

Academic tutorial
Contemporary managerial problems
L1 Sciences de Gestion

Session 1
Activist funds & « Entreprise à missions »

Objectives:

Missions for companies? Companies can opt for a status called "entreprise à missions". This type of status consists of a new form of company that has a social and/or environmental purpose in addition to its profit-making goal. But can these missions constitute a brake on the creation of value for shareholders? Are they contradictory to the payment of dividends? Companies with a mission seem to bring progress, modernism and freedom from the infinite quest for financial performance.

Moreover, a new type of shareholder is making its presence felt on the European continent. These shareholders are the "activists". They owe their name to their reputation: being more active than others and using the share of capital they hold in a listed company to influence the company's policy or governance structure, or even its production or objectives.

The company being a place of compromise where each actor, inside or outside the company, has a specific vision of how to create value, management consists in seeking a subtle balance between these different visions. Each vision will influence the decisions taken by the company and therefore, in the longer term, the path it will take. This session will seek to understand whether activist funds can pose a threat to the pursuit of the missions that companies set for themselves as part of their status as "entreprise à mission".

Focusing on the case of Danone, the main problem will be to ask whether Danone can lose its sustainability objectives in favor of financial objectives because of the arrival of activist funds in the company's capital?

Requested work - presentation topics:

Two groups of students will deal with one of the following two topics in the form of an oral presentation:

Topic 1: To what extent does the status of a company with a mission make it possible to reconcile short-term and long-term strategies for a company like Danone?

Topic 2: To what extent can the status of a mission-driven company call into question Danone's governance?

For this, you will propose a problematic and a detailed plan (I. A/ 1/ 2/ B. 1/ 2/ II. A. 1/ 2/ B. 1/ 2/).

Preparatory work:

Students **who do not participate** in oral presentations will individually address the questions found at the end of the booklet. To do so, they must read the documents presented in the booklet thoroughly in order to be able to answer the questions asked after the documents.

The objective of the preparatory work is to allow you to appropriate the concepts and to feed the exchanges during the TD. Your preparation of this work is evaluated as part of the participation grade.

Document 1 :

Wikipédia, « Entreprise à missions », 30/11/2021

Debates on the viability of the model in the face of financial pressures

The case of Danone

In March 2021, the head of Danone [Emmanuel Faber], who had placed this large company within the legal framework of mission-based companies, having renounced his pension, having redistributed part of his income and wanting to make his products more eco-responsible, including by paying his dairy suppliers well in order to guarantee their sustainability and the quality of the product, was dismissed by his board of directors. Many commentators link this to his choice to combine social and environmental objectives with profitability objectives and therefore question the very principle behind this legal form.

Blanche Segrestin and Jérémy Lévêque co-signed an article in the newspaper Le Monde in which they emphasized that this ordeal could constitute a test of the robustness of the model in the longer term, as the questioning of the objectives linked to the mission would require a larger majority than the decision to dismiss the director.

Georg Wernicke, Assistant Professor at HEC Paris, defends the idea that the ostensible display of social and environmental objectives may have had the paradoxical effect of attracting aggressive speculative funds, because the latter are betting that abandoning these objectives, which they perceive as costly, may constitute a turnaround that is both easy to take and highly profitable in the short term.

Document 2 :

Georg Wernicke, 23 mars 2021, Tribune : « L'engagement d'Emmanuel Faber en faveur de la RSE pourrait bien avoir aussi attiré... les investisseurs », *Le Monde*.

Emmanuel Faber's commitment to CSR may also have attracted... investors

Strategy professor Georg Wernicke notes, in an article for "Le Monde", that companies displaying their social responsibility can quickly fall prey to the media and investors looking for optimization.

Twenty-nine months before Emmanuel Faber stepped down as CEO of Danone, Paul Polman, CEO of Unilever for more than a decade, also resigned following a shareholder rebellion.

Executive turnovers due to shareholder dissatisfaction are legion, but those of Emmanuel Faber and Paul Polman have in common a very current resonance, since both CEOs were committed to social and environmental responsibility (SER), responsible capitalism and a multi-stakeholder model.

[...]

Emmanuel Faber had embarked on ambitious initiatives [...] at Danone, hoping to transform the way we produce our food, make Danone carbon neutral and improve the health of as many people as possible.

The company « spendings » (l'entreprise « dépense »)

CEOs have a real influence on their company's CSR activities, as shown in a study of 1,199 CEOs heading 819 companies in the United States ("How much influence do CEOs have on company actions and outcomes? The example of corporate social responsibility," Christophe Boone, Miha Sajko and Georg Wernicke, Academy of Management Discoveries,

January 15, 2021). Nearly 30% of the total variation in a company's green actions is due to the managerial policies of its CEO.

According to some investors, Paul Polman and Emmanuel Faber therefore had the ideal profile to steer their companies towards a slow "green" transition and took into account the needs of all stakeholders in their companies, not just their shareholders, and also helped attract CSR-oriented investors.

However, Paul Polman and Emmanuel Faber's strong commitment to CSR may have also attracted... the activist investors who ousted them. Analyzing the campaigns of 506 activist investors in the United States, one study found that a company that invests in sustainability may also attract unwanted attention from investors who view such a commitment as a red flag that the company is "spending" rather than maximizing short-term stock value ("Why Activist Hedge Funds Target Socially Responsible Firms: The Reaction Costs of Signaling Corporate Social Responsibility," Mark DesJardine, Rodolphe Durand and Emilio Marti, *Academy of Management Journal*, April 22, 2020).

Document 3 :

Lévêque Jérémy & Segrestin Blanche, 19 mars 2021, Tribune : « Le cas Danone ne permet pas encore de se prononcer ni sur l'échec ni sur la portée de la société à mission », *Le Monde*.

The Danone case does not yet make it possible to pronounce either on the failure or on the scope of the company with a mission

Researchers Jérémy Lévêque and Blanche Segrestin explain, in an article in *Le Monde*, how the eviction of Emmanuel Faber from Danone's management does not exclude the pursuit of the company's social and environmental aims.

On 26 June 2020, Danone was the first listed company to adopt the status of "entreprise à missions", introduced by the Pacte law (relating to the growth and transformation of companies of 22 May 2019). This transformation, voted 99.4% by the general meeting of shareholders, reinforced the social tradition of the group. It also reinforced the strategy of its CEO, Emmanuel Faber.

Eight months later, after several weeks of tensions over his financial recovery plan, Emmanuel Faber was finally dismissed by the board of directors, urged by two activist funds newly acquired into the capital [Bluebell Capital Partners and Artisans Partners].

From the beginning of the tensions, many observers were quick to see in the case of Danone the bankruptcy of the status of company with a mission that would not allow to resist the race for shareholder profitability, and the fall of the CEO who had committed Danone on this path would de facto seal its abandonment.

We believe, on the contrary, that the Danone case does not yet make it possible to pronounce either on the failure or on the scope of the company with a mission. First, it is necessary to return to the provisions of the law. Because it is easier to oust a leader than to disengage from the commitments of a company with a mission! The director is revocable by his board of directors without notice or justification; while it takes a two-thirds vote of all shareholders to reject the status of company with a mission.

Above all, it is only from now on, and when the new management team will propose its strategy to meet the expectations of shