Journey to True Sustainability in the World Cosmetics Industry

The Business Case of Intercos Group

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LIST OF ILLUSTRATIONS, FIGURES & TABLES

1. INTRODUCTION

1.1 PURPOSE AND OBJECTIVES OF THE BUSINESS CASE

Intercos after a history of 45 years, an unchallenged world leader in the cosmetic industry, is now entering a new phase in which the company is determined to take up the challenges of corporate sustainability. The objectives of this case study are to analyze the current situation of the world market leader in color cosmetics, Intercos, in regards to the sustainability issue, to find out the reasons beyond the recent intention of the company and how important this matter is for the top management and finally to outline the diversity of challenges that Intercos would face in case of a journey to true sustainability.

1.2 PROBLEMATIC AND RELEVANCE OF THE BUSINESS CASE IN THE PERSPECTIVE OF A GLOBAL CONCERN OF SUSTAINABILITY

The global beauty and personal care market was estimated to be 460 billion USD worth in 2014 continuously showing a yearly growth rate between 3 and 5 percent since 2004 (with the exception of 2009) and it is expected to reach 675 billion USD by 2020 registering a Compound Annual Growth Rate (CAGR) of 6.4percent. The cosmetic industry can be defined as a global market if we consider that the three major geographical world regions – Asia Pacific, America and Europe-are realizing 97 percent size of the market, accounting respectively for 36, 35 and 26 percent (own estimation based on figures of the industry and business magazines e.g. Business Wire, Euromonitor).

The cosmetic market is constituted by a wide variety of products (skin care, hair care, deodorants, makeup and color cosmetics, etc.) used by individuals to enhance the appearance (the beauty) or odor of the human body. These products are worn directly on the skin of the consumers. They are therefore very intimate and their consumption is-due to above-mentioned characteristics-very often driven by emotions. More recently the explosion of share images on social media like Instagram, Snapchat, and Facebook, driven by bloggers, influencers, and the new selfie generation has reinforced this emotional phenomenon and has fueled a huge increase in cosmetics sales all over the world, in first place in countries like South-Korea, Japan, and China.

Since the beginning of the new millennium, there has also been a considerable rise in disposable incomes driving to a strong development of global sales of cosmetic products, even in countries like China which does not necessarily has a culture of certain cosmetic products like color make-up for example. The Emerging Consumer Survey 2017 published by Credit Suisse Research confirms that like the previous years, the continuing rise of an emerging middle class worldwide constituting a positive environment for Fast Moving Consumer Goods (FCMG), cosmetics and perfumes still rate one of the highest spending intentions. This favorable business development increased in turn-literally-the visibility of those products to be under the scrutiny of an increasing global concern for sustainability.

Indeed, the new millennium also witnesses evolving new consumer behavior. A growing number of people aims at consuming better-not more-and is increasingly aware of sustainability issues (Wenzel, 2007). What may have started as an exclusive club of well-off people in the United-States and in Europe, the so-called LOHAS (Lifestyles of Health and Sustainability) or "cultural creatives", early adopters of a sustainable lifestyle, has turned up mainstream (*15th Annual Consumer Report*, *State of Sustainability in America, NMI,* 2017). The above mentioned Emerging Consumer Survey confirms not only that the global emergence of a socio-economic middle class continues to expand, but also that the spending pattern of this broad group of people is also changing to adopt to a more conscious consumption pattern.

The Natural Marketing Institute in its 15th Annual Consumer Report (2017) stated for example that sustainability has moved to what has become a fundamental cultural shift. The report states that the demand for product transparency is on the rise, and brands that fulfill this demand by providing comprehensive product information from sourcing to manufacturing are positioned to gain favor. If consumers are aware that companies are mindful of their impact on society and the environment, it positively impacts their trial and repeat purchasing behavior along with price insensitivity.

Unilever published in January 2017 a study (*Brand Purpose: Fad or Future? Europanel,* 2016) revealing that a third of consumers are now buying from brands based on their social and environmental impact. The study which asked 20,000 adults from five countries about their sustainability concerns, suggests further that the trend for sustainable-led purchasing is greater among consumers in emerging economies than in developed markets. Indeed, while 53percent of shoppers in the UK and 78percent in the US reported feeling better when buying sustainably produced products, those numbers rise to 85percent in Brazil and Turkey and 88percent in India.

A report released by the China Chain Store and Franchise Association (2017) showed that more than 30 percent of the surveyed people fully believed that personal consumption has a direct impact on the environment and more than 40 percent basically agreed, indicating that an increasing portion of Chinese consumers was aware of the benefits of sustainable consumption.

In Germany, the Otto Group researched intensively on this topic and has published the Trend Report on Ethical Consumption annually since 2007. The latest survey in 2015, which looked primarily at the quality-of-life aspect, showed for example that the topic of consumer ethics has genuinely arrived in consumers' daily life and is, therefore, confirming the newest surveys mentioned above. Not only are the environmental impacts taken into account by the consumers but increasingly ethical and social aspects such as fair working conditions play a prominent role. These studies tend to demonstrate that consumers are also more interested than ever in aligning their personal values with the brands they buy.

Certainly, one may not be naïve and believe that this concerns all consumers worldwide, yet. However, it is becoming a reality of this new century that consumers are becoming aware and conscious of sustainable issues. These conscious consumers are increasingly value driven and looking for answers concerning the impact of their consumption on environment, economic, health and safety conditions as well as on the scarcity of resources. And, as the studies published by Unilever and Credit Suisse Research showed, this is not only the case in the developed markets but also in the emerging economies.

As the NMI report (15^{th} Annual Consumer Report, State of Sustainability in America, NMI, 2017) mentioned those companies which are not engaged in this issue will be squarely behind their competition as sustainability concerns are only poised to grow over the coming years. Large companies in very exposed industries like food, fashion, FMCG, luxury industries have already started to develop sustainable strategies as part of the overall corporate strategies and implement concrete plans and actions. Take for example the case of Procter and Gamble (P&G) that we have deeply analyzed in a previous case, we can extend these examples to include highly publicized corporations like Danone, Starbucks, Mc Donald's, H&M, Kering, LVMH, etc.

The cosmetic industry belongs equally to this category of industry, with products and brands being both highly visible to the public, bought million folds daily throughout the world, and controlled by a small numbers of conglomerates.

Indeed, the cosmetic industry is highly concentrated, with the top ten companies realized in 2015, 120 billion USD overall revenue in beauty and cosmetic market. Companies like L´Oréal (France), Procter and Gamble (USA), Unilever (Netherlands and United-Kingdom), Shiseido (Japan), Estée Lauder (USA) and Beiersdorf (Germany) incorporate sustainable development as part of their corporate strategies responding to the expectations of the stakeholders community (Case Procter and Gamble, Franco Lucà, BSL 2016) as well as their own leaders (J. Mackey, R. Sisodia, 2013).

One could not underestimate the size factor in the perspective of our problem. Large companies due to their broad product offering, market coverage and influence, amass naturally more media attention and are much more widely exposed to the public radar of good citizenship and therefore, conducts business with an increased global concern for sustainability. Moreover, as we shall see in paragraph 2.3, large corporations have mandatory obligations related to Corporate Social Responsibility. However, as it will be seen later in the case, those multi-billion corporations can only achieve their sustainability objectives when the conditions of the worldwide supply chain are supporting their efforts. Intercos, in this case, although not under direct spot light, has an enormously valuable role to play. Thanks to its expressed sustainable goals and its willingness to intensify its actions to achieve better results in terms of sustainability, the company can contribute to a major change of paradigm in a significant global and highly visible industry, touching billions of customers personally and very intimately worldwide every single day.

1.3 THEORETICAL FRAMEWORK FOR THE BUSINESS CASE

After the first alarming conclusions of the Club of Rome showing that the planet cannot support exponential growth beyond the year 2100, it took more than 40 years to the Paris Summit which is considered as opening a new area of sustainable development (*The limits to growth*, 1972). In the meantime, the global awareness towards sustainability has increased. More and more consumers are becoming conscious and an increasing number of companies have put the issue of responsible and sustainable development on their strategic and operational agendas. The World Economic Forum which understands itself as a dialogue platform for world leaders and influencers has paid an increasing attention to sustainability-related topics including climate change, the circular economy, resource depletion and others since several years.

The current case study is part of the doctoral program of the Business School of Lausanne (BSL) and fits into the theoretical framework of Prof. Dr. Thomas Dyllick and Dr. Katrin Muff to become a comprehensive understanding of the challenges that companies are facing when addressing business sustainability, to assess their journey from a low level of sustainability engagement described as “business-as-usual to a “true business sustainability” engagement and further to help companies to cope with such radical transformation process changing the purpose and the perspective of the companies to become truly sustainable companies.

Dyllick and Muff (2015) have developed a Business Sustainability Typology showing the different steps (BST 1.0, 2.0, 3.0) that the companies have to go through from traditional business model (business-as-usual) on the way of embedding sustainability in business (BST 1.0 to BST 3.0). Companies are intuitively aware that responsibility and sustainability will affect their operative process and that they will have to broaden their concerns to social and environmental issues.

The challenges and the consequences for the companies will be more significant when it will come to redefine the concept of value creation (BST 2.0) and then shift the organizational perspective from a shareholder value creation towards a broader understanding of value creation not only for the usual share- and stockholders of the company (inside-out view of value creation) but also and most importantly for the local communities and the environment at large, the so called common goods (outside in view of value creation).

In a further contribution, Muff (2015) showed that the journey to business sustainability above the organizational development described before also implies for managers (leaders) a personal development and change process towards responsible leadership. In this context, such a development suggests that managers / leaders will personally also enter a change process by developing new leadership competencies and principles to cope with the internal and external challenges to business sustainability.

This case is the first of two case studies dedicated to Intercos aiming at analyzing-as the BST Typology model suggests-the key shifts involved from a rather low-level BST 1.0 to more advanced levels and how a company such as Intercos can cope with radical transformation process changing the purpose and the perspective of the company. It is the intention through these two case studies to demonstrate concretely the organizational (sustainable business) and personal (responsible leadership) developments needed, in the framework of a leading global supplier having:

1. Multi-billion global companies as clients touching daily billions of consumers worldwide
2. Private Equity as shareholder traditionally financially driven interests.

In this current case, we shall focus on the analysis of the company to define its current status according to the Business Sustainability Typology and to draw a roadmap to move towards a higher level of business sustainability. The second business case will then aim at developing the concrete steps and actions of implementation and will particularly focus on the transformation process within the company in order to reach BST 2.0 level and even the BST 3.0 level if feasible.

In the next chapter, we shall give an overview of the company development from its very beginning 20 years ago to a 750 million EUR large company serving multi-billion corporations in one of the most visible global industry today.

2. INTERCOS S.P.A., LEADING COMPANY IN THE COSMETICS INDUSTRY

2.1 A GLOBAL INDUSTRY ON THE EVE OF MAJOR CHANGES

With nearly 500 million EUR of turnover achieved in 2016, the Milan (Italy) based Intercos Group has become in the last decade a large company, certainly one of the biggest suppliers in the cosmetics industry and one of the most important players in the research, development, and production of make-up products for the largest international corporations in the world cosmetics industry. Intercos itself may be seem as a large company but when analyzing the company in the context of its attempt to develop a business sustainability strategy, one may not underestimate the influence of its global and challenging environment. The paradoxical situation of Intercos is certainly that the company is large and visible enough to be confronted with sustainable expectations coming both from its clients and the regulative authorities, especially at the European level. However, due to the size and the complexity of the industry which is totally globalized, Intercos relies at the same time in its efforts to sustainable changes on every single element of the global value chain, the very large corporations as well as the myriad of suppliers worldwide. – This gives the picture of a complex, challenging almost confusing environment that we would like to clarify and better enlighten in this paragraph.

"In the factory, we make cosmetics, in the store we sell hope". This famous quote of Charles Revson, the founder of Revlon, seems to perfectly characterize the ambivalent state of mind towards the cosmetic industry. Indeed, this quote places cosmetics in relation to its essence: Beauty, and especially feminine beauty. The history of beauty is not a contemporary phenomenon. We all have in mind the iconic picture of Cleopatra bath in milk and honey. An article "Facts for the Curious-Female Beauty" of the Scientific American published in 1851 already mentioned "the ladies of Arabia stain their fingers and toes red, their eyebrows black and their lips blue … The Japanese women gild their teeth, and those of the Indies paint them red …" These practices demonstrate that throughout the ages at least since the ancient Egyptians humans have used products to enhance attractiveness. These practices arose however at an individual level and relied upon natural and local resources for the purpose of pursuing beauty ideals which have varied over time and between societies.

As Professor Jones demonstrates in its book "Beauty Imagined: A History of the Global Beauty Industry" (Oxford University Press; 1 Edition-March 2010) it is only in the modern history that a paradigm change took place from an individual practice to a homogenized industrialized mainstream. Under the influence of individual entrepreneurs like François Coty (France) or Helena Rubinstein and Elizabeth Arden (USA), a modern industry emerged at the turn of the 19th century to develop in the 20th century. The emergence of this industry has been facilitated by technological evolution and the rise of new industries like cinema, television, and media. This environment has facilitated a (worldwide) homogenization of beauty ideals and has accelerated the creation of aspirations to match these ideals that in turn increased the consumption of those products (Interview of Prof. Jones by Sean Silverthorne, Working Knowledge, The History of Beauty, Harvard Business School, 2010)

The contemporary globalization process at work since the early 1980s leading to the geographical spread of megabrands as well as the digital revolution which enabled the explosion of the social media and the globalization of a new influencer and celebrity culture reinforce and boost certainly the homogenization of beauty ideals and beauty consumption. This phenomenon is the root of not only the global success of this industry but also the fundamental critics towards this industry, imagining and wide spreading an unattainable ideal. It is obviously not the scope of this business case to analyze this paradox but we should keep this in mind in order to understand the reason why this industry attracts the attention of so many different stakeholders For the industry and especially the global operating brand, like in the fashion and luxury industry, this is two-fold: on the one hand phenomenon has undeniably contribute to its global success but on the other hand due to the critics mentioned above but also the fact that these products are worn directly on the skin attracts the critical attention of the international investigative press, consumer organizations, NGO´s, but also regulatory authorities, especially in the European Union.

As far as the consumers are concerned, we observed previously that they are increasingly value driven and aware of the impact of their consumption on environment, economic, health and safety conditions as well as on the scarcity of the resources. We, therefore, apprehend that the consumers will increasingly not only be very conscious and cautious towards products that are fundamentally chemical based but also how the industry intends to handle environmental and societal issues.

In the global cosmetics industry, Europe remains the largest producer of cosmetic and personal care products in the world, accounting for €77 billion of a global market estimated at €210 billion. The next big players are the USA producing €62 billion of cosmetic products, China €41 billion, Brazil €23 billion, Japan €20 billion, India and South-Korea, each of these countries, €10 billion.

Valued in 2015 as the largest single cosmetics market in the world and with more than 5,000 manufacturing companies, Europe is a benchmark for the global cosmetics industry. This is the reason why, we shall approach this industry from the European perspective, also keeping in mind that Intercos is at first a European company based in Italy.

