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**An analysis of the socio-environmental requirements for the capacitation of supply network of a cosmetic company**

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Abstract

The new market requirements consider corporate social and environmental responsibility as a key performance indicator for companies willing to grow and achieve long-lasting success. However, products and services are recognized as socially responsible only if all rings of its supply chain behave sustainably. In this context, the concept of a social responsible company, product or service becomes a duty of a whole chain, and not a duty of a single company. Aligned to these new requirements, company “X” decided to invest in the improvement of its suppliers’ performance in terms of social and environmental responsibility. The present work delineates policies and standards in terms of social and environmental responsibility that have to be respected by the whole company’s supply chain. To achieve this aim, this work analyses the “X” suppliers’ profile, manages documental data and addresses field surveys.

Keywords: social and environmental responsibility; supply chain.
Introduction

Day after day, the theme sustainability wins greater prominence in the entrepreneurial, governmental and academic spheres and in society in a general way. Specific issues, such as negative environmental impacts of industrial production, global heating, fairer work relationships, the fight against the exploitation of children’s work, socially responsible investments (companies social responsibility), socio-environmental responsible consumption, besides others, stand out as issues of high importance, demanding urgent solutions. Specially, the growing social and environmental pressures for productive systems that do not generate negative impacts for society increase all over the world.

Successive international forums, that resulted in agreements signed by several countries along the last 2 decades (Eco-92/Agenda 21, Kyoto Protocol, 2002 Statement of Policies of the World Summit on Sustainable Development - Johannesburg, etc.) and organizations such as the World Business Council for Sustainable Development (WBCSD), World Conservation Union (IUCN) and Earthwatch Europe have produced and disseminated a series of documents dedicated to the productive sector, aiming to enlighten the main actors about their responsibilities concerning sustainable development. In general, these movements fundamentally seek to reiterate the concern with redirecting the development models generated in the postwar period, which almost exclusively valued the economic dimension of development.
The term sustainability should be understood as a systemic concept, related with the continuity of the economic, social, cultural and environmental aspects of human society. Therefore, a sustainable development model should aim at satisfying the present needs of society, without, however, compromising the possibility of future generations satisfying their own needs. The sustainability notion has also permeated the companies normative ambit, as evidenced by the ISO 14000 Environmental Management Standards, the "green" stamp, ABNT 16001 Social Responsibility Norm, projects for cleaner Production (cleaner production) and the “3R strategies” - Reduce, Recycle and Reuse”, besides many others. In the Brazilian context, this thematic is still at a quite incipient stage as compared to more developed countries of North America, Europe and Japan. The companies initiatives are localized and, on the other hand, there is little awareness and perception of such initiatives on the part of the great majority of the population.

The present work aims to investigate the degree of importance that the theme sustainability represents for the strategies of the great Brazilian automotive companies (automakers), trying to identify some manifestations of these strategies in the set of elements that compose the corporate governance of these companies. It is worth pointing out that this is an ongoing research and the results presented have a preliminary character.

Actually, along practically the whole of the 20th. century, the industrialization process based on the Taylorist/Fordist paradigm prioritized, among several other aspects, wide scale production with excessive consumption of energy, water and raw materials, besides the intensive use of cheap labor. That model, with more recent variations, such as those deriving from the Japanese

experience of Toyotism - of lean and flexible production - seems to present serious limitations, when its social and environmental undesirable impacts for society as a whole are questioned. Among these impacts, standing out are the environmental pollution of several orders (atmospheric, visual, sound), the excessive production of garbage as a consequence of massive consumption patterns linked to the traditional industrialization model, the precariousness of work conditions (especially in countries considered emergent or of late industrialization), among others.

The present work delineates policies and standards in terms of social and environmental responsibility that have to be respected by the whole company’s supply chain. To achieve this aim, this work analyses the “X” suppliers’ profile, manages documental data and addresses field surveys.

Methodology

Given the literature lack on this subject and, at the same time, the incipient character of the companies practices in this sense, the authors opted for the simple case study method in terms of methodological approach. According to Yin (2001), this case study method has as main characteristic the fact of being generalized to theoretical propositions, and not to populations and universes. The generalization to the theoretical proposition is exactly the issue intended by the
work, which makes of the case study the ideal instrument to attain its goal. Some core issues guide this research:

1.) How to align the sustainable strategy of a focal company to its supply chain?

