

# **CHAPTER I**

## **INTRODUCTION**

### **A. Background**

The rise of multinational companies and their influence in the International Relations dynamic are undeniable. Many multinational corporations use their powers and politics to influence the government and law, while many also use them to fulfill economic and social responsibilities to the communities that have connection with their productivity. One of these multinational corporation actors is L'oreal.

Hailed from Paris, France, L'oreal is a multinational company focusing on personal care products. L'oreal is one of the biggest multinational companies in the world and is also one of the most known in public and mass media. L'oreal has maintained reputation as one of the best beauty companies, and in 2020 it surpassed both NIVEA and Gillette as the number one most valuable beauty products company in the world with over \$11 Billion in sales. The company that was to be L'oreal was founded in 1909 by Eugène Paul Louis Schueller, a French chemist who sold his products to hairdressers in Paris before the products grew and the company was registered in 1919 (L'oreal, 2020).

L'oreal's production covers a wide range of hygiene and beauty products that are universally used by people of diverse age range, which included bath products, hair body care and skincare products. But L'oreal is best known for its hair care products, which included hair coloring and various treatment products that

contains essential oils from various plants. One of L'oreal's main oil source is argan oil.

Argan oil has been all the rage in the beauty community for the last two decades, after being introduced into the western market by beauty companies such as Shea Terra and L'oreal in early 2000s. Since then, the demands for argan oil beauty and culinary products have been steadily in an upwards trajectory, dominating beauty product trends in 2018 because of its moisturizing and nourishing qualities. Further researches discovered more qualities of this oil extracted from the kernels of *Argania Spinosa L.* Such as healing skin eczema, burns, hair loss in women, helps skin cells renewals and benefits dry skin. These benefits of Argan oil usage have led to the oil being dubbed as the "miracle oil" (Gérard Lizard, 2017).

*Argania Spinosa L.* or commonly known as Argan tree is a tree endemic to the valleys of South Morocco, from where it got its name, from the native Berber language. The infamous Argan oil is extracted from its hard-shelled fruits. Before the worldwide usage of Argan oil where it became strongly associated with beauty products, it was already widely consumed in Morocco as food component and as traditional remedy (Orwa C, 2009).

After the widely referenced research of Prof. Zoubida Charrouf in the 1990s, the popularity of Argan oil skyrocketed. The first women co-operative producing Argan oil was founded in 1996 under Prof. Zoubida Charrouf's guidance. This momentum was further accelerated by the designation of 2,560,000 hectares of Argan forest in southwestern Morocco as Biosphere Reserve in 1998 (Huang, 2017). This impact carried on to the new millennium when the world started to take notice of the once obscure oil. Multi-national companies started marketing

the oil as the most expensive edible oil in the world (Lybbert, 2004). L'Oreal as the biggest beauty brand that marketed Argan oil became responsible for introducing and commercializing Argan in beauty products. This commercialization brought about market opening for Argan all over the world.

The market opening brought by the acknowledgment of Argan oil benefits for beauty and culinary purposes opened renewed interests by the people of Morocco, especially in the southwestern part of Morocco where Argan forests are plenty. This helps Berber women in the region as firms started to be established and women are recruited to extract the kernels from the fruit. Before, they only made Argan oil to be consumed at home or sell them in small quantity with the help of their husbands. With the new market, came new income source for the Berber women. The interests over the added value of Argan oil coupled with the Argan forests designated as Biosphere Reserve by UNESCO was also expected to help deforestation as a result of people liberally cutting the trees down to make charcoals and other purposes. However, not all of these firms and co-operatives exercise sustainable business practice. The workers, although paid, still get wage under the standard minimum wage in Morocco. Furthermore, the risk of deforestation is still persistent as the valuable industry grows, because to get more oil, people go to more aggressive measures to harvest the fruits which harms the long-term productivity of the trees (Mould, 2015).

With the international market becoming increasingly aware of the Argan oil trends, big multinational companies' interests grow and many of them establish connections with women co-operatives in Morocco and turn to them as their primary supplier. L'oreal is one of the most known companies that exercise this

practice. Its awareness of the sustainability and social gap issues as well as its commitments to its Corporate Social Responsibility (CSR) push it to create programs that would be beneficial for the company as well as the Berber community.

From the explanation above, there appears to be more research and analyses needed to see how L'oreal as an international actor exercise its Corporate Social Responsibility in outsourcing Argan oil from Morocco. This study becomes important to do as sustainability is still an emerging global issue with great relevancy as the world sees the increasing strides of industry and business phenomena in International Relations.

### **B. Research Question**

How does L'Oreal exercise its Corporate Social Responsibility for the Argan Oil production in Morocco?

### **C. Theoretical Framework**

Based on the research question and background that have been explained briefly in previous sections, the research deals with economic and ethical issues concerning business practice of L'Oreal as Multinational Corporation and its efforts in establishing projects in the Berber community of Morocco in accordance with its Argan Oil production. The theoretical frameworks consist of two concepts which will be used to explain L'Oreal's actions in exercising its Corporate Social Responsibility.

## **1. The Concept of Corporate Social Responsibility**

Corporate Social Responsibility is an economic concept where companies include concerns of social and environment in their business operations. CSR is broadly defined as being the way through which a company achieves a balance of economic, environmental, and social objectives, while at the same time fulfilling the expectations of shareholders and stakeholders. It is important to acknowledge a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships, or philanthropy (UNIDO, 2020).

CSR concept began to emerge in the 1950's as a philosophy of business doing good for society, including incorporating notions of corporate philanthropy. It then expanded to place broader expectations on companies in terms of wider social concerns as driven by social rights' agendas and legislative change. However, it was not wholly considered as a business discourse and strategy until the 1990's and 2000's, when there was a focus on business practice focused on stakeholder's needs. In the 2000's, CSR was viewed as the bridge between business strategy and sustainable development. This included companies utilizing CSR to align with relevant international and industry standards (e.g. United Nations Development goals). Such a connection of CSR from the local to the global was most relevant to large-scale global companies which had high public profiles and were cognizant of the need to gain reputational currency through CSR. This also happened at the time of greater scrutiny of companies through social media, improved communication, and information. In the past decade, with the existence of issues such as climate change, scholars advocated that CSR needed to

shift from a secret and volunteer activity to an immediate and integrated response acknowledging the big impact of business (Allen & Craig, 2016). Thus, today CSR involves a complex agenda including managing localized impacts, e.g. water and biodiversity impacts but also contributing to solving broader-scale issues such as national-level prosperity and international-scale problems including climate change (Fordham & Robinson, 2018).

### Pyramid Model of Corporate Social Responsibility

The first model that tries to decipher the concept of CSR is Carroll's pyramid model. According to Carroll, social responsibility consists of four types of responsibility on companies: economic, legal, ethical, and philanthropic (Stefańska & Nestorowicz, 2015). According to Carroll, the use of a pyramid to illustrate the conceptual model of CSR is meant "to portray that the total CSR of business comprises distinct components that, taken together, constitute the whole." (Geva, 2008)