As a matter of fact, due to the importance of the industry itself, the size and reputation of the large European corporations as well as the size and attractiveness of the market for international companies, Europe plays a leading role for the international cosmetic industry, not only for trends, innovation, products but also for product regulations. The guidance, standards, practices, and norms established by European tier 1 companies are relevant not only for the European market and industry along the entire value chain but also for other markets and other manufacturers worldwide. One must also consider that not only European rooted companies are operating manufacturing facilities in Europe (L´Oréal, Unilever, Beiersdorf, etc.) but also large international corporations like P&G and Shiseido are producing in Europe as well.

Already in the early 1970's-therefore well before the Common Market in the 80´s or the Single Market in the 90´s were established and implemented, the Member States of what still was called the European Economic Community (EEC), decided to harmonize the national cosmetic legislation. Indeed, because products like creams, emulsions, lotions, gels, and oils for the skins, face masks, makeup powders, lipsticks, etc. are directly applied on the skin, the Community decided that in order to enable a free circulation, common standards were necessary to ensure that their usage would not cause any risk to human health. "The Cosmetics Directive" was adopted in 1976, reevaluated in 2009 to enable further harmonization and EU-wide Cosmetics Products Regulation and entered into force in July 2013. The EU Cosmetics Regulation goes obviously far beyond the first directive issued 40 years ago and stipulates among others that all cosmetics products in the European market must be manufactured in accordance to the standards of the European Good Manufacturing Practices (GMP), including items like raw materials, manufacturing practice, personal, treatment of off-specification and deviations, waste, etc.

The European trade association of the cosmetics, toiletry and perfumery industry (Cosmetics Europe) regrouping directly or indirectly through national associations more than 4000 European cosmetics companies, located in the 28 EU-States plus Norway and Switzerland is a further actor in the perspective of the harmonization and promotion of best practices in the European industry. The organization published already in 2012 the study "Good sustainability practice for the cosmetics industry". This was a catalog of programs and initiatives to support, along with the whole value chain from raw materials to the final consumer, the development of an innovative, sustainable and competitive industry in Europe to best serve consumers and society.

The fact that large renowned corporations like L´Oréal, P&G, Unilever, Beiersdorf, Henkel, as well as luxury companies like Chanel, LVMH, Estée Lauder or Coty are actively supporting Cosmetics Europe increases the credibility of the industry to seek the development of a sustainable and respected industry but also serves as role model for thousands of SME companies which may not always have the know-how and resources to develop such strategies and engage in sustainable programs of actions.

The thousands of companies federated in Cosmetic Europe which follows the goals to reduce the environmental footprint of the products by lowering Co2 emissions for example (reducing energy consumption, water consumption and waste), and enhance the social value of the products (manufactured or purchased) are participating in the organization and implementation of such change of paradigm throughout the supply chain (see graphic below for example).

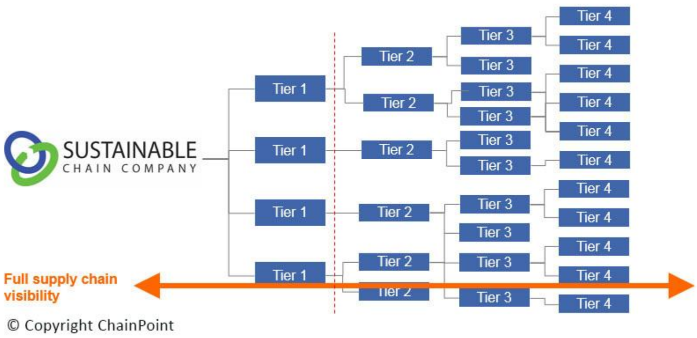


Figure 1: Change of paradigm throughout the EU cosmetics supply chain

Based on the concept of Supply Chain Visibility, a contemporary management and logistics approach to address critical challenges due to increasing supply chain complexity in current global industry, the chart designed by the consulting company ChainPoint suggests that such a paradigm change can only happen in an industry if every single element of the value chain participates. At the same time, it also shows that large corporations as Tier 1 have a fundamental role model and leading mission in such transformation processes. As an effect of the growing complexity of globally dispersed and multi-tier supply chains, the leading role of Tier 1 companies has become fundamental in the quest for achieving sustainability compliance along the supply chain (M. Wilhelm, C. Blome, V. Bhakoo, A. Paulraj, 2016).

In the article, "Starting at the source: Sustainability in supply chains", McKinsey (2016) suggests that by linking the company's supply-chain sustainability goals to the corporate sustainability agenda, and by supporting the suppliers to manage their impacts, consumer companies, what large cosmetics companies are, have a strong position to influence their suppliers. Furthermore, as mentioned before, the reputation of their names and of the brands that these companies own, capture all attention of consumers and key stakeholders.

Indeed, in the cosmetic industry, like many other consumer goods industries, the end consumer does not and in many cases cannot have an insight into the complexity of the global value chain. Therefore, for the consumers, the brand owners are responsible for the brand itself and the products, whether they produce themselves or not. This widely explains why the large corporations are increasingly engaging in sustainable initiatives, as the following cases of L'Oréal and Estée Lauder in the cosmetic industry will demonstrate.

A brief study of "The L´Oréal Group"

With €23 billion of sales in 140 countries and more than 30 worldwide renowned brands like L'Oréal, Maybelline, Lancôme, Vichy, Helena Rubinstein, Yves Saint Laurent, The Body Shop, to name but a few, the L´Oréal Group is by far the largest corporation in the global cosmetic industry. Sustainability for such a large group owning brands which for many may be a synonym for beauty, fashion, glamour, superficiality, sparkling, luxury packaging, and petroleum-based products may sound like an oxymoron.

In October 2013, Jean-Paul Agon, Chairman and CEO of L'Oréal, officially launched "Sharing Beauty with All", the sustainability commitment of L´Oréal for 2020, saying that the consumers are at the heart of the sustainability drive and that the group wants to reach the next billion consumers while making a positive impact on the world. It then underlined-as we suggested previously-the role model of the group by "accelerating sustainable innovation within our business, and harnessing the power of our brands to inform consumers, we will raise awareness about sustainability and encourage consumers to make more sustainable choices."

In his official announcement of "Sharing Beauty with All" in October 2013, Agon affirmed the commitment of L´Oréal for the year 2020 in four areas, the commitment broken down in several sub-objectives, thus demonstrating that the sustainability understanding of the group intends to go beyond environmental issues only:

1) Innovating sustainably: ensure that 100percent of products have an environmental or social benefit
2) Producing sustainably: reduce our environmental footprint by 60 percent whilst bringing beauty to one billion new consumers.
3) Living sustainably: empower every L'Oréal consumer to make sustainable consumption choices while enhancing the beauty of the planet.
4) Developing sustainably: Provide all employees with access to health care, social protection, and training, wherever they are in the world, engage 100percent of the strategic suppliers in sustainability programs, enable more than 100,000 people from underprivileged communities, equivalent to the size of our global workforce, to access work.

Like in every other year, L'Oréal published in 2016 the progress made in its sustainable development performances measured along strategic indicators comparing to the targets set for 2020. Jean-Paul Agon stated that L'Oréal has already undertaken an in-depth transformation across the entire value chain to reach the 2020 targets and cited as key achievements for 2016 that the reduction of the CO2 emissions of the plants and distribution centers reduced by 67percent compared to 2005, that 67,533 people from communities in difficulty had access to work through one of L'Oréal's programs (target for 2020 being 100,000 people), that over 80percent of the products launched in 2016 have an improved environmental or social profile and finally that 90percent of the group brands had conducted an assessment of their environmental or social impact.

In the Progress Report, the influence that large corporations like L´Oréal have in the global supply chain appears clearly. Indeed, it states that 83percent of the group strategic suppliers had been evaluated and selected based on their environmental and social performance. This demonstrates the power and, therefore, the responsibility that large corporations have to organize and implement sustainable changes of paradigm throughout the industry supply chain.

Like many producers of Fast Moving Consumer Goods (FCMG) L´Oréal activities (and at the end of the chain the consumers of L´Oréal products) has a direct impact on acute, complex and interconnected sustainability issues. The case of palm oil is exemplary of how consumption is relying on huge quantities of raw materials and the multiple consequences of the mass exploitation on environmental and social issues. Palm oil is literally everywhere. It is the most widely consumed vegetable oil and is estimated being present in about half of all packaged products sold in the supermarket, including cosmetics (lipstick, eyeshadow, blush, etc.). As WWF points it out, palm oil grows in tropical rainforests and leads therefore to deforestation leading in turn to loss of biodiverse forests as well as the destruction of habitat of endangered species, including orangutans, tigers, elephants, and rhinos. Moreover, deforestation leads to increased release of carbon into the atmosphere accelerating the global warming, let alone the fact that mass exploitation is having negative social consequences on local communities, many of them being removed from their land.

L'Oréal published on June 2016 its first Palm Oil Progress report stating that the company purchases directly less than 700 tons of palm oil every year but consumes through suppliers an approximate quantity equivalent to 60,000 tons of palm oil. L´Oréal reckons in its report that the challenge for the company is the traceability of the supply chain of palm oil derivatives and how to improve the practices within the supply chain. Having in mind the multiple environmental and social consequences related to palm oil, one can see how relevant it is, that companies like L´Oréal mobilize and increase their attention on the way to "the journey to sustainable palm oil". The WWF Palm Oil Buyers Scorecard in 2016 acknowledged the efforts of L´Oréal and qualified the progress on essential actions being "well on path" and "started the journey" as far as the company commitment of only buying Certified Sustainable Palm Oil (CSPO) is concerned.

This short study shows both the importance of the initiatives of the large corporations towards sustainable handling, without which the global goals of the Paris Agreement will never be realized and at the same time, despite the acknowledgeable achievements, the complexity and challenges to achieve their commitment as the report of WWF demonstrates.

A brief study of "Estée Lauder Companies Inc".

The Estée Lauder Companies (NYSE: EL), one of the leading premier consumer products companies in the world, sells fragrances, skin and hair care products, with brands including upscale Estée Lauder and Clinique, professional Bobbi Brown, luxurious Tom Ford beauty and fragrance lines, in upscale department stores, via specialty retailers and online in more than 150 countries. During the fiscal year 2016, the Estée Lauder Companies achieved net sales of USD 11.26 billion, ranked No.4 biggest beauty company globally.

The Estée Lauder Companies published its first Corporate Social Responsibility Report in 2007 stressing that since Estée and Joseph Lauder founded the company in 1946, it was always a focus to "Bringing the Best to Everyone We Touch". At this occasion, the President and CEO, William P. Lauder, stated that the company strives to:

1. Optimize the use of natural resources and reduces its carbon footprint
2. Assess its ingredient sourcing and safety standards policies regularly

3. Commit to the communities in which the company works and to the health and wellness of the consumers and employees.

The commitment of the company to operate responsibly and to build a business based on ethics, integrity, fairness, diversity, and trust is in the eyes of the top management of the company therefore very strongly link to the history and the values of the founders and integrated into the corporate culture.

In 2016, Estée Lauder Companies published “Future Beautiful: Our Progress on Sustainability and Citizenship in 2016”, a similar report to L´Oréal “Sharing Beauty with All”. The report highlights the company’s progress across five key areas of Sustainability and Citizenship including: Products and Packaging, Employee Well-Being, Sustainability Sourcing, Efficient Operations, and Citizenship.

- Products and packaging
  For Estée Lauder these are two ways of working toward sustainable design, mapping the carbon footprint of packaging and evaluating the environmental impacts of ingredients. Estée Lauder launched in 2016 a carbon-footprint analysis for all packaging types across all brands and making sustainability as one of the criteria in making purchasing decisions, along with quality, price, and innovation etc.

- Employee Well-Being
  The Company continued efforts to improve safety, diversity, and learning. The Estée Lauder Companies has recently been recognized as one of the most socially responsible companies in the UK, according to the 2016 study of UK CSR RepTrak, published by the Reputation Institute, a global leader in reputation measurement.

- Sustainability Sourcing
  Estée Lauder achieved a certified-sustainable palm oil supply, increasing oversight of other suppliers and developed an ethical framework for sourcing from biodiverse areas. This means that 100 percent of the palm-based ingredients that the company used are now sourced through sustainable supply chains. Estée Lauder achieved similar results on the WWF Palm Oil Buyers Scorecards in 2016. As it is the case for L´Oréal, the WWF scorecard attests that, like L´Oréal, Estée Lauder´s started its journey on ensuring that all of its palm oil comes from segregated supplies of CSPO, and that still a lot has to be done. Although 100 percent of the palm oil purchase meets the Roundtable on Sustainable Palm Oil (RSPO) standards, the traceability of the supply chain of palm oil derivatives remains a major challenge.

- Efficient Operations
  The Company has decided to set a new long-term goal, aiming at achieving net-zero emissions (Net-zero is the official concept used by the United Nations Framework Convention on Climate Change (UNFCCC) that organized the annual Conferences of the Parties abbreviated to COP. To achieve the Paris Agreement adopted at COP22 in Paris in December 2015, a net zero emissions by 2050 must be reached. The “net” part of the equation leaves a little room for some continued but drastically reduced level of emissions, as long as they are balanced by natural factors or new technologies for example.) by 2020. For that, Estée Lauder will further invest in clean and renewable energy and purchasing carbon offsets, intensify its effort on water consumption even though the EL facilities are already today neither water intensive nor located in water-stressed areas, improve the recycling rates, aiming at 88.5 percent for industrial sites in fiscal year 2016 (justcapital.com, 2017). To this regard, Estée Lauder joined in September 2017 the RE100 Campaign of the Climate Group run

in partnership with CDP (Carbon Disclosure Project). The Climate Group, a non-profit organization, works internationally with leading businesses, states and regions to help to deliver a world of net zero greenhouse gas emissions. CDP is also a not-for-profit organization providing the global system for companies, cities, states and regions to measure, disclose, manage and share vital information on their environmental performance.

- <u>Citizenship</u>
  Estée Lauder continued in 2016 the company's history of funding initiatives aimed at improving health, education and the environment by founding The Estée Lauder Companies Charitable Foundation, dedicated to improving educational opportunities for girls worldwide; and in the same year, Good Works, a new program through which the company matches employee contributions of both volunteer time and monetary donations. Further well-known brand programs of the Estée Lauder Companies include for example the Estée Lauder Companies' Breast Cancer Campaign (USD 70 million raised to fund breast cancer related global research and education), the MAC's Viva Glam Lipstick program, one of the leading funders in the fight against HIV/AIDS around world and the La Mer Blue Heart, a philanthropic global effort to preserve marine life.

As we have seen at the beginning of this paragraph, the ancient beauty industry has experienced at the end of the 19th century a paradigm change that leads to the emergence of a modern and homogenized global beauty industry accompanied with rapid technological changes. Since the beginning of the new millennium, the industry and the global players are facing not only game changing technological leaps but also new political, societal and cultural issues demanding a global sustainable agenda. We are at the beginning of a shift to sustainable growth. Certainly "much remains to be done" as the CEO of L´Oréal stated in the 2016 Sustainability Progress Report. Nevertheless, we have seen that the large corporations and the industry as a whole are starting to not only being exposed to these issues but also begin to adapt strategies in order to tackle these issues. There is certainly still a long way to go and indeed it took too much time for all actors to awaken since the first alarming conclusions of the limitations of exponential growth depicted by the Club of Rome in 1972. However, the good news are in the meantime, the global awareness on this issue has significantly increased especially in the last decade. The public debate on sustainability now reaches consumers, politicians, economic and corporate leaders and is no longer left only to activists, small "green" political parties and non-governmental organizations. An increasing number of companies across almost every industry, have put the issue of responsible and sustainable development on their strategic and operational agendas.