2.) What kind of instruments is more adapted for the social-environmental management of the group of suppliers that are geographically dispersed all over the world (globalsourcing)?

Due to this new reality, the focal company decided to invest in the training of its supply chain in order to align the performance levels of social-environmental practices of its suppliers with the standards required by the company.

The Brazilian cosmetics

The cosmetics industry has suffered from a strong production acceleration in 2006. Companies in the sector could take a more demand-driven orientation in 2006 than in 2005, and a growth in export activity, this benefit mainly by these emerging areas, which have offset the stagnation of exports to Western Europe.

The main international actors in the sector are the large transnational companies, which usually operate in different segments of the industry - cosmetics, perfume and personal hygiene - and activities have important links with chemical, pharmaceutical and, in some cases, food, building up economies of scale and scope arising from the proximity of the basic technical-productive and, above all, of these commercial activities. The internationalization of the cosmetics industry is not
much different from the pattern of global expansion of companies in other branches of the chemical industry, even with the fact that the intensity of capital in cosmetics production is much less significant (Garcia and Solomon, 2003).

Before most significant internationalization efforts, firms seek to establish in-destination markets, distribution channels and marketing of its own brands products. (Garcia and Solomon, 2003).

Accordingly, there is a clear trend, converging with the internationalization of companies in the chemical industry (Hiratuka et al., 2003), that products of higher added value - and smaller scale of production - are produced in the countries of origin. This is evident especially in the segment of sophisticated fragrances and perfumes, the production scales of which are significantly lower.

The “X” company

With a turnover of 15.79 billion euros in 2006, “X” company is presented as the world leader in the cosmetics market. Its main competitors in the international companies are Proctor & Gamble, Unilever, Estée Lauder and Avon. The group has over 60 thousand employees in 58 countries. Major global brands of the group come from three global creation centers which are Europe, the United States and Asia. “X” company offers its worldwide consumer brands of diverse cultural backgrounds which can satisfy all tastes.
The total turnover of the group is divided among the four divisions of the group according to the chart below:

Figure 1: The total turnover of the group is divided among the four divisions

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Active Cosmetics 14.2%
Professional Products

Luxury Products 25.1%
Consumer Products 52.6%
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Source: Data from ‘X’ company

“X” company made the choice of deploying its plants in several regions of the globe in order to produce locally. That is, the group is against the policy of social dumping, marked by the concentration of production facilities in regions known for low labor cost, followed by export of products to the world. The "production site" allows the group to ensure a continuous and flexible product supply. Secondly, this choice reflects an important aspect of the group's strategy in emerging countries: “X” company wants to combine their commercial presence in distribution...
channels to the installation of production plants, creating jobs and contributing directly to the development of the area concerned. Finally, the strategy group intends to produce close to consumption areas is a means of minimizing the imports costs.

Other key aspects of the group industrial policy are:

- Producing the quality desired by the world consumers;
- Safety, hygiene and respect for the environment;
- Controlling costs;
- Ethics and diversity.

“X” company has more than 40 factories around the world. The factories are dedicated and specialized on the group's brands and technology (makeup, creams, dyes, etc.).

**The suppliers group**

The “X” company currently has around three thousand suppliers in its portfolio (this number does not include suppliers of promotional objects).

Suppliers are divided into the following categories:

a) Raw materials suppliers: they are the suppliers of active ingredients of “X” company formulas, their chemical components, vitamins, etc. Many of these suppliers have a close relationship with the Department of Research and Development, in search of a constant collaboration directed towards innovation through the differentiation of existing products and launching new products.

b) Supply of conditioning articles: they are the suppliers of packaging such as jars, pots, tubes, lids, pipes, vaporizers, boxes, labels and tags.

c) Third-party production: only 6% of the products of “X” company come from outsourced manufacturing. “X” company prefers to perform the manufacture of its products in its factories and with this, exercise greater control over the quality of its products and protect its patents and innovations developed by the R & D department. Thus, the group only outsources certain products, the technology required for which is not present at the “X” company site; for example, mascara brushes. Promotional objects (jewelry, handbags, plastic or fabric, towels and gifts in general) are made through outsourced manufacturing.

d) Indirect Costs: category which includes providers of costs that are not directly linked to production, such as catering, gardening, security companies, etc.

e) Suppliers of industrial equipment: they are the suppliers of industrial equipment found in “X” company factories. Belonging to the department "Corporate Purchasing," this is the cell where this project was developed. The objective of the cell "Suppliers

Performance", the entire shopping cross section, is to define and ensure monitoring of the global suppliers supply chain management in the medium and long term.