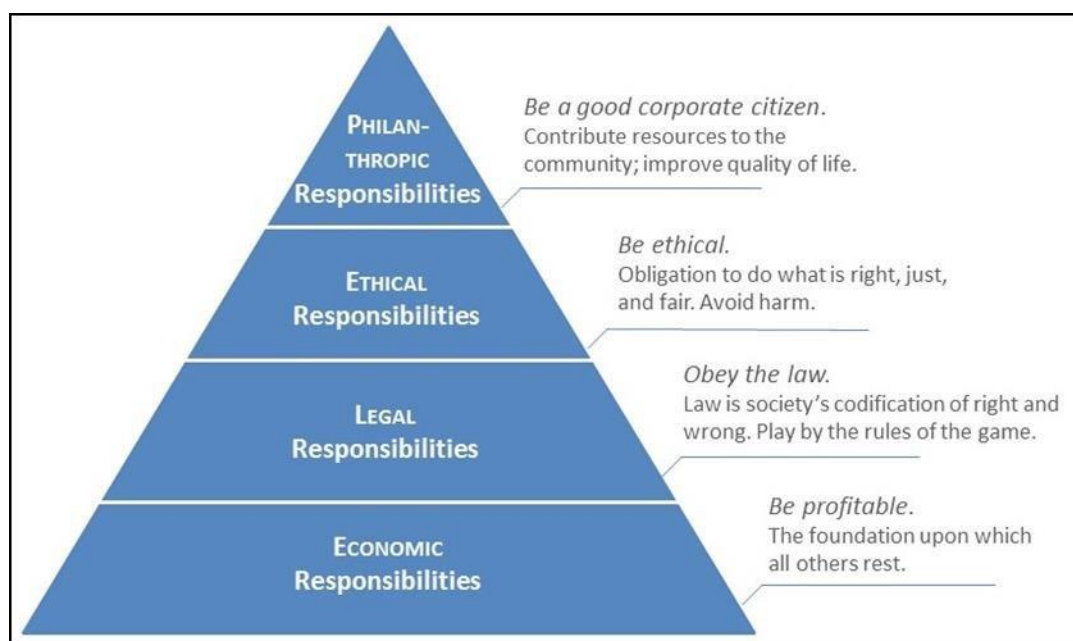


Figure 1.1: Carroll's pyramid model of corporate social responsibility (Carroll, 1991)

The first type is associated with business operations and the inclination to create a profit. However, the concept of profit itself, especially its size and the ways of achieving it, is a subject of debate among researchers in which the following notions appear; profit, reasonable profit, and the maximization of profit. The definition of reasonable profit is relative and may vary depending on the region of the world, the level of economic development, and the culture of the society in which a company operates. In a way, fair trade is the answer to the question about what makes a standard profit. It is safe to conclude that it is a kind of profit in which all the participants of the supply channel are fairly repaid for the work they have done. So, responsible business means transactions are fair and work is reasonably rewarded. But CSR must not endanger the existence of a company. Thus, a limit is set as to what a company can offer without jeopardizing its existence and future.

Another kind of responsibility is manifested through observing the law and going beyond legal requirements in order to attain social objectives (not breaking the law but doing more than the minimum specified by it). According to A. Carroll, responsible entities should act in line with the law and go beyond rules and regulations to show their commitment.

The third area concerns ethics and ethical responsibility. This comes from the existing social norms and principles that determine the framework of responsibility.

The last type of responsibility is associated with philanthropic activities and is a manifestation of the commitment of organizations in terms of sponsorship or patronage (Stefańska & Nestorowicz, 2015).

This model is suitable to be used to explain how L'oreal exercises its Corporate Social Responsibility and highlight what it emphasizes in the process of doing business as well as establishing a fair trade and sustainable climate for Moroccan Argan oil producers.

## **2. The Concept of Fair Trade**

Fair Trade is often defined in general as fair prices for the products of producers in developing countries. In this context a 'fair price' means a price that is higher than would be the case in a free market situation, and one that enables local producers to develop a sustainable business and to produce in environmentally and socially better conditions. According to Birds and Hughes (1997), in essence, Fair Trade means buying products from producers in developing countries on terms that are more favourable than free market terms, and to market them in developed countries at a minimum price that are ethical. This higher price to the consumer is necessarily influenced by the higher price that producers get in return for their products and by the Fair Trade control mechanisms in the trade channel (Patrick De Pelsmacker, 2007). It focuses particularly on exports to developed countries by developing countries. Farmers and workers who produce raw materials do not always get a fair share of the benefits of trade. Fair Trade enables consumers to put this right. Fair trade is functional under some specific principles. The main aim of fair trade is poverty alleviation and improvement of producers'



lives in poor and developing countries. The standards are eligible for both producers and traders (RESET, 2020).