In this context, with nearly 500 million EUR of turnover achieved in 2016, the Milan (Italy) based Intercos Group, certainly one of the biggest suppliers and most important players in the research, development, and production of make-up products for world's largest cosmetics corporations, is on the verge of commencing its reverent quest for a responsible and sustainable business model. In the next paragraph, we want to analyze how the company developed from a very humble beginning to a global player and how it act and/or react to the new challenges within the industry. We shall particularly highlight the intricate interdependence of the Intercos Group and her large clients. Certainly, as we have reasoned, the very large global corporations or the so-called Tier 1 players have a strong position and a decisive influence on certain policies and initiatives along the global supply chain, we shall also demonstrate that, at the same time, these large companies rely on key suppliers like Intercos to achieve their objectives. In 20 years' time, Intercos has remarkably managed to secure such a strong position in the industry, business sustainability could with no doubt prove to become a key competitive edge for the company in the impending future.

2.2 HISTORY AND DEVELOPMENT FROM A SME TO A GLOBAL SIZE COMPANY

Intercos was founded in 1972 and went through a tremendous history of expansion. The historical development of the 45 years old company as it stands in 2017 can be best schematically given by an overview of some of its key projects and acquisitions.

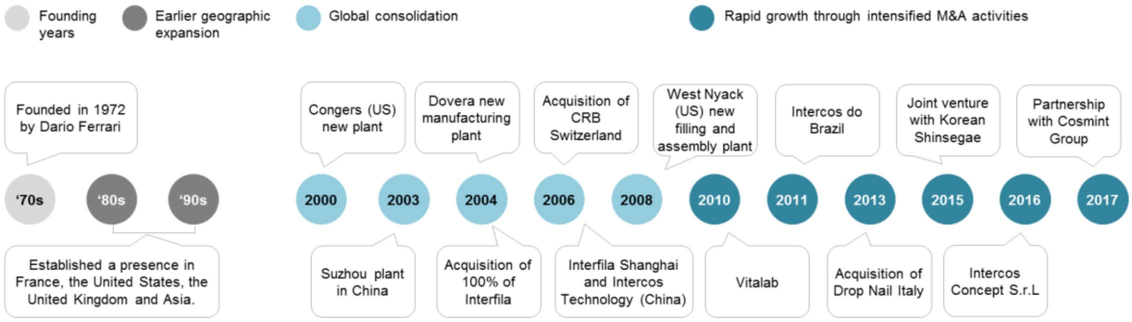


Figure 2: A brief history of Intercos

2.2.1 THE FOUNDING YEARS

The history of the company starts with the foundation of a company named B.B.C. S.r.l., producing and marketing cosmetic products for the face.

Success came quickly and the company, in order to keep the path to a growing demand for products in the branded cosmetic industry, began to produce cosmetics for third parties. Accordingly, the founder had to adapt the structure and organization of the company and established in 1975 the company Intercos 2 S.p.A., which later was re-named as Intercos Italiana S.p.A.

2.2.2 THE EARLIER YEARS OF GEOGRAPHIC EXPANSION

Intercos quickly expanded abroad and established a presence in France, the United States, the United-Kingdom and Asia during the eighties and the nineties. In 1992, Intercos America Inc. was established to consolidate the Group's position in the US market, during the same year, Intercos Asia Pacific Sdn. Bhd., a joint venture with a Malaysian local cosmetics manufacturer, was established to produce color cosmetics in Asia.

During the same period, the company continued to expand its product portfolio and services. In 1991, Intercos began producing pencils following the establishment of Interfila S.r.l., a joint venture with F.I.L.A. S.p.A and started 1995 to produce cosmetics for beauty brand owners on an outsourcing basis, establishing itself as an Original Equipment Manufacturer / Original Design Manufacturer (OEM / ODM) player in the industry. In OEM operations, the company manufactures products based on design specifications provided by the client. In the case of ODM, the manufacturer also designs the products before manufacturing them.

2.2.3 THE YEARS OF GLOBAL CONSOLIDATION

In 2000, Intercos took a step forward to break more forcefully into the USA, one of the fastest growing and most critical markets by opening a new plant in Congers (New York, United States). This enabled the company to consolidate the commercial relations with strategic US customers, offering a more effective logistic-production solution. This milestone initiates a decade of consolidation on foreign markets for the Intercos Group.

In 2003 Intercos opened its first manufacturing base in China. The reason for the investment, apart from the advantages of China's strong economic growth and low labor costs, is the flourishing local packaging industry which enabled to give the group a further competitive advantage worldwide. Indeed, the new China plant concentrates mainly on the export of products to Europe and the USA, using packaging made in China and content made from Italy and the USA.

In 2007, a second manufacturing facility was established in China, not far away from the first export-oriented production facility invested in 2003. Unlike the first investment, the new manufacturing base was not dedicated to the world market but was meant to serve the Chinese domestic market and therefore in the long-term to become a major player in China. Both plants are located in a strategic position in Suzhou Industrial Park-located in the Suzhou city with an hour's distance from China's financial and business hub – Shanghai.

In parallel, the company continued to expand its product portfolio through the acquisition of the Swiss company CRB Benelux in 2006, followed by the cooperation with raw material suppliers from the ELAt region to broaden its activities to develop new skincare products for the cosmetic industry (ELAt is a cross-border network linking the regions Eindhoven, Leuven, and Aachen into a top European technological region). This strategic movement significantly increased Intercos' attractiveness to major global cosmetics brands and at the same time reduced its risk level through product diversification.

2.2.4 THE YEARS OF RAPID GROWTH THROUGH INTENSIFIED M&A ACTIVITIES

After several decades of organic growth, 2010 marks the beginning of a new external expansion strategy for the Intercos Group. Unlike organic development, in which the financial resources of the company are reinvested in the business to expand output in the most natural, progressive way possible, external growth strategies leverage financial strengths to purchase other companies partially or in their totalities. Mergers and acquisitions are typical measures supporting external growth strategy.

In 2010 Vitalab S.r.l. – a joint venture with Aterra Bioscience S.r.l., specialized in the field of life sciences for the development of new active ingredients was established, giving Intercos the capability to continuously monitor and test new raw materials, which is a fundamental competitive advantage in the cosmetics industry.

In 2013, Intercos acquired 60percent of the share capital of Drop Nail S.r.l. , this accelerated the company in controlling an increasing number of product segments, and hence becoming more attractive to the global operating brands companies. This transaction allowed the company to complete its commercial offering to include into its portfolio nail polishes, special effects nail polishes, nail care products, and nail polish removers.

These external operations were followed in 2015 by a 50/50 joint venture between Intercos S.p.A. and the Korean Shinsegae Group in order to grow Intercos presence in South Korea and in June 2017 by a strategic partnership with Cosmint Group, a leading manufacturer of skin, hair and body care products. This partnership created one of the largest B2B groups of the world of beauty and allows Intercos to be able to satisfy customers' needs in virtually all categories of the Beauty industry, with about 700 million EUR of sales forecasted for the same year.

2.2.5 THE YEARS AHEAD: MOVING TOWARDS CORPORATE SUSTAINABILITY

The cosmetic ODM industry is highly challenging, characterized by sophisticated functional and emotional consumer demands, wide ranging product portfolios, short lead time to market, rapid evolving material, formula, and packaging development.

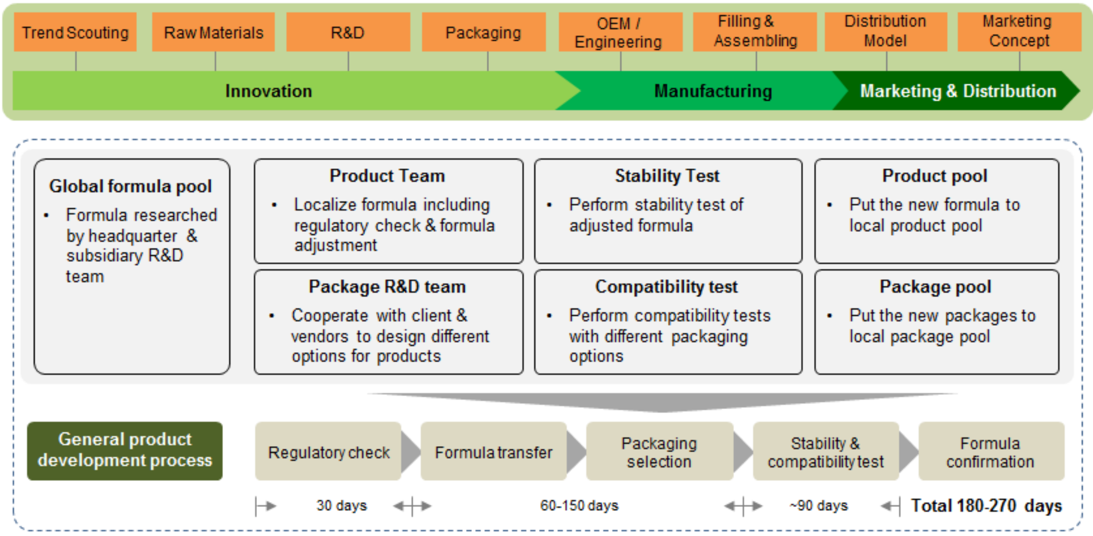


Figure 3: Intercos product and service process map (source: self-made based on Intercos internal documentation)

As the Intercos example shows above, there is not any one-size-fits-all approach to product development and service delivery to cope with the diversity, the heterogeneity and the vicissitude of client demands which differ from customer to customer for a large variety of product categories, let alone the complication of economic environment, regulations, consumer and fashion trends. In short, standard products, processes are impossible, every product and service is unique, often with extended lead time and delivered with high complexity.

In his article Innovation & Safety: Overcoming Two of the Biggest Challenges in Cosmetics Product Development August 2016, Chris Stumpf, Sr. Strategic Program Manager at Waters Corp., a publicly traded corporation (NYSE:WAT) making innovative analytical science solutions, contested that two big challenges facing the Cosmetics and Personal Care (CPC) industry are, first, companies are trying to keep up with the rapid innovation of materials and ingredients that go into their products; and second, they are always keeping an eye on maintaining the utmost safety in their products. He mentioned several recent US and EU regulatory updates such as Toxic Substances Controls and the replacement of cosmetics directives to make it more comprehensive in monitoring the CPC supply chain, and the potential implications and tremendous pressures these regulatory changes could impose to scientists and business leaders in the CPC industry. In most cases, the OEM/ODM companies has to screen their entire product pool, conduct research for re-formulation, arrive at products with near identical functional, efficacy results and perform stability, compatibility tests to make sure these products are ready for the markets. This could well be served as a glimpse to some of the difficult challenges faced by cosmetics OEM/ODM companies like Intercos.

As analyzed, Intercos Group has been going through several phases over the last four decades, characterized by geographic expansion, product and service diversification, a fragmentation of the value chain worldwide to take advantage of cost positions and to be nearer when necessary to key customers and recently a wave of mergers and acquisitions. It seems however clear that all these phases and waves of actions had one common goal: become the indisputable largest high-quality world ODM/OEM leader in the cosmetics industry. To achieve this goal, Intercos Group has never stopped embracing innovation as her DNA, this gives the company a steady competitive edge over other players in the industry. By offering highly innovative and customized products, Intercos successfully positioned itself as a world color cosmetic trendsetter.

From an industry perspective, to stay continuously competitive in such a buoyant industry, whose products are ultimately intimately and intrinsically unified to consumers (the products are literally worn on the skin), both in B-2-B and B-2-C companies have to permanently listen to the consumers, who are increasingly value driven, consume consciously, and demanding answers concerning the impact of their consumption on health, safety, environmental, social and economic conditions. These questions are also on the agenda of an increasing number of corporations worldwide which are, as we have seen previously integrating social and environmental issues in their business models towards sustainability. As we previously mentioned and as CEOs of large corporations themselves reckon there is still much to do. However, it is very encouraging that these large industry players as well as the cosmetics industry as a whole are supporting the Paris Agreement, these are highly effective role models for peers and smaller companies in the beauty and many other related industries. Recently, against all difficulties, L´Oréal and Coty joined the UN Climate Change Conference in Bonn in November 2017 to implement sustainable policies at a time when the U.S Administration has left the Paris Agreement. It warms our hearts to see that in the depth of winter, over 100 corporations, among themselves the largest US corporations, are supporting the "We Are Still In" declaration representing more than 130 million Americans and $6.2 trillion of the U.S. economy.

Through all the different phases of its history Intercos had a steady competitive advantage over competitors and could, therefore, grow successfully. At the edge of a new era and a constantly shifting environment, where on the one hand many emerging economies are evolving with fast expanding consumer base and on the other hand leading Western economies complicated with geopolitical issues, resurgence of protectionism etc., the company is faced with the question of how best to foster its core competitive advantages amongst increased volatility ––Indeed the analysis has shown that the industry is confronted with huge challenges. For Intercos, this means that the answers of yesterday may not be the key success factors for tomorrow. Transformation instead of evolution is required. The founder, Dario Gianandrea Ferrari, who is still the main shareholder of the company, has an intuitive sense for the necessary change and consequently supports the case study. As the development of the company demonstrated, Intercos – despite the size of the company nowadays and the fact that the declared goal is to reach the billion mark – is still a family business. Capital and leadership structures have an enormous influence on business strategy and philosophy. Mr. Dario Ferrari is very clear that the way the capital and the management of the company is structured mandates that the change will have to be initialized from him and him only.

2.3 Implications of capital and leading structure on the understanding and implementation of holistic sustainable development

The Club of Rome published "The limits to growth" 1972 which first showed that if the exploitation of natural resources and the pollution of the environment continue to grow exponentially the planet would collapse. It took more than 40 years, however, to see 175 Parties (174 countries and the European Union) achieve the Paris Agreement under the auspices of the United Nations opening a new era of sustainable development in December 2015. In this context, there is an increasing number of people worldwide developing a consciousness for sustainability. Many companies, voluntarily or under the pressure of various stakeholders, share this awareness and have started defining and implementing sustainability strategies and actions going beyond traditional financial motivation.

Business Sustainability, however, is mostly associated with large corporations. In Europe since the end of 2016, the Directive 2014/95/EU related to Corporate Social Responsibility (CSR) specifies how large public-interest companies should disclose social and environmental information in their annual reports. The directive concerns companies over 500 employees such as listed companies, banks, insurance companies or companies with a significant public relevance due to the nature of their business, their size or their corporate status. The United States Securities and Exchange Commission (SEC) issued in 2010 guidance relating to climate change and issued in 2016 a "Concept Release" seeking public comments on a large number of topics, several relating to sustainability issues. In December 2010, US Federal Environmental Protection Agency (EPA) established mandatory greenhouse gas reporting requirements for large sources and suppliers. These regulations are concerning very large corporations.

This external pressure on large companies is effective. The Global Reporting Initiative (Trends in External Assurance of Sustainability Reports, July 2014, pp. 12-15) found out that 72percent of the S&P 500 companies published a sustainability report in 2013 compared with 20percent in 2011.

Indeed, independently from their mandatory obligations, large companies due to the notoriety of their names and brands or significance for the general public attract more media and public attention. Consequently, they need to protect their reputation and business interests and are therefore more likely to develop sustainability strategies. In addition, these companies have the necessary organizational, financial and personal resources to implement sustainable initiatives.