The socio-environmental requirements for the supply network capacitation

The 5 criteria for assessing the suppliers performance are: social and environmental responsibility (RSA), quality, logistics, innovation and competitiveness.

Recent years have witnessed a proliferation of initiatives by companies in the social responsibility business. These actions by firms beyond the mere legal requirement are achieved through actions in favor of the environment, funding for schools in developing countries, etc. In these actions, the creation of tools that ensure the promotion of a sustainable development policy and consequently the promotion of corporate social responsibility are summed up: membership in international initiatives to promote human rights, development of codes of conduct, ethical documents and specific reports based on the logic of the “triple bottom line”.

All of these initiatives are the result of a new social and economic setting in which the particular law and labor law are no longer an exclusive responsibility of the state. As stated in the Universal Declaration, human rights must be protected by states, but also by individuals and organisms of society, including businesses. The division of responsibilities evolved: more and more, international treaties of human rights create obligations - even indirectly - to the companies. ILO
conventions, for example, define a direct obligation to the undertakings not to practice discrimination and to respect the freedom of association wages.

The half way between regulation and the self, a set of tools, standards and recommendations developed from initiatives of multinational companies on social responsibility characterizes the concept of "soft law". Thus, codes of conduct and other ethical documents are called the "right below" in which "non-restrictive" and "mandatory" go hand in hand, undissociated from each other.

The new requirements for maintaining the companies competitiveness are bringing implications of broader and systemic nature to the management, so that the business opportunities offered by current economic conditions can generate a strong demand for a new global social position (Kreitlon and Quintella, 2001). In this sense, the concept of corporate social responsibility has been consolidating in a more multidimensional and systemic way, seeking interdependence and interconnectivity between the various stakeholders directly or indirectly involved in the company business (Ashley et al, 2000, Ashley, 2001).

Therefore, the policy of corporate social responsibility no longer focuses on actions and philanthropic projects and targeted assistance to the community, and begins to adopt a relationship networks vision. This vision is developed from standards of conduct applicable to all activities of the company and its internal and external collaborators. This is done through a set of policies, practices and management programs that permeate all levels of the business and operations and to facilitate and encourage ongoing dialogue and participation with stakeholders.
It also creates an interaction between different social agents covering not only the economic aspects, as classically happens in the administration, but also including relationships of trust and ethical standards (Ashley, 2001).

**Preparation of the draft code of conduct of the company**

Within company "X", are two departments that are constantly in contact with suppliers, the purchase department and the research and development department. The purchase department has been in constant contact with all of the group's suppliers (raw materials, conditioning articles, indirect costs, third party companies and industrial equipment). It is divided into two distinct teams:

1) The first is composed of buyers who work in the group factories, taking care of shopping at an operational level. They have the task of ensuring the supply of the factories where they work, maintaining inventory within the desired levels. Thus, they constantly communicate with suppliers and internal teams with the supply and production. It is for them to conduct the purchases themselves, negotiating the best time, quality and prices. Each of these buyers is part of a Shopping Center (Sourcing Center). Currently, the group has seven Purchase centers: Latin America, North America, Asia, and four centers in Europe: DPGP (division of the products to the general public), DPL (division of luxury
goods), DPP (Division of professional products) and CAI (division of the products of cosmetic active). This organization of centralized purchasing department operating around the shopping centers was established in 2006 and has served as an important lever in the creation of better trading conditions due to achieving economies of scale and a more global view of the sector. Thus, the narrow vision of the universe works and gained amplitude towards a vision that encompasses an entire region managed by the purchase center.

