanthropic nature of L'Oreal's plans ("strategy sustainability" is one of her favourite and most repeated terms).

Conviction leadership + Vision Num.90.

This willingness to speak her mind suggests that empathy isn't the only weapon in her management armoury. She isn't afraid to correct external audiences, for example, when they are wrong or – more likely – don't have all the facts to hand: "You have to have strong convictions to give some leadership, so people feel they can trust you on what you say, because on some issues you might know better."

Such an approach fits with what L'Oreal calls its "culture of confrontation". This sees individuals being actively encouraged to defend their own opinions, as well as confronting those of others. The result is often "loud and dynamic", but it sometimes takes guts to speak out, said Palt. And guts is what she feels every CSO needs. Num.91.

"It's much easier to bring your company forward if you're courageous and not afraid for your job", she concluded. Descartes could hardly have said it better.