This is fully relevant to the cosmetic industry. The cosmetic industry is dominated by a few large global players, controlling almost all renowned brands (around 200) worldwide and making billions of dollars in revenue every year. It is therefore not surprising that these companies capture all attention of consumers and key stakeholders.

After having been under pressure for the use of chemicals linked to cancer in its cosmetics, Revlon for example first denied and threatened to sue (2013) and then published (2014) a restrictive ingredients policy committing the company to eliminate or never use most toxic chemicals in its products.

Due to their size, Small and Medium-sized Enterprises (SME) are generally exempted from any reporting obligation. As mentioned before the EU directive related to Corporate Social Responsibility (CSR) concerns companies over 500 employees. These companies are quasi per definition not so visible and usually less under the focus of the public attention.

A qualitative study on the subject of SME and sustainability by S. Williams and A. Schaefer (2013) focused on small businesses in the east of England, with respect to climate change in particular showed that managers had a relatively good understanding of environmental issues in general and climate change in particular. Even if economic arguments and external pressure played a role in their engagement, the study came to the conclusion that the most notable motivation was perhaps personal values and beliefs. When it comes to smaller companies, they are generally managed by their owners, who are also often their founders (N. Craig Smith, 2013). These companies are often considered as a (big) family, and the owner plays a fundamental role in the orientation and guidance of the company.

This applies particularly well to Intercos. Although the company changed significantly from a very small company to a key ODM / OEM manufacturer for the largest cosmetic players worldwide the founder is still having the key leading and guiding role for all employees. Unlike large players in the cosmetic industry, Intercos is not in the focus of the general public and the public authorities. The willingness to increase the engagement of the company towards true sustainability will only come from inside the company, driven by the president and founder of the company according to his personal values and beliefs as well as his vision for the company, or from the pressure exerted by the large international clients.

2.4 SUSTAINABILITY AT INTERCOS: WHERE DOES THE COMPANY STAND TODAY?

2.4.1 AN EARLY ENGAGEMENT TOWARD SUSTAINABILITY

In his report "Sustainable development-historical roots of the concept" (Environmental Sciences, June 2006;3(2): 83-96), Prof. Du Pisani (2006) shows that economists were aware of the sustainability problems related to the massive consumption of resources caused by the unprecedented growth during the long boom of the 1950s and 1960s which stimulated expectations of unlimited economic growth and ever-increasing affluence. But they assumed that once a product or a factor input would become scarce, new technologies would be introduced to economize on the scarce input.

It is only in the early 1970s that the well-known report of the Club of Rome warned that the earth has a limited stock of resources and that their overexploitation could end in catastrophe for the mankind. It is probably the first time that the term sustainability is used in its current connotation: "It is possible to alter these growth trends and to establish a condition of ecological and economic stability that is sustainable far into the future".

As mentioned before, it took literally more than forty years to achieve a global agreement on the reduction of climate change in Paris in 2015. This demonstrates the long way the sustainability journey took to achieve a certain degree of emergency. Bruno Berthon, managing director of Strategy and Sustainability at Accenture, expressed his disappointment in September 2013 in a contribution to The Guardian in the context of a global CEO survey made by Accenture and the UN Global Compact that takes the pulse of global business opinion on sustainability. Indeed, the publishers of the survey came to the conclusion that only a third of European CEOs saw the embedding of sustainability into the core business of their companies as an opportunity to increase competitive advantage.

The "triple bottom line" business model and the idea itself of sustainable development as company's competitive advantage was first introduced in 1992 at the UN Earth Summit in Rio de Janeiro. The owner and CEO of Intercos demonstrated his early mover quality by encouraging the company to tackle in the second half of the nineties-early years of 2000 the major challenges of corporate sustainability. As a result, Intercos published in 2003 a "Global Sustainability Report", according to the Global Reporting Initiatives (GRI) 2002 guidelines.

The GRI was launched in 1997 as a joint initiative of the US non-governmental organization “Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Program aiming at enhancing corporations to develop sustainable conduct including environment, social, economic, and governance issues through publishing qualitative and rigorous sustainability reports. GRI can therefore as one of the pioneer organization worldwide to help corporations to understand, monitor and communicate their impact on sustainability issues such as climate, working conditions, social development, etc.

Still today – as the Accenture and the UN Global Compact 2013 survey indicated sentences like “my clients don´t care about sustainability, they don´t want to pay for it” are frequently used by industry insiders – the issue of sustainability is considered from an economic perspective as a burden. In that respect, the initiative of Intercos which had at that time a net sales volume of around 250 million EUR to start a journey of sustainability can be considered as a pioneering attempt. It was the vision of the owner and CEO of Intercos to lead the way in the industry although the company did not have a Tier 1 position in the cosmetic supply chain.

A decade and half later, Intercos Group has reached a turnover of 700 million EUR, meaning an increase of almost half a billion euros, with almost 500 B2B customers worldwide among them the largest brand companies like L´Oréal and Estée Lauder for example, running 15 factories worldwide (Europe, North and South America, Korea, Japan and China) and employing 5,000 people.

The engagement of the company in sustainability journey in this regard will not only be an influence over its own subsidiaries on all continents but set itself in a leading position on its own supply chain. Through its cooperation with large clients such as L´Oréal or Estée Lauder, sustainability related initiatives are interplayed, exchanged, bench marked between suppliers and branding companies, creating a positive upward spiral to elevate care and responsible business practices at a new level industry-wide.

2.4.2 CURRENT SITUATION WITHIN THE GROUP AND ITS VALUE CHAIN

Since the early engagement of the company toward sustainability the company kept its path to contribute to a sustainable industry worldwide. The fact that Intercos operations through the value chain (raw materials, supplying, manufacturing…) has drastically grown at the international level with operation and manufacturing facilities in all parts of the world, prepares a solid foundation for the company to potentially play a much broader and more influencial role in transforming the world cosmetics supply chain in a much more greener and sustainable way. At the minimum, the global network of suppliers integrated into the Intercos value chain has to share and implement its standards- improving without any doubt the quality standards of the global cosmetic industry.

For Intercos Group whose key success factor over the last 45 years was to lead the development of new products in the formulation and the selection of new raw materials contributing to spreading innovation in the industry, its commitment to sustainability means both to keep the path of innovation and provide the clients with products that are qualified both from an ethical and an environmental point of view. Indeed, most of Intercos customers are large renowned corporations and attract therefore the media and public attention. It is therefore interesting to look at Intercos approach to sustainability through the process of a new product development.

A dedicated team of researchers continually investigates the new proposals released by the cosmetic chemical industry. These potential innovations may come from current previously validated suppliers, , but manufacturers of chemical specialties which are not currently listed as suppliers can also be taken into consideration for future innovations. Through the process of scouting new raw materials, Intercos has to evaluate the new material and/or supplier in order to ensure the compliance with regulations, Intercos Group policy requirements (i.e. Code of Conduct, C-EC Corporate Ethical Code), the customer standards (i.e. Customer Global Quality Agreement), and the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) declaration and heavy metal content. In addition to these existing rules and standards a small group of companies (including Danone and Ferrero) and NGOs recently published “The Sustainable Palm Manifesto” calling for stronger action and regulation of the RSPO standards. The RSPO has responded in 2016 with new voluntary standards and also signed in November 2017 a small-scale funding agreement (SSFA) with the United Nations Environment Project (UN Environment) to improve livelihood and sustainable production oil palm smallholder farmers.

One must emphasize that most raw materials used in the cosmetic industry are coming from countries with low governance standards (See the Worldwide Governance Indicators, WGI), turning each cosmetic product into a potential risk if not sourced and produced according to strictest standards.

For example, natural MICA (a mineral used across various industries, including in the cosmetics industry where it can be used as an effect pigment) is sourced from mines in regions (i.e. China and India) with risks of children labor and unsafe working conditions. As a consequence, Intercos Group actively proofs the origin of such sensitive materials to ensure the traceability and transparency of the supply chain. Intercos is having the same progressive policy for palm oil to ensure sustainable sourcing of palm fruit derived oils. In November 2017, Intercos registered in RSPO (Roundtable on Sustainable Palm Oil). Following this, an internal cross-functional team has been created to monitor use of palm oil and its derivatives and insured traceability requirement. At this point, it should be noted that RSPO has for several years been under severe critics from renowned international NGOs arguing that RSPO has hardly any influence over its members and that the results against deforestation are little or none. To face this criticism, the organization has launched recently SPO Next to allow credible third-party verification. In the course of Intercos initiatives towards higher business sustainable standards, the company ought to join rapidly this initiative.
The sustainable strategy of Intercos is however not only focusing on raw materials sourcing but is covering all operations worldwide, therefore, inproving, as mentioned before, the global standards of the industry. For example, in order to be compliant with ethical standards, all four Intercos facilities in China are certified SA 8000. The facilities in Europe are certified SMETA 2 and Intercos Group is a member of the platforms Sedex EcoVadis and CDP (Carbon Disclosure Project)

In order to develop a sound sustainable strategy and coordinate all initiatives and related actions, a Chief Sustainability Officer (CSO) and a dedicated cross-functional team has been nominated and installed in 2016.To structure the efforts of the company in this perspective lead in 2017 to the launch~~ed~~ of the Intercos Sustainability program.

The Intercos Group CRS policy relies on three fundament pillars:

1. Environmental performance (manufacturing)
2. Socio-economic standards within the Group and along the Supply Chain (sourcing)
3. Raw Materials with critical issues from an ethical and environmental point of view (R&D)

The complex nature of the value chain in the cosmetic industry is, however, one of the most challenging issues from a sustainability point of view. The Intercos policy of sustainable procurement has been fully integrated into the strategy of supplier selection and their assessment are made according to the corporate procedures, the ethical code and the code of conduct of the company building altogether the sustainability and corporate social responsibility framework of the company.

In order to align the suppliers to these standards, a new sourcing corporate organization has been recently appointed in China. As the company is moving toward a full-service business model, the responsibility of Intercos shifting from the formula only to the finished product, including packaging, the company is facing a fast increase in the number of suppliers to be managed.

The action plan started recently to align to the internal standards has shown that only 7 out of 82 suppliers have already accomplished an SA certification (SA8000). Further 32 SA certifications have been completed in July 2017: 13 passed successfully, 15 conditionally passed, 4 failed. The program is still on-going and the final goal is to audit 100 percent of Chinese packaging suppliers. The audit reports show however that China is still far away from the European standards in terms of labor regulation, safety working conditions, and labor rights. Consequently, the entire Intercos sustainable procurement task force is currently focusing on compliance with regulations, labor rights, and safety working conditions according to the sustainability and corporate social responsibility frame of the company.

Intercos may appear with 750 million euros and 5.000 employees a large company. This is no doubt the case. However, face to giants like L´Oréal for example-as we described previously-with double-digit billion euro sales and around 90.000 employees, the size, role and influence of Intercos appear in its real measure.-We shall analyze the role and the influence that these large corporations have on a company like Intercos.

2.4.3 THE ROLE AND INFLUENCE OF LARGE CLIENTS ON THE GROUP STRATEGY

As we mentioned in paragraph 2.1 large Tier 1 corporations are leading role models in this fundamental process of transforming a several hundred-billion-dollar industry, involving thousands of players from large corporations to small suppliers located on all continents with different economic, social, cultural, ethical understandings, let alone consciousness about the necessity to change towards sustainability.

At the same time, the OEM/ODM cosmetics is a hypercompetitive industry with low barriers to entry where the clients are large global corporations with tremendous power leaving the suppliers with low bargaining power. The role of the large corporations is therefore huge. This is also the case concerning the sustainability issue. The individual OEM/ODM suppliers' level of sustainability is therefore by and large determined by the level of sustainability at industry level which is, in turn, depending widely on the large global clients.

The large corporations like the one taken as an example have therefore a tremendous influence within the global supply-chain. However, by working together with companies like Intercos, they are able to link their corporate sustainability goals with the industry chain. In this context, the challenge for Intercos is not only to design and implement the transformation process within its own company with all facilities all around the globe but also-and this is practically even more challenging-to initialize and monitor the complex globally dispersed multi-tier supply chains.

Therefore, we are looking at a complex situation in which Intercos claims its commitment to respond to customers' needs with regard to sustainability issues and to provide them with products that are qualified both from the standpoint of ethical conduct and environmental profile, helping them to face the ever-growing challenges of implementing CSR on a global basis. At the same tim the big clients like. L´Oréal – as shown above –has launched the "Sharing Beauty With All" program in 2013 with the priority to act across the entire value chain to reach the next billion consumers while making a positive impact on the world. Such an in-depth paradigm change can only be achieved when cooperation is set upon in the industry.
The following example demonstrates how joint efforts in the value chain can lead to global transformation on the way to sustainability.

In the framework of the "Sharing Beauty with All" program, L´Oréal committed to until 2020 to innovate in a way that 100percent of products have an environmental or social benefit, especially through new formula that reduces the environmental footprint or using raw materials that are sustainably sourced or with new packaging improving the environmental profile or having a positive social impact.

In this perspective, Intercos takes a special and important role in the industry and for such large corporations due to its innovation power. We mentioned before the sustainability focus through the process of a new product development. By scouting new raw materials, Intercos evaluates if the new material conforms to the compliance with regulations (RSPO, REACH, heavy metal…), the Intercos Group policy requirements as well as the customer standards. The same applies to packaging. Intercos appointed recently a new sourcing organization in China since the company is increasingly taking over the responsibility not only for formula but also for packaging. Due to the detected deficiencies of the suppliers in China, the Intercos sustainable procurement task force is urging on forcing the suppliers to comply with regulations, labor rights and safety working conditions according to the sustainability and corporate social responsibility frame of the company.

When launching the "Sharing Beauty with All" program in 2013, L´Oréal announced that by 2020, 100 percent of the strategic suppliers will be participating in the supplier sustainability program, emphasizing therefore the necessary link between the company and its supply-chain to achieve the committed targets. In the yearly progress report for 2016 the CEO could report that 83 percent of the Group's strategic suppliers had been evaluated and selected based on their environmental and social performance. In this context L´Oréal is auditing Intercos on a yearly rhythm on the basis of a very comprehensive sustainable and CSR catalogue. These auditing catalogues are based on international renowned standards and platforms like the Carbon Disclosure Project (CDP). The CDP is a not-for-profit charity organization that runs the global disclosure system for not only company investors, but also cities, states and regions to manage their environmental impacts. Other reference platforms L´Oréal uses are EcoVadis, which operates the first collaborative platform providing Supplier Sustainability Ratings for global supply chains, and the F4SS AuditOne Program (CAPA audit) that has been developed in collaboration with Johnson and

Johnson, Procter and Gamble, Unilever, Kimberley Clarke, L´Oréal and Estée Lauder. The latter two companies are both major players in the cosmetic industry and among the most important clients of Intercos.

Not only L´Oréal but further large corporations like for example Estée Lauder, Chanel, Burberry are running regularly such audits. This demonstrates if necessary the importance of these Tier 1 companies for the challenges oftransforming a global industry to sustainability. It shows however at the same time that the cooperation with important players like Intercos which have their own sustainable strategy is essential. Indeed, along with their respective own supply chain, all these actors can work closely together to achieve the common challenges within the industry worldwide.

In the next chapter, we shall go deeper in the analysis of Intercos within the company in order to evaluate how the sustainability performance of the company is experienced within the company. The analysis will especially be based and follow the SCALA methodology.