2) The second team is the corporate purchasing department (DGA - Direction générale des Achats), associated with a functional vision, and strategic cross-purchases of the whole group. This department is responsible for the establishment of guidelines for a successful and sustainable relationship between “X” company and its suppliers and for optimizing their performance in respect to quality, logistics, competition, innovation and socio-environmental responsibility. It is therefore this department in the management of long-term risks (e.g. risk of the brand image, environmental risks, etc.). This department is responsible for the entry process of a supplier to the portfolio of suppliers and for monitoring the group in residence, their performances in the five areas of evaluation mentioned. Thus, the DGA manages its relationship with suppliers prioritizing the dimensions "processes" and "organization", going beyond the "products”.

In parallel, the R & D department is in constant contact with suppliers of raw materials to establish partnerships with these suppliers targeting the development of new products and
innovations in production processes. In general, raw materials suppliers are geared towards innovation as providers of excellence. This occurs mostly in large companies with which “X” company has a great interest in establishing an ongoing relationship to ensure a constant renewal and differentiation of their products. In this context, the R & D department priority is approach toward the "products" in their relationship with such suppliers.

Suppliers who have the means to invest in research and development are generally structured and large companies that can (and should) be allowed to allocate funds to these problems mentioned here. However, these concerns are currently poorly developed in companies of small and medium businesses.

Such specificities associated with these suppliers of raw materials led the R & D department to develop its own benchmark for evaluating suppliers. This is a validated assessment scale by PricewaterhouseCoopers. This table allows the mapping of the current raw materials suppliers according to an evaluation scale (no action, commitment, implementation, evaluation, improvement) with respect to criteria such as:

- Governance and Corporate Social Responsibility
- Safety, health and hygiene
- Environment
- Fairness in trade
- Human Rights
The implementation of the code of conduct went beyond the degree of formalization of the contractual framework that governs relations between “X” company and its suppliers, interfering in the form of relationships between these agents. Kupfer and Hesenclever (2002) combine the functionality of this framework contract to three properties:

(a) First, this theoretical framework defines a set of coordination mechanisms aiming to achieve certain goals by the parties involved;

(b) Secondly, it must include mechanisms to prevent the adoption of attitudes of opportunistic agents that establish the relationship;

(c) Finally, it must include mechanisms for encouraging the adoption of an efficient performance by the parties involved.

Based on these properties, the operational criteria listed were screened in order to select the criteria that would effectively be part of the code of conduct. The selected criteria, grouped in 6 sections (A-F), are:

A. Compliance with laws and regulations applicable standards

B. Labor and human rights

B1. Child labor
B2. Forced and involuntary labor
B3. Freedom of association and collective bargaining
B4. Non-discrimination
B5. Work hours
B6. Salaries and benefits
B7. Harassment and abuse

C. Health and safety

C1. Work environment
C2. Emergency preparedness
C3. Accidents and diseases

D. Environment

D1. Environmental management system and preventive program against pollution
D2. Handling of hazardous materials
D3. Reduction of resource use
D4 Atmospheric Emissions

D5 Management of waste and effluents

D6 Protection of biodiversity

E. Responsible behavior of business

E.1. Anti-Corruption

E.2 Fair competition

E.3 Justice in trade relations

F. Management systems

F.1. Commitment and responsibility

F.2. Continuous improvement

Final remarks

The main result of this research is the conception of a platform for sharing information about social-environmental responsibility with suppliers and the elaboration of a management tool: a code of conduct for the supply chain. The code includes some aspects related to the social responsibility of the company, labor rights, association freedom, representativity and collective negotiation, remuneration and duration of the work day, health conditions, safety and hygiene.
within the work environment, etc., as well as elements of an environmental management system, with a program to prevent pollution (control of the air and of effluent emissions), protection of the biodiversity and reduction in the use of resources.

This tool represents a turning point in the sustainability policy of the focal company and should stimulate the ripening of the suppliers' social-environmental responsibility, aligning the levels of social-environmental practices of the suppliers with the patterns recognized internationally and required by the company.

The completion of this work also allowed the identification of improvements to be implemented within the organization:

- Improving the database and filing system on the results of social audits in terms of interface and reliability of available data;

- Assigning the management of relationships with suppliers to a single department, making it clear to the supplier's policy group and removing themselves from internal disputes,

- Updating the manuals and datasheet constant procedures;

- Investing in the communication of its actions in the area of socio-environmental responsibility to company employees;

- Investing in auditors training.

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