At the final point of sale, fair trade attempts to increase the visibility of long-term impacts and global connections involved in day-to-day economic transactions through the education of the final consumer. Using histories, descriptions, and pictures of producer groups, as well as explanations of production processes, fair trade offers the opportunity to reinstate, at least partially, the information about process that is so lacking in conventional trade.

Fair trade attempts to draw the consumers' attention to some aspect of the process that brings the commodity to the shelf. It claims that production processes are important aspects of commodities, and thus of your purchasing decision. In getting people to focus their attention beyond the commodity and on the social and the environmental conditions in which it was produced, fair trade could encourage people to identify less as consumers and more as political actors (Hudson, Hudson, & Fridell, 2013).

The main goals of Fair Trade are to:

- Ensure that producers obtain prices that cover their standard costs of sustainable production.
- Provide an additional fair-trade cost which can be invested in projects for the betterment of social, economic, and environmental development.
- Enable pre-financing for producers who require it.
- Facilitate long-term trading partnerships and allow better producer control over the trading process.

- Set clear minimum and progressive criteria to ensure that the conditions of production and trade of all Fair trade certified products are socially, economically fair and environmentally responsible (RESET, 2020).

This concept is suitable as a vessel to explain the way L’Oreal conduct business with the co-operatives that produce Argan oil in Morocco as L’Oreal emphasizes on sustainability and fair trade business.

#### **D. Hypothesis**

Based on the elaboration of the background of this particular phenomenon, supported by the theoretical framework to answer the research question, then the actions of L’Oreal in exercising CSR is done by implementing Fair-Trade concept, which includes the following measures:

1. Establishing commitment with women co-operatives and obtaining raw materials of Argan oil as the ingredients of its products from women co-operatives to ensure steady income and sustainable economy for women in Morocco.
2. Cooperating with non-governmental organizations using its global influence to ensure improvement and betterment in life quality of Argan oil co-operative workers.

#### **E. Research Method**

Approach: This research utilizes the qualitative approach. This research is defined as research that produces descriptive data in the form of written words. The qualitative approach is utilized by explaining and analyzing data that the

researcher has found, which then will be used to present the results of the research.

**Data Collecting:** The technique of data collection used by the researcher is library research, a form of primary and secondary data collection by examining a number of literature in the form of books, journals, documents, newspapers, websites, papers and articles, and reports containing information of L'Oreal's Corporate Social Responsibility and The Argan Program as well as the Argan Oil industry in Morocco.

**Data Analysis:** The data analysis technique that the researcher use is explanative method, aiming to explain and deliver information about how L'Oreal exercise its Corporate Social Responsibility in the Argan Program in Morocco.

#### **F. Research Period**

To avoid overlapping and unfocused scientific writing, the author limits the scope of research from the beginning of 2008 to 2020. This restriction is done so that the writer can conduct more focused research with adequate amount of data of the Argan Program.

#### **G. Writing System**

Systematic of writing this thesis is as follows:

The first chapter is the introduction chapter. This chapter aims to explain the background of the problem, research objectives, and present the research question. The theoretical framework, research methods, research scope, and writing system are in the second half of the chapter.

The second chapter explains about L'Oreal as the multinational corporations that acts as the international actor, how it performs in the international business, and its history. L'oreal's business practice, CSR goals, and commitment will also be written in this chapter.

The third chapter discusses about the Argan oil production in Morocco and its far-reaching impact to the economy and culture. This chapter will also discuss about women co-operatives that have been a big part of Argan oil production, as well as the various existing problems they face.

The fourth chapter discusses this research's analysis on how L'oreal takes part in The Argan Program in Morocco as a part of its Corporate Social Responsibility. This chapter elaborates on L'oreal's sustainable business practice in Morocco, and its cooperation with BASF and the NGO Yamana in responsible sourcing of Argan oil. This chapter also will discuss about the impact and benefits of the Argan Program.

The fifth chapter contains a summary or conclusion of the discussion chapters and is the closing and final discussion of the thesis.