3. SUSTAINABLE CULTURE AND LEADERSHIP DEVELOPMENT (SCALA) SURVEY

3.1 METHODOLOGY

The Intercos Group is one of the leading worldwide operators in creation, development, and production of makeup (lipsticks, powders, coloured emulsions and cosmetic pencils) for the cosmetic industry's major international players. Intercos published in 2003 a sustainability report, which indicates that the company started at a rather early phase reflecting on the management of sustainability issues. However, the first preliminary analysis that we conducted prior to the business case showed that company's current sustainability level is estimated at BS1.0. Considering that innovation and creativity is the core competence of the company, the fact that Intercos group is not addressing the issue of sustainability as strongly as we could have expected due to its early attempts and not having a more forward -driven role in an industry as old as mankind is certainly a concerning matter.

In this case study, Intercos' sustainability performance will be considered through the SCALA survey results and face-to-face interviews. In particular, the survey results will be broken down by employment level, geographic region, (legal) entities, gender, in order to obtain valuable insights. In addition, the survey results are compared with industry benchmarks, in order to place the findings in the perspective of the competitive environment.

The SCALA survey was used as a quantitative measure to gather data in this case study. The survey was conducted across the organisation as an online survey through self-administered questionnaires. A total of 37 questions grouped into six topics were used to assess the Intercos business sustainability and organizational leadership from different perspectives.

Questions gathered in four topics were used to assess the level of current organizational sustainability, such as "organizational leadership," which is at the very root of sustainability, "organizational systems" which are built by leaders, who also nurtures "organizational climate" influencing, in turn, the level of "change readiness".

Two further groups of questions were used to assess how the company involves and addresses its internal and external stakeholders in its sustainability efforts. Six questions were added by BSL partly to assess the consistency of the answers, further five open-ended questions are included at the end of the online survey to encourage respondents to add contents which could not have been identified in the closed-ended questions. Finally, face–to-face interviews are conducted to clarify and resolve contradictions observed in the answers of the online survey and to give an unambiguous and accurate picture of where Intercos currently stands with regard to the sustainability typology (Dyllick and Muff, 2013).

This survey used the probability random sampling technique and involved 11 Intercos entities from 4 main global regions. All Intercos employees with a company email account (1393 employees in total) were contacted and invited to join the survey. A total of 794 valid responses have been received, of which 48percent from Europe, 35percent from Asia, 12percent from North America and 5 percent from other regions. Among all the respondents, 69percent are female, 31percent are male. 71percent of the respondents are aged between 20 and 40, 27percent between 41and 60, while 1percent above 60. Employees contribute to 62percent of the overall responses, while feedbacks from managers, worker, executives, and directors correspond to respectively 25percent, 5percent, 4percent and 2percent of the overall responses. 22 employees, 8 Italian, 14 Chinese, from different functions are interviewed face to face to try to resolve contradictions discovered during the online survey.

Of note is that while the SCALA survey shows positive overall results for Intercos in various dimensions, it points to opportunities for improvement compared with industry benchmarks. The purpose of the SCALA survey is to provide organisations with information about their current capacity for executing sustainability strategies, identify strategic areas of actions to meet future challenges and thus contribute to competitiveness. The SCALA survey was conducted at Intercos in collaboration with Miller Consultants and BSL to understand the extent to which sustainability is embedded in Intercos' culture and leadership. The survey provides an insight into the organisation's sustainability culture regarding the following six categories:

1. Organizational leadership
2. Organizational system
3. Organizational climate
4. Change readiness
5. Internal stakeholders
6. External stakeholders

The employees' responses with respect to these six categories of the SCALA survey will be analysed to assess their perceptions regarding the company's sustainability performance.

3.2 SCALA RESULTS ANALYSIS

3.2.1 ORGANIZATIONAL LEADERSHIP

The participants were surveyed regarding the extent to which the company's leadership role is being constructive to the company's sustainability efforts. On a scale between 1 (strongly agree) to 5 (strongly disagree), 3 being "neither agree nor disagree, they have been asked to provide feedbacks to eight questions, from sustainability as a vision to integrate sustainability into decision making and long-term perspective, leading to commitment and inspire others with sustainability-related issues and initiatives. Throughout the results analysis higher scores above 2.5 mean that the participants tend not to agree with the question and/or the statement, on the contrary, lower scores between 1.5 and 2.5 indicate a tendency of the respondents to agree and share the statement.

Overall, the percentage of positive opinions towards the company's sustainability leadership is high at 55percent. However, at the same time, the percentage of "neither agrees nor disagrees" scores about 33percent (a good third of the participants). Also, well above 10percent of the respondents either don´t agree or even strongly disagree. This strong diverging appreciation presents a contradiction. It seems that, while more than half of the respondents agree that the leadership is playing a positive role in the sustainability effort, more than 30percent of the respondents from the same company seem unaware of such efforts and above 10percent even disagree that the leadership plays such a role.

When we compare feedbacks at different employment levels, we find that the management group (the directors, executives, and managers, 31.2percent of the total sample) have rather a reluctant appreciation concerning the organizational leadership, reflected especially on their feedbacks to "the leaders of this company are able to inspire others about sustainability-focused issues and initiatives"; "the leaders of this company are willing to take measured risks in pursuit of sustainability" and "the leaders of this company are personally committed to issues pertaining to sustainability". On the other hand, the employees (61.9percent of the sample) and workers (5.4percent) tend to agree that the leadership is doing well in driving the company towards sustainable growth. This view is widely confirmed by the face to face interview finding, where 20 out of 22 responds admit that the action of the management regarding sustainability issue is neither energizing nor inspiring and 17 out 22 claim that they do not know any senior management team member who has done something impressive linked to the company's sustainability efforts.

The survey also reveals that there is a significant regional difference in the perception of sustainability-related leadership. The Asians by large have a more positive opinion than the Europeans and US respondents in all the leadership dimensions assessed. Europe (48percent of the respondents) and North America (12percent) on average have either no idea or a negative opinion on the items of organizational leadership, while on average the Asians (35percent of the sample) agree on items like the "The leaders of this company have a clear business case for pursuing the goals of sustainability", "The leaders of this company integrate sustainability into their decision-making", "The leaders of this company are knowledgeable of the issues pertaining to sustainability" and "The leaders of this company are personally committed to issues pertaining to sustainability". However, this difference is not present in the face to face interviews, where both the Chinese and Italian respondents seem dissatisfied with the company's sustainability -related leadership practices.

Observed from the (legal) entity perspective, the feedbacks from Intercos SPA (20.3percent of the sample), Intercos Europe SPA (23.4percent of the sample) and Intercos USA (11.2percent of the sample) are closely aligned, meaning that both the European and North-American are quite closed in their opinion on these issues. Europe and North America give (strong) critical values for such essential issues like leaders have "a clear vision of sustainability", "a clear business case for pursuing goals of sustainability", "play an inspiring role" in this perspective and are personally committed on the issue of sustainability. On the contrary respondents of all Asian companies have consistently and significantly a more positive opinion, even if the Chinese scores are throughout better than the others.

Throughout the survey, female employees provide less positive feedbacks compared with male employees, statistical differences are found in seven out of eight questions related to leadership. It is interesting to note that the opinion of females on issues related to leadership engagement like “the leaders of the company are able to inspire others about sustainability-focused issues and initiatives” and “the leaders of the company are personally committed to issues pertaining to sustainability” are particularly more severe. Females tend not to believe that the leaders are inspiring about sustainability and are personally committed to sustainability issues. Female employees tend not to believe that the company is neither engaged procedurally (policies and procedures) nor humanly (work connected) to sustainability. And finally, with a quite larger gap between the male employees, females do not believe that contribution (engagement) is valued by the company. Considering the fact that women at Intercos constitute far more than 50percent of the total number of employees, also at high-level management positions, the company ought to think about these findings.

When the Intercos leadership performance is compared with benchmark companies of large corporations, EU benchmark and the Harvard Business School (HBS), there are gaps with Intercos to the negative balance being observed. Intercos lies significantly behind the EU benchmark in almost all the assessed issues. However, as we have deeply analyzed in the SCALA report, the European Group Benchmark and the HBS Group have a significantly smaller sample size with respondents mainly issued from the management and leadership teams. The terminology “benchmark” may also have been misunderstood from the respondents’ points of view making them believe that this group of companies would rather belong to the direct environment and the direct competition of Intercos. Also, the HBS benchmark consisting of listed companies on the Dow Jones Sustainability Index is certainly a goal where Intercos should look at as a model role for the next months and years; still the company is far from being at this level, yet.

The results obtained by Intercos are much closer to the results of the “large corporations” whose group includes a substantial number of random samples with over 500 participants. However even if the scoring profile of Intercos is close to the large corporations, these companies are however outperforming Intercos in all major areas of assessment.

Therefore, even if we have to be cautious due to the differences in the sampling methods and structure, we can definitively detect converging signs in the comparison with all benchmark groups, showing, in sum, that Intercos acknowledges leadership weaknesses in regard to the company’s sustainability efforts. This can be considered as an alarming sign, which should prompt the Intercos senior management in scrutinizing its role and responsibilities accordingly.

3.2.2 ORGANIZATIONAL SYSTEM

Questions in this section assess how the company has embedded sustainability in its organizational structure. From a statistical point of view, the responses to this part of the survey point to a medium degree of awareness regarding the organizational incorporation of business sustainability, however a quite high standard deviation which confirms diverging opinions, as we have observed for the organizational leadership part. 59percent of the respondents agreed with the statement that the company has incorporated sustainability into the operating procedures and policies. However, 14percent disagreed and 28percent neither agreed nor disagreed with this statement, confirming thus contradictory appreciation of the respondents on these organizational issues. SCALA survey respondents also confirmed that the company has an enterprise-wide management system for sustainability, with 64percent agreeing and 36percent disagreeing. Concerning the integration of sustainability-related goals into the company performance management system 9percent of the respondents strongly agreed and 42percent agreed. At the same time, one-third of the respondents acknowledged not to be aware and even 17percent disagreed with the statement. Only 9percent of the employees surveyed strongly agreed and 30percent agreed that rewards and compensations were clearly linked with the company's sustainability goals. 33percent of the respondents had no position in this perspective (neither agree nor disagree), while 28percent disagreed with the statement. These results therefore confirm that the opinions within the company as we have already previously observed in are also on these organizational rather split. However, unfortunately, feedbacks from the face to face interviews suggest a rather bleak outlook towards the presence of sustainability-related systems and processes within the company. In answering the question "is there any reasons why more could be made at your level and is not implemented?", 77percent of the respondents (17 out of 22) cited no system, no resource, lack of leadership and support as the main hindrance to their lack of sustainability-related efforts.

The survey also reveals as previously that the senior managers rate the company less positively than the employees and workers. The management team is quite severe in their assessment of all the organizational system related statements, especially rewards and compensation are clearly linked to sustainability goals. Throughout the survey, a small group of respondents ("others" – 2percent of all respondents) has the most negative appreciation towards almost all the issued surveyed. It is, however, most noticeable (due to the numbers and the positions) that the management team (executives, directors, and managers) are giving consistently critical opinions to all the questions related to the organizational system. This severe assessment might be interpreted as the evidence that the management is aware of the inadequate organizational system of the company on this corporate issue. These findings are particularly meaningful, especially considering the fact that it is the duty and responsibility of the (top) management to set up the company's performance management and reward systems.

When we compare employee responses from different regions, the Asians, as we have already noticed for the organizational leadership part, give steadily more positive ratings, while the EU and USA give consistently less positive feedbacks. The stark contrast presented by survey results where a rather approving attitude is found in Asian zone and a much less positive attitude is found in North America/Europe deserve serious consideration-as this attitude was already observed for the organizational leadership issues and also from the management team. Indeed, it has to be beard in mind that Europe and America are the company's headquarter and most mature markets, where not only the company's culture is born and nurtured, but also most of the strategically critical decisions are made.

For example, such an essential issue like "Sustainability embedded in policies and procedures" scores in average between 2.7 and 2.9 in Europe and North America whereas the average score is 2.07 (agree) in the Asian zone. Another fundamental question like "Sustainability integrated in a performance management system" is very close to 3,0 (Neither agree nor disagree / uncertainty) in Europe and North America where it scores in average 2.11 for the Asian zone.

The average values for rewards and compensation linked to sustainability goals are largely above 3,0 in Europe and North America showing that in these regions people do not agree with this statement, whereas the score for the APAC region is 2.09. This divergence in perception between these regions should be looked at closely by the management to find out the reasons behind.

The SCALA analysis is also assessing the company in regard to three reference groups (the "large corporations" group includes a substantial number of random samples with over 500 participants, the "European benchmark" consists of 49 large companies headquartered in Europe from many different industries and none had a random sample representing the entire company and finally the HBS Group, with only 66 companies from several industries and countries listed on the Dow Jones Sustainability Index. The assessment results are uniformly unsatisfactory for Intercos in comparison to the three reference groups for all the questions related to the organizational system. As it was already the case for the previous part concerning the organizational leadership, Intercos is more aligned with the “large corporations” group. However, on all issues related to integration of sustainability the operating procedures and policies, performance management system and rewards and compensation, Intercos performs worst of the four reference groups. This gives credit to the idea that the management in the benchmarked companies has initiated a more intense reflection on their strategy for sustainability.

3.2.3 ORGANIZATIONAL CLIMATE

Most respondents of the survey stated that the level of trust within this company is high and that the continual learning is a core focus of the company and a commitment to sustainability is essential to the company’s long-term success. The level of trust in the company might be explained by the fact that the people view the company as a family-like structure. This shows the personal engagement of the owner of the company and the idea of a common belonging and common aim, which is a strong component of the company culture. There are nevertheless diverging opinions that should be taken into account. For instance, during the face to face interviews, nearly half of the respondents claimed that when encountering obstacles at work, they do not consult their managers for advice and help.

Concerning the level of trust within the company, we can observe that the managers, executives, and employees have by far not so good opinions than the directors and the workers.

We can also perceive a contradictory argument when 70percent of the respondents believe that the company focuses on learning, while at the same time 54percent don’t believe that the company encourages people to learn about sustainability outside the company. Related to a previous question concerning learning, we note a further paradox. Indeed, people believe that "continual learning is a core focus of the organization" (with the exception of North America scoring 2.80), but simultaneously people do not believe in average that they are encouraged to learn more about sustainability from external sources. Due to the importance that we mentioned already previously the scores in Europe and North America (3.01 and 3.22) are a concerning issue. On the contrary, for both issues, the Asian zone achieves better average scores (1.90 and 2.15).

One explanation for those results and the regional differences could be that people within the company may not really know what sustainability is about, respectively have different understandings of the same wording. However, one can assume that a company whose core competence is indisputably the innovation should achieve, independently from terminology, stronger scores in regard to learning about sustainability.

The regional difference pattern applies also to further issues constituting the organizational climate, whereby some of the concerned items can be considered even more disturbing since they are concerning traditional core values of the company beyond the issue of sustainability. In Europe, the average score regarding the level of trust is 3.09 and in North America 2.55. As an integral element to the culture of any company, even though not solely and directly focused on sustainability, these results are worrying. If, as a matter of fact, the company understands itself as a family, a reasonable mean value should quite naturally be expected to be in the range between 1.0 and maximum 2.0. In comparison, the average score for the Asian zone is significantly more positive (2.0).

It is especially troubling and somehow alarming that Intercos achieves such negative scores in the regions where the company was founded and where its culture is embedded (Europe and North America). The uniformly positive opinion from the Asian zone, for its part, needs careful interpretation and further investigation, since the respondents from the area are in general less fluent in English and less familiar with opinion and behavioural survey in general.

Finally, from the employment levels perspective, it is noticeable that the workers and the directors tend to have a better opinion in respect to the issue of trust whereas the executives, and managers are more cautious and restraint. This divergence of appreciation is by far larger in regard to the belief that most people in the company believe that commitment to sustainability is essential to the company's success in the long term. The less positive attitude from the management sends a signal that they are not satisfied with the current level of the company's sustainability related efforts, and this affirms with the directors' severe position on other issues like the integration of the sustainability issue in the performance and reward system of the company, etc.

3.2.4 CHANGE READINESS

Innovation is the core of the Intercos DNA. Many of the employees experience innovation in their day-to-day duties. It seems therefore quite natural that 71percent of the respondents strongly agree or agree with the statement "this company rewards innovation" and 72percent percent agreed or strongly agreed with the statement that "continual learning is a core focus of this company". Indeed, innovation is frequently cited during face to face interviews when respondents were asked questions such as "could you share your understanding of sustainability in a business context", "from your point of view, in which field is Intercos strong regarding sustainability?", "in which areas are you expecting Intercos sustainability initiatives" will/should happen?" etc. This strong correlation supports also the common view that innovation and organizational learning are inextricably connected (Senge, P., 1990).

However, the answers to these questions seem to be somehow inconsistent with the results to the item "people in this company are encouraged to learn more about sustainability from external sources". Only 46percent agreed or strongly agreed. It seems hard to justify why an organization which is highly valuing innovation, is on the other hand not convincingly supporting employees to learn vital topic such as sustainability from external sources.

Interestingly, the item "people in this company actively challenge the status quo" also achieved a relatively lower percentage of "agree and strongly agree". Only 54percent of the respondents believe that they themselves and their colleagues actively challenge the status quo, whereas 71percent of the respondents believe that innovation is rewarded by the firm. Bearing in mind that innovation is the opposite to status quo, it is somehow hard to explain that an organization which is recognized as being highly innovative, is less open to challenging the status quo. Or did the company achieve to develop and implement a strong culture of product innovation which is otherwise completely disconnected from organizational change?

Different from the usual pattern observed, the management team is positive to the item that "this organization rewards innovation", with however some differences: the directors and executives tend to strongly agree (1.44 respectively 1.65) whereas the managers seem in average to agree (2.06). Could sub-optimum communication be the reason behind the difference, for instance, directors unable to deliver a clear message to managers regarding rewards linked to innovation?

The answers to the change readiness area of survey questions follow more or less the same pattern whereby North America achieves dissatisfactory average score and Europe presents a better profile with a mid-level mean. The Asian zone scores are most positive indicating an agreement on these items. When we compare Intercos SPA with Intercos USA, the two entities differ significantly bringing evidence of an unsatisfactory situation in North America.

Last but not least, it is very encouraging that high levels of employee readiness for sustainability-related initiatives are found during the face to face interviews, where 19 out of 22 respondents think that everybody at Intercos should feel responsible for the sustainable issues and for the so-called common goods of our planet. Moreover, 17 out of 22 respondents feel that they can contribute more to sustainability. Similarly, 20 respondents are expecting more activities and initiatives to support sustainability at Intercos, 21 respondents agree that sustainability may lead to competitive advantage, although client requirements and market incentives (in comparison with more altruistic intentions) are most frequently cited as reasons supporting their opinion.

3.2.5 INTERNAL STAKEHOLDERS

Of all respondents, only 43percent believe that there is a clear strategy for engaging all internal stakeholders in sustainability, while 44percent don't know and 14percent strongly disagree or disagree. These divergences of opinions are in line with similar findings in other parts of the report.

Only 50percent believe that employees within Intercos are engaged in work related to the company's goals towards sustainability. 33percent don't know if people are engaged in sustainability-related work and 17percent do not believe that work is related to sustainability. It will be interesting to examine how the company's sustainability-related goals have been communicated and why 50percent believe that people are engaged in work connected to sustainability goals while the other 50percent either have no opinion or don't agree. This view is confirmed by the findings from the face to face interviews where 15 out of 22 respondents said they have never discussed sustainability in business meetings, or taking sustainability aspects into consideration when making business decisions.

Finally, it is worth underlying that the survey results concerning the internal stakeholder are particularly alarming in Europe and North America. The respondents are indeed acknowledging dissatisfaction linked to the support of the company concerning the engagement and the contribution of the employees. This is reflected by the survey results to the questions "Most employees believe that the organization values them and their contribution" (North America / Europe above 3.0), "By and large, people in this company are engaged in work that is connected to sustainability goals" (North America and Europe around 3.0) and "This company has a clear strategy for engaging all internal stakeholders in its sustainability efforts" (North America and Europe around 3.0). At the same time, the scores from the Asia zone is throughout approaching a satisfying agreement level (around 2.0) for the same questions.

Regarding these items it is particularly interesting to analyze the answers according to the level within the company. While the workers and the directors rather believe that "Most employees believe that the organization values them and their contribution", the managers and employees have a more negative opinion. Concerning the questions related to the way the company is involving and engaging all internal stakeholders towards sustainability, the management (directors, executives and managers) has a more severe judgment. As we have observed in other parts of the analysis (organizational leadership and system for example) the management seems to be aware that the company has to intensify its reflection and action in this perspective. The female employees are incidentally on the line with this judgment, in comparison more than their male colleagues.

3.2.6 EXTERNAL STAKEHOLDERS

44percent of the respondents (less than half) believe that the company has mechanisms in place to actively engage external stakeholder about sustainability. A similar percentage (47percent) doesn’t know or are not sure. 9percent does not believe that the company has these mechanisms in place.

50percent of the overall respondents believe that sustainability is incorporated in the supply chain management of Intercos while 39percent don't know and 10percent disagree. Less than half (43percent) believe that the company sends consistent messages to external stakeholders, a close to equal percentage (45percent) don’t know and 13percent do not believe that the company is doing so. In this context, it is not too much of a surprise that the score for the external stakeholder group of questions in North America and Europe are severe, up to 3.5 in North America (close to disagree) on some questions. Similar to the topics related to internal stakeholders the management (directors, executives, and managers) has a more severe judgment, even if the employees and workers are also critical in this respect.

3.2.7 BENCHMARK ANALYSES

In this report, the Intercos SCALA survey results are compared with benchmark groups of large corporations, European companies, and HBS selected sustainability champions. The “large corporations” group includes a substantial number of random samples with over 500 participants. This is quite different in comparison with the European benchmark and the HBS Group proposed in the SCALA Analysis. The European Benchmark consists of 49 large companies headquartered in Europe from many different industries and none has a random sample representing the entire company, from workers and employers up to the top management. The HBS benchmark consists of 66 companies listed on the Dow Jones Sustainability Index from many industries and countries, with far fewer respondents per company. As the reference group “large corporations” has a greater mix of hierarchy levels and random samples, it is by far the most comparable reference group to Intercos. For this reason, we shall focus our analysis on the comparison between this reference group and Intercos. A further reason for this focus is that there could have been a misunderstanding concerning the terminology “benchmark” from the respondents’ point of view making them believe that this group of companies would rather belong to the direct competition of Intercos. Also, the HBS benchmark consists of listed companies on the Dow Jones Sustainability Index and is therefore not comparable at all with Intercos.

If we focus the analysis on the comparison between Intercos and the “large corporations” as we mentioned before, it can be said that this reference group outperforms Intercos in all major items. The reason may be related to the differences in size and the capital structure. Indeed, large companies due to their notoriety attract more media attention and are generally more exposed to the public radar of good citizenship. They also have mandatory obligation related to Corporate Social Responsibility. We can, therefore, conclude that they are therefore giving necessarily a larger place to sustainability within the company as well as to their communication, projecting a favorable image ~~by~~ engaging in sustainability. Intercos' (slightly) better performance in the areas of trust, rewarding of innovation, challenging of status quo may be explained by the fact that as an SME, with a smaller size, Intercos employees have a natural feeling of family and closer links with the company's owner. This could equally explain the better score concerning the level of trust-even though one could have expected a better score. The fact that innovation is the core competence of Intercos may also explain a better score than the large companies in this regard.

However, it is particularly important to emphasize that in the items “leadership vision for sustainability”, “clear business case for suitability related goal pursuing”, “integration of sustainability into decision-making”, “leaders' knowledge of Sustainability” and “leaders' personal commitment to sustainability”, the reference group is achieving better scores than Intercos. This demonstrates that the reference group has initiated a more intense strategic reflection on the issue of sustainability actively supported by the management. This seems to be a major insight out of the benchmark analysis that Intercos should certainly reflect upon.

3.3 MAIN INSIGHTS OF SCALA SURVEY RESULTS

The survey shows that although the company initiated its sustainability auditing and reporting as early as 2003, this top-down effort has not been thoroughly communicated throughout the organization, and the necessary sustainability systems, procedures, KPIs (Key Performance Indicators) have not been carefully engineered and embedded in the company's business daily operations. It is therefore not surprising that most of the employees surveyed are not aware of the fact that the company has attempted such initiatives and that there is a dedicated CSO (Corporate Sustainability Officer?) who oversees at the corporate level the company's sustainability planning and implementation. Sustainability like any other organizational or cultural change needs a vision, systems thinking, management commitment, communication, concrete action plans and continuous monitoring and optimization.

Although the CEO and owner of Intercos started as early as 2003 a strategic review which successfully led to the publishing of a “Global Sustainability Report” according to the Global Reporting Initiatives (GRI) guidelines, years later the survey shows that this early awareness is lagging behind.

As we saw early in the business case, this record is equally closely linked to the size of the company and its capacity within a global value chain to initiate a change of paradigm. We underlined the leading role of large corporations as Tier 1 in such transformation processes along the supply chain. It was at that time the vision of the owner and CEO of Intercos to lead the way in the industry. But with a net sales volume of around 250 million EUR, Intercos did not have enough power and influence in 2003 within the cosmetic value chain to lastingly anchor this kind of initiatives.

The Intercos leaders, conscious and committed to the building a sustainable organization in the highly competitive, volatile and complicated cosmetics OEM industry, were with no doubt faced with the vicissitude of challenges. It is therefore quite natural that at that time, their priorities, as a small independent family company, had to be focused on the more pressing and vital issues which may affect business bottom lines, such as closing deals and stay constantly vigilant of potential profit margin erosions from fierce market competitions. Daniel Gilbert (2010), a professor of psychology at Harvard University, delivers a corroborative explanation, at Harvard Thinks Big 2010, to this behavior arguing that, as ‘ultimate surviving machines' human are masters at responding to immediate threats, but are novices at acting to resolve worries of distant future.

We have seen throughout the survey that the appreciation of the senior managers of the company is less positive than the employees and workers. The management team (executives, directors, and managers) is reflecting consistently a more critical opinion to all the questions related to the organizational and leadership issues. Considering that these issues fall under the direct responsibility of the (top) management, this rather severe assessment might be interpreted as the evidence that the management is aware of this unsatisfactory situation.

In all parts of the survey, we have seen recorded overall a rather positive opinion towards the company's sustainability issues. However, we could also observe strong diverging appreciation (statistically supported by high standard deviations) attesting a contradictory appreciation throughout the company.

We acknowledged, for example, a strong regional difference pattern throughout the survey, also in very sensitive aspects touching even to the culture of the company. Schematically the opinion in the regions where the company and its culture was founded and is embedded (Europe and North America) is throughout more critical than from the emergent markets, especially the Asian zone. We also observed that females employees were more critical on all issues of the survey, inclusive the leadership commitment and engagement towards sustainability This might be interpreted as a strong signal for the company as Intercos counts more female than male employees and women are considered to be consistently better than men at a variety of social perception and social judgment tests (Cass R. Sunstein and Reid Hastie, 2014).

Consequently we are looking at is a bundle of converging insights accrediting the awareness within the company of a necessary of change towards sustainability, from an organizational to a cultural point of view. This awareness, almost a sense of emergency, is also strong at the top of the company. It is however expected – at least in the core regions of the company (Europe and United States) – that the change of paradigm should be initialized from the top management.

This insight has been very strongly communicated during the individual interviews. Almost all employees attribute their inaction or sub-optimum contribution to sustainability as lack of leadership, organizational system, clear goals, and support or a straightforward-low priority. Many employees stated that they are not aware of what exactly the company is doing in terms of sustainability efforts and programs, although they know (subconsciously) that the leadership team is proactive to find solutions or has "already started its journey".

They suggest that "at first they (leaders) should make an announcement globally of what they are currently doing, make a person in charge of the sustainability purpose who updates the company employees globally with info and status on sustainability initiatives and also follows the progress of different on-going programs and helps to propose or start new sustainability programs.", just to cite one feedback which represents the most prevalent outlook of the employees on the issue.

We can, therefore, conclude from the Scala analysis and from the paragraphs 2.4.2 and 2.4.3 that there seems to be a window of opportunity for Intercos to realize its early vision of sustainability. This is due to a positive but also demanding environment within the company (the employees and paradoxically the top management itself) as well as outside the company (the large corporations are down streaming their sustainable initiatives along with their global supply value chains as the examples of L´Oréal and Estée Lauder demonstrated).

Intercos is a sustainability early mover in the global cosmetics OEM/ODM industry. It is one of the earliest

OEM/ODM players in its attempt to grow sustainably with its clients in the cosmetics industry. This past gives to Intercos credibility and a special role within the industry. We have also seen that a business sustainability strategy put consequently into action has the potential to give to Intercos a lasting competitive advantage. Bearing in mind that, almost all the interviewed employees believe sustainability is vital for the company's competitiveness and are willing to make efforts to make things happen and the leaders have already mentally prepared and started this purpose-driven process, one can say: The company is ready to step towards true sustainability.

4. THE CHALLENGING JOURNEY OF INTERCOS TO TRUE SUSTAINABILITY

4.1 A THEORY OF ORGANIZATIONAL CHANGE TO TRUE SUSTAINABILITY

In the article "Clarifying the Meaning of Sustainable Business: Introducing a Typology from Business-as-Usual to True Business Sustainability", Dyllick and Muff (2015) develop the Business Sustainability Typology (BST) starting from a "business-as usual" (0.0) level and going through increasingly relevant types of BST called Business Sustainability (BST) 1.0, 2.0, and 3.0. The authors emphasize that the companies, as they move from 1.0 to 2.0, are increasing the relevance and the contribution to sustainability issues into their business principles to finally achieve BST 3.0, representing the "True BST". These successive shifts are what the authors characterize as a journey to sustainability.

BUSINESS SUSTAINABILITY TYPOLOGY (BST)	Concerns (What?)	Values created (What for?)	Organisational perspective (How?)
Business as usual	Economic concerns	Shareholder value	Inside-out
Business Sustainability 1.0	Three-dimensional concerns	Refined shareholder value	Inside-out
Business Sustainability 2.0	Three-dimensional concerns	Triple bottom line	Inside-out
Business Sustainability 3.0	Three-dimensional concerns	Creating value for the common good	Outside-in
The key shifts involved:	1st shift: broadening the business concern	2nd shift: expanding the value created	3rd shift: changing the perspective

Figure 4: The BST with key characteristics and shifts

The first level of the matrix (BST 0.0) represents the current economic paradigm, or "business-as-usual". At this level, companies have a purely economic understanding of their business and are driven by economic concerns to generate the highest financial value in the form of profit, market value or shareholder value.

Firms take the first step in the sustainability journey (BST 1.0) as they become conscious of the impact of the company on its environment (natural resources and social issues) and recognize that business organizations are facing new challenges coming from outside their direct market situations. These new challenges result typically from environmental or social concerns arising from external stakeholders like Non-Governmental Organizations, media, governments creating new social or environmental constraints through public opinion pressure or new legislation.

Thus, at this level, without changing their economic principles and premises, business organizations become aware through external pressure that they have to take into account these new conditions in their existing business paradigm and decision-making processes.

Companies are entering the next step in this journey to sustainability when they reach a further level of awareness, considering that sustainability is not a matter of merely reacting to social and environmental external pressures, as is the case in BST 1.0, but, rather, an action towards substantial change in defining the creation of value for business organizations. Indeed, for BST 2.0 companies, value creation means going above shareholder value including equally social and environmental values in their inner compass. This is known as the triple-bottom-line approach.

Accordingly, at this level, companies have attained a mature reflection that allows them to define their own vision and set of principles which will be implemented through specific goals, programs, and actions that will be then measured and reported like any other company goal. At this level, sustainability is integrated into business and sustainability concerns are, therefore, embedded in the understanding of the company itself including strategy, governance, culture, organization, and structure as well as management processes.

The most accomplished level of truly sustainable business, the so-called BST 3.0, is where a business organization has reached a level of consciousness that allows it to change its perspective from an inside-out to an outside-in direction and reflects on such highly complex questions like how the company can, with its products or services (inside), contribute to resolving sustainability issues in society and create value for the common good (outside). This is certainly for the big majority of companies worldwide still a very long-term goal – if it is considered as a goal. As Dyllick & Muff put it, BST 3.0 companies consider first their external environment and it reflects what can be done to help to resolve critical challenges that demand the resources and competencies it has at its disposal. In a previous case on P&G, we could observe many initiatives to reducing its environmental footprint and putting the local communities where business operations are happening in focus of the decisions-making process. Working with smallholders in Central Kalimantan and partnerships with very small farmers in North Sumatra also is a concrete action of one of the largest competitors of P&G, Unilever. The new CEO of Danone, Emmanuel Faber, has recently declared in a manifesto an "Alimentation Revolution", not only by aiming at a sustainable eating and drinking habits for the consumers but also by working hand-in-hand with resilient farms that work in harmony with nature and generate economic and social value.

The Journey of sustainability to higher levels of BST, therefore, involves three important and fundamental shifts for the company (Dyllick & Muff, 2015):

1. The relevant concerns shift from economic concerns to three-dimensional concerns (social, environmental and economic)
2. The value created by business shifts from shareholder value to a broadened value proposition, including all three dimensions of the triple bottom line
3. The shift in organizational perspectives from an inside-out perspective to an outside-in perspective with a focus on society and sustainability challenges. This shift moves the value-creating perspective from the triple bottom line to creating value for the common good.

For companies, this journey means going through several changes in paradigm resulting in successive organizational, structural and cultural changes. Indeed, business organizations are historically driven by economic concerns aiming at producing economic value in form of profit, market value, and shareholder value. The path proposed by Dyllick and Muff is, therefore, a real perspective change from a business-as-usual understanding, driven by an inside-out approach of the business (economic and financial concerns being the reference compass of all actions) to a truly sustainable business, driven by an outside-in approach transforming sustainability challenges into business opportunities.

During this fundamental transformation process of the companies, strategy, organization, and structure are not the only dimensions that have to change. Governance, culture and behaviors, organizational, and personal, are also due to change radically if this change of paradigm is to be successful.

A BST 3.0 company has a holistic comprehension of itself and apprehends its external environment broadly aiming at creating value for the common good. BST 3.0 companies follow therefore the goal of transforming sustainability challenges into business opportunities, making "business sense" of societal and environmental issues. This understanding reminds the famous suggestion of management author Peter Drucker that "every single social and global issue of our day is a business opportunity in disguise".

Based on the findings and insights obtained in the two last chapters, we shall now determine the positioning of Intercos on the business sustainability continuum that will help us further to draw a roadmap of actions for the future.

4.2 POSITIONING OF INTERCOS ON THE BUSINESS SUSTAINABILITY TYPOLOGY MATRIX

As Bain & Company put it, many CEO, convinced about the role that companies have to play, put sustainability at the top of their agenda, launch change program, hire a chief sustainability officer (CSO), and commit financial and management resources. Then momentum fades. (*Achieving Breakthrough Results in Sustainability, Bain Insights,* 2017)

Bain acknowledged further in this report that CEOs who are really committed to change need to support the front line. After having interviewed more than 300 large companies engaged in sustainability efforts, Bain found out that 98percent of sustainability initiatives fail.

	All change efforts	Sustainability programs
Achieved or exceeded the expectations that were set	12%	2%
Settled for **dilution** of value and **mediocre** performance	50%	81%
Failed to deliver, producing less than 50% of expected results	38%	16%

Source: Bain Sustainability and Change survey (n=301); Bain risk history survey (n=318)

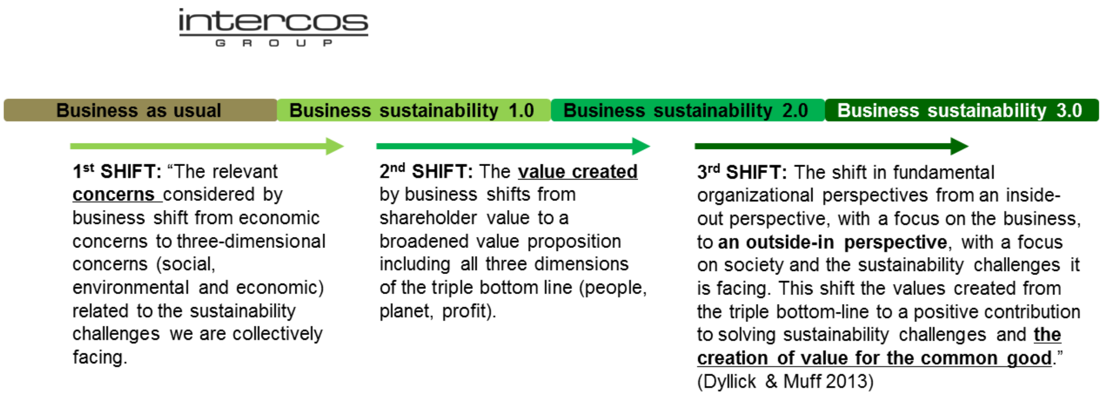
Figure 5: Bain sustainability and change survey

Figure 5 confirms both the disappointing character of change initiatives in the business world and an even more disastrous picture concerning sustainability change initiatives. This corresponds exactly to the own experience of Intercos. As mentioned previously, Intercos, in the person of its owner and CEO, has adopted very early an active approach towards sustainability concerns in the cosmetics OEM industry. The publication of a "Global Sustainability Report" as early as 2003 brings evidence of its leadership involvement at a time where the company had only sales of 250 million EUR and a market capitalization around 100 million EUR, a rather modest size in the cosmetic industry.

This role, however, has failed to be developed into a successful sustainable long-term strategic orientation for the company. We mentioned previously that this lack of long-term sustainable and successful achievement can also possibly be explained by the size of the company at that time. The company did not have the necessary power and influence within the global value chain to initiate successfully such fundamental transformation process needed to enter a new paradigm.

This situation is felt within the company. In the SCALA analysis, we observed that the majority of the respondents was not aware and aligned with the company's sustainability strategy and goals. This indicates either that a clear sustainability strategy is absent or that the internal communication was not effective (enough) in delivering a clear and powerful message on the company sustainability strategy and goals. Moreover, we could also observe throughout the analysis that the (top-) management has a rather severe judgment on its own performance on most of the issues surveyed. This certainly seems to support to our conclusion that although Intercos, under the impulse of the owner and CEO, had a pioneering role at the beginning of the millennium; the company was not able to ensure this journey on a long-term. Intercos should restart and initiate again a more intense strategic reflection on the issue of sustainability that should be actively supported by the management and communicated throughout the company.

Evidence obtained through the business case and the SCALA analysis shows that the company is situated on the continuum between "business as usual" and to BST 1.0 when using the BST typology to qualify its business sustainability positioning.



Source: Own representation based on Dyllick & Muff works

Figure 6: Successive shifts during sustainable journey

Building on the historical development of Intercos from a SME to a global size company, as we analyzed chapter 2 and the insights gained through the SCALA analysis, we can consider on the one hand that the motivation of the leaders and actions taken by the management teams today are largely market and customer driven, with strategies and operational plans directed aiming at primarily creating shareholder value and on the other hand that Intercos is experiencing the 1st shift as schematically described Figure 5.

Although the main concern of Intercos is to generate high financial and shareholder value, the company has started in the recent years a bundle of initiatives that led to the launch of the Intercos Sustainability Program in 2017. This program includes environmental, socio-economic and sourcing initiatives within the group and along the global supply chain.

This situation in which the company finds itself corresponds to the 1st shift from Business-as-usual to Business sustainability 1.0 described table 2 as a shift of concerns from purely economic to three-dimensional concerns (social, environmental and economic) related to the sustainability challenges that humanity is collectively facing. As Prof. Dyllick explained recently (2017), many empirical studies and meta-studies indicate that a clear majority of companies pursuing sustainability are at the similar stage as Intercos (business as usual to BST 1.0).

	Business as usual	Business sustainability 1.0	Business sustainability 2.0	Business sustainability 3.0
Retailers	Aldi	Walmart	Wholefood, Coop, Migros (CH)	Salvation Army, Caritas
Outdoors & sport equipment	Most brands	Nike	Puma	Patagonia
Banking	UBS, Credit Suisse	Migrosbank (CH)	Bardeco S.A., Alternative Bank Schweiz	Grameen Bank
Food producers	Most companies	P&G, Nestle	Unilever	IN-Bar (US)
Hotel industry	Formule 1	Holiday Inn	Marriott	The Amazon Yarapa River Lodge (BR)
Power generation	Mosenergo (RU)	Gas Natural Fenosa, BKW (CH)	e-on, Alpiq (CH)	Vattenfall, Solarcity

Source: Dr. Katrin Muff, Dean at Business School Lausanne, Guide to Banking and Sustainability, the UNEP Finance Initiative

Figure 7: Companies and their BST levels

As far as Intercos is concerned, one can say that the company, as Dyllick would put it, has started its journey to corporate sustainability. Intercos even goes beyond the obligations to comply with minimum standards like plant certification of ISO/OHSAS, which would rank Intercos at exceeding “Business as Usual”-Level, but still a considerable distance away from BIT 1.0

However, by registering Intercos to platforms such as EcoVadis and Sedex, by dedicating itself to ethical and environmental sustainable requirements like RSPO as well as responsible initiatives like Mica or even by participating to the “One Ocean 2017” program supporting the voluntary commitment of the cosmetics industry to ban use of microbeads in exfoliating products, the company brings the evidence of its lasting willingness to change. Moreover, by making its engagement binding within the group and inside its global value chain through Group Code of Conduct, Group Corporate Ethical Code and Sustainability Programs feeding the Intercos Group CRS Policy, Intercos brings the strong evidence that the company has engaged the necessary structural steps to corporate sustainability and is actually moving closer to BST 1.0.

The creation of the Chief Sustainability Officer and a cross-functional team specifically involved in sustainability matters in 2016 is also a strong signal that the leadership is committed to sustainable development. By creating the position of CSO, Intercos has set up accountability, a vital step in all organizational change programs, which sustainability is no exception. Leaders must be held accountable for what is working and what isn't working. Accountability and measuring performance enable corporations to discern gaps or misalignments, address discrepancies and implement necessary adjustments or change, becoming thus a learning organization.

In order to accelerate the momentum, communication turns out to be an indispensable impetus to prepare the right culture for change to happen. In organizational changes, people are fundamentally affected. Therefore, if people are motivated and engaged in the right way, the chances of a successful change are high. Precise and effective communication sends a clear message to employees on what has been achieved, why it is important and what is expected. Currently, Intercos is lacking such a communication mechanism, to the extent that there are even fuzziness and uncertainty concerning the understanding of the term "sustainability" among respondents in the SCALA survey. Indeed, as the SCALA analysis demonstrated, most of the employees who took part in the survey and the interviews are not clear or even not aware about most of the sustainability efforts being implemented currently at the group level and in other Intercos operations which are not directly linked to their respective work environment.

To make business sustainability really work, sustainable programs must be integrated into the company's daily operations. Communication, as we mentioned, is necessary to increase awareness and give a sense to the people is necessary however not enough. A closed-loop system, where concrete sustainability actions are linked to business operations along the supply chain is vital. Performance goals and targets must be specific, measurable and correlated to incentive schemes so that the whole organization has a clear sense of direction and knows exactly what is expected to support actively the shift to BST 1.0.

This is the task of the Intercos management to design, communicate and monitor this master plan. Acknowledging this, the top management of the company will also have to reflect the role of the Chief Sustainability Officer (and its team) and how to provide him with the necessary authority and visibility to become the guarantor of the business sustainability efforts of the company. Equally the leadership will have to make it clear how the sustainability strategy can be diffused and implemented within the company worldwide and down the global supply chain. In a working paper of the Harvard Business School (Chief Sustainability Officers: Who Are They and What Do They Do?), Kathleen Miller and George Serafeim (2014) suggested that the authority and responsibilities of CSOs are increasing as organizations increase their commitment. This is especially the case when companies are moving from what the authors call the compliance to the further stages, the next being the efficiency. This seems to fully apply to the Intercos situation. Not only will it be necessary to communicate properly and formerly the role of the CSO and its team (the SCALA analysis showed that the employees are not aware of his existence), but it will be equally necessary to communicate on the long-term vision of the company and the concrete steps to what has been called the journey to true sustainability. In this perspective, the role and responsibility of the CSO and the interactions with all internal stakeholders will have to be clarified and communicated. Certainly, as we mentioned before the core responsibility of the strategic issue "Sustainability" cannot be delegated to the CSO, since this belongs to top-management itself. However, the emergence and implementation of the CSO at Intercos were up to now not optimal and the necessary changes that we described before are urgently needed.

4.3 ROADMAP AND FEASIBILITY ANALYSIS OF A TRUE JOURNEY TO SUSTAINABILITY

Our analysis throughout the case has shown that Intercos has started its sustainability journey but also has several weak areas which will have to be addressed in order for the company to move forward along the BST continuum. These areas are: 1. the definition of a clear sustainability corporate strategy, 2. the related objectives, plans and concrete actions within the company and the supply chain as well as 3. the communication activities. This implies also structural and organizational changes. This presupposes that the relevant policies, processes, and procedures have been or shall be implemented, that the metrics (KPIs) have or shall be defined and linked to the incentive schemes, and finally that the feedback loops exist in order that the whole organization can learn out of the experience and is able to take the necessary adjustments. This is the scope of the master plan for the Intercos management.

For the top-management of Intercos, this should start with handling the crucial question of the creation of value and how the social and environmental concerns will be taken into consideration in the scope of the existing decision-making processes.

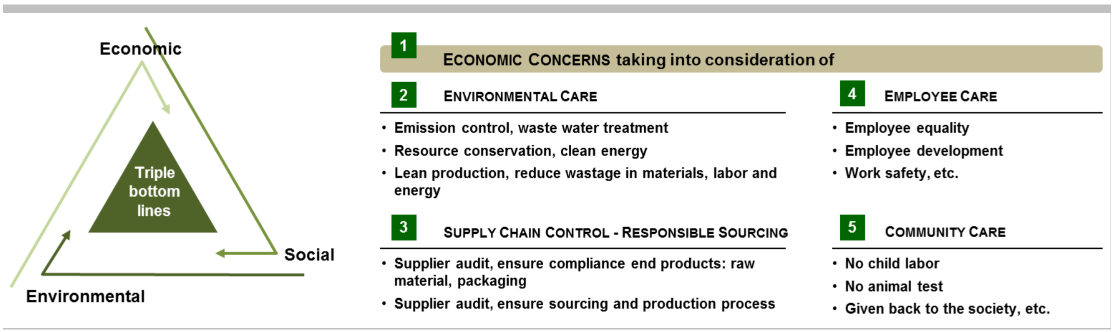
It is no doubt that Intercos is multiplying environmental and social initiatives. Still, the ultimate concern of the company is of economic and finance nature. One must not forget that Intercos, in its search of growth has called upon the market to find strategic investors like private L-Catterton. More recently, summer 2017, Ontario Teachers' Pension Plan has agreed to acquire a minority stake in Intercos to strengthen the shareholder structure and help the company to pursue development plans. The investment program of such a pension fund has only one goal: "to earn the best possible returns to pay pensions to our members". An economic concern is, therefore, a very important aspect of the company and is as a matter of fact, like all business organizations a vital aspect, since financial equilibrium is a condition sine qua non without which no company can run its operations (Michele Pinelli, 2013). What the management and more broadly the company experience now is to move away from the ground principle of a traditional business perspective thinking and operating in one-dimensional with economic concerns taking towards the sustainability perspective which includes social, ecological and ethical concerns (Dyllick, 2014).

Certainly, the top-management of Intercos is not yet in a mindset to revolutionize the way it defines and considers the notion of value creation. The change process ahead (1st shift) concretely means for Intercos that, without having to rethink totally the way the company defines the shareholder value (2nd shift to BST 2.0), it will nevertheless need to reflect the triple bottom lines, taking therefore into account the opportunities and risks related to economic, environmental and social developments (SAM and PWC, 2006) as a factor influencing value creation.

As we have seen, Intercos is quite proactive here, by engagning in initiatives and programs like EcoVadis, Sedex, RSPO (palm oil), Mica responsible, Plastic Microbeads policy to bane plastic pollution in the oceans, banish use of animal in product testing, just to name a few, which are feeding the Code of Conduct, the Group Corporate Ethical Code and Sustainability Programs and finally the Intercos Group CRS Policy binding all employees and external stakeholders. Nevertheless, to makes these initiatives and programs happen and enter in what Kathleen Miller and George Serafeim called the efficiency stage, the company will have to describe precisely the workings and the monitoring of their implementation as well as the role and responsibilities of clearly identified internal stakeholders.

Especially, in order to achieve BST 1.0 at the end of 2018, the company will have to bundle systematically all these initiatives, programs and policies in a systemic master plan which has to be made visible, binding, transparent, measurable and reportable to the shareholder (at least the founder) and the top management. This is what we mentioned before as the workings of the master plan. Beyond this, it will alsobe necessary to loop the objectives, tasks, and gateways of the implementation process to the individual and teams' tasks, responsibilities, but also training and incentives systems of the company. In fact, the SCALA analysis has perfectly shown that this commitment and engagement was missing for a lot of people within the company. However, this will not be enough. The activities and decisions of the company-whatever their nature-have be related to the sustainable concerns and not only the economic concern anymore. This is certainly a change of culture, but this is actually the glue to make the 1st shift happen. Hence, the company has to make sure that all employees, workers, and managers within the company but also in the value chain are connected and supporting this shift both at the ideal as well as the task and activity level.

To make it more concrete and palpable for all, this master plan can be broken down with the help of following concrete framework to make the company familiar with such difficult concepts like "triple bottom lines" which will influence the development of the company in the future.



Source: own representation

Figure 8: Multi-dimensional concerns framework

Once the system is there, by linking all these activities to incentives, not limited to monetary terms, to recognize achievements, initiatives, and efforts, and using established communication channels, such as company website, newsletters, social media, email broadcasting, seminars, meetings etc. to strengthen and reinforce the company's commitment to sustainability growth, we expect that a virtuous circle will take place that will bring Intercos to levels BST 1.0 and further 2.0.

If BST 1.0 is considered a first step towards true business sustainability-being as we have described already very challenging for a company-BST 2.0 requires even more commitment and rigor. This represents a greater ambition and bigger step in making sustainability a meaningful critical issue within the company. The shift from BST 1.0 to BST 2.0 implies that the company changes its understanding of value creation from a traditional shareholder value to a holistic triple bottom line perspective, embracing both environmental and social concerns (people, planet) as key values along with economic consideration concerns (profit).

This "value creation" change of paradigm will be for Intercos-as it is for most companies engaged in such transformation process-the most meaningful and challenging change. As a result, even if the 1st shift that Intercos is willing to achieve rapidly is making the company broadening its behavioral scope of concerns, the attention of the company-and at first the top management-is primarily still focus on its financial performance.

The 2nd shift ahead for Intercos is obviously more fundamental and critical. Indeed, level BST 2.0 implies a cultural corporate change by considering the economic concern as one perspective of value creation along with the environmental and social concerns (the so-called triple bottom lines).

At this stage, it is worth to note that it is the declared goal of Founder and Chairman of Intercos to introduce the company to the stock market. In 2017, the takeover of COSMINT and the acquisition of a minority stake by the

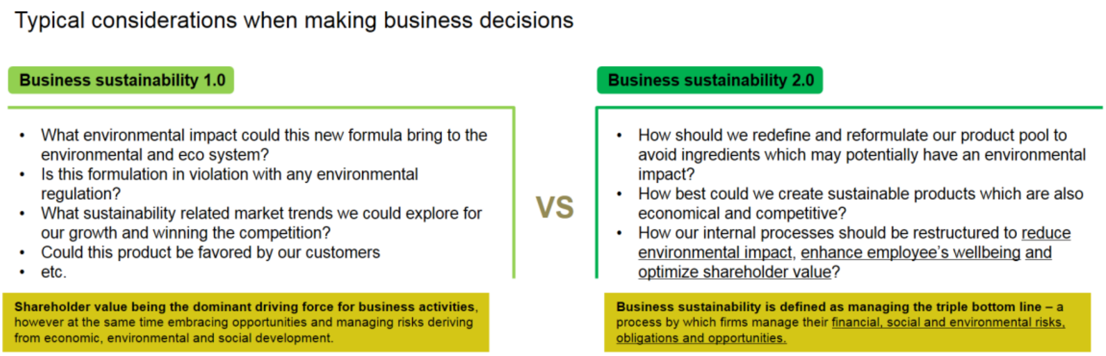
Ontario Teachers' Pension Plan were first steps of this medium-term strategy. Once the company will be floated on the stock exchange, its performance will be under the scrutiny of public investors. The company would then be faced with different challenges. One of them is particularly relevant to sustainability, namely conflicts between short-term and long-term interests. If sustainability concerns are to be taken into consideration by companies, then long-term aspects need to be given at least equal weight as short-term aspects. Paul Polman decision after he had come in as new CEO of Unilever in 2012 is an excellent example for this matter: He took the initiative to end quarterly reporting and inform hedge-funds and short-term investors that “you don’t belong in this company” as they are not aligned with Unilever’s longer-term strategy to both double revenue by 2020 while significantly reducing the company’s environmental footprint.

Certainly, this would be a challenge that the top management will have to handle. However, the number of companies listed on the stock exchange and having long-term sustainable strategies might become the norm. There is a rising demand for sustainable assets. Money Week mentioned recently (February 2018) that in 2016 global assets managed under sustainable, responsible investing (SRI) mandate or equivalent increased up to nearly $23trn from $18trn in 2014. Actually, more and more investors identify the risks as coming from poor environmental or governance practices.

For Intercos the 2nd shift from 1.0 to 2.0 will imply a triple organizational change, which will signify a major change in the history of the company in terms of:

1. Governance and strategy
2. Organization and structure
3. Culture and leadership

Certainly, this change is currently not on the agenda of Intercos and as we have seen the number of challenges for the next 15 months is already high enough. However, it is part of the learning process to make the management aware of the next shift ahead. For a company like Intercos which is very innovation and product orientated (formulation being a central topic), it might be meaningful to tackle this change of paradigm by asking themselves the following questions:



Source: own-representation

Figure 9: Typical considerations when making business decisions during the BST 1.0 and BST 2.0 phases

Truly sustainable businesses are business organizations that have completely realized the change of paradigm suggested by Dyllick and Muff (2013). They are driven by environmental challenges and try to find answers to big challenges our society is confronted with at the economic, social, and environmental levels through its resources, competencies and experiences. As seen, Intercos has 2 major shifts on the agenda for the next 24 to 36 months. Whether or not Intercos would take the challenges to become BST 3.0 depends on what is going to happen in this time frame, how the company and the people will cope with the changes ahead, absorb the consequences and the decisions of its leaders how to go further. It is now too early to tell and the roadmap that we have drawn in this business case is certainly going to massively bind human, management, and financial resources in the next 2 years at least.

However, it seems clear that the pressure due to the higher attention of politic, NGOs, press, large (brand) corporations and consumers will increase and will require the further engagement of Intercos. In the business of cosmetics, a need for transparency and traceability for raw materials as well as concrete measures to better involve and protect local communities and workers will massively increase. In this perspective, the social impacts of doing business will become major factors that the companies, and therefore Intercos as well, will have to focus on them. As we mentioned before, the business case of Intercos is shifting from formulation to finished products. In this context, the issue of packaging becomes a major challenge. At the same time, packaging waste and plastics is already today aan importantsustainability concern. In this respect, the number of initiatives supported by the Global Environment Facility and UN Environment and very large multi-billion large corporations to achieve a circular economy is increasing. These are only a few challenges already on the agenda of politics, corporations, NGOs, etc. clearly showing that Intercos cannot withdraw anymore but, on the contrary, will continuously be confronted with a demanding environment for sustainability. However, as already mentioned, this can be a source of value creation and of new competitive advantages.

5. CONCLUSIONS AND RECOMMENDATIONS

The nature of the cosmetics OEM/ODM industry pre-determines a set of challenges which the players have to face to pursue sustainable growth. As we have mentioned, this industry is to a large extent labor intensive, with low barriers to entry, high competition intensity, very often on price, with large corporations as clients with tremendous power on the global value chain and suppliers left as a consequence with low bargaining power (Reijnties, Ryan, 2012). The individual OEM/ODM suppliers' level of sustainability is therefore-as we have seen in the case-by and largely determined by the level of sustainability at an industry level.

After the global financial crisis in 2008, the industry experienced a strong trend towards a polarization of consumer habits, i.e. the concentration of consumer beauty products spending at the two ends of the pricing spectrum, premium and mass. At the same time, there is a long-term macro-trend to an increased demand towards sustainable products. However, the reality on the cosmetic and fashion markets demonstrates that there is still a long-lasting discrepancy between an increase of awareness for sustainability and a multiple-option value-driven consumers which are taking consumption decisions by far not only based on ideal values.

	1 challenges	2 Implications to sustainability	3 Solution
Industry	• Competition • Low entry barrier	• Low bargaining power, client decides on product configuration, hence determines the impact to environment	• Production innovation
	• No standard products • Client demand is not clear • Long lead time	• High cost, high work load, employee stress	• Develop eco friendly "standard" products
	• Low profile packaging supplier	• Difficult for responsible sourcing	• Set up a team to develop suppliers, educate, transform, monitor and support them; vertical integration (acquire packaging company to develop eco friendly packs)
Company	• Creativity and innovation at the core of the company strategy	• May weak in systems and procedures, hence, many activities are ad hoc, while sustainability is an effort on continuity	• Grow and nurture a system's thinking, setup procedures and make continuous effort to implement and optimize.

Source: own representation

Figure 10: Challenges in cosmetics OEM/ODM industry and its implication to business sustainability

In this competitive context, Intercos positions itself as a high-end producer, focusing on product and service innovation, i.e. innovation as a competitive advantage. Innovation, in the cosmetics ODM industry, is very often accompanied with higher development costs, longer lead time, difficulty to predict product efficacy, as well as more complex project management processes. These challenges, if not managed properly, lead to higher cost, heavier workload, lessened employee satisfaction and higher employee turnover. These potential pose a threat to companies like Intercos in terms of sustainable growth.

Due to their size and reputation, well established high-end beauty brands are under closer surveillance of media, NGOs, consumers and national / supranational authorities for increasing compliance standards, especially in the European Union. Hence, these companies are increasingly proactive in responding to consumer sensitivity towards ethical and sustainable consumption. This is manifested in the welcoming attitude of some of the most renowned beauty brands towards Intercos sustainability efforts. By the end of 2017, 25 customers notified their interest in Intercos sustainability performance, Burberry , Chanel , and Clarins, just to name a few. Oriflame requested access to Intercos' Ecovadisdata in 2017. While, LVMH requested Intercos for data submission of ASOS on supply chain qualification.

If those large corporations are very powerful, there are on the other hand few large suppliers that can supply innovation as Intercos does it and that can also support the increasing demand, standards and compliance requirements for sustainable issues. Sustainability and innovation are complementary strategies and competitive advantages on which Intercos is building its sustainable growth and its future. The sustainable transformation process increases the long-term competitiveness of Intercos as a supplier and the company becomes at the same time a more attractive player for its shareholders and stakeholders, first of all for its employees. Although the SCALA analysis has shown a good will towards the company by giving, overall, a rather high percentage of positive opinions towards the company's sustainability approach, the analysis clearly demonstrated that all, employees, managers and also leaders, were expecting more than what the company is currently doing for sustainability. The company is facing a Gordian knot that has to be cut in the future. We can certainly define this transformation process by analogy as a virtuous circle not only for sustainability but also for all internal stakeholders of the company. Indeed, we identified enough-so called-soft factors like trust and engagement that were – at least – worrying for the future of Intercos and have to be taken care of.

It is no doubt as we have shown in the business case that this looks like an expedition with tremendous challenges.

However, we also demonstrated that Intercos has now, and maybe only now, a unique window of opportunity:

The long-term macro-trend shows that the consumers are looking for values like environment, ethical and social engagement. The large corporations need such suppliers like Intercos delivering both innovation and sustainability strategies. Increasingly tightened laws and regulations from national and regional governments, voluntary efforts from industry associations are continuously increasing the sustainability awareness and industry practices (Cosmetics Europe Personal Care Association, 2017).

Finally, as the Scala analysis demonstrated, the whole company is expecting a clear positioning of Intercos. We can, therefore, draw the conclusions that all conditions are given for Intercos to head forward the transformation to a sustainable organization. In order to do that the company has to carefully plan a comprehensive, tailor-made sustainability program including~~,~~ sustainable related performance management and communication systems, that can be materialized and internalized by employees at all levels.

Once these vital steps are in place, we can expect that the company will have entered a virtuous circle that will help Intercos to move gradually on the continuum of the sustainability typology on the way to higher levels of business sustainability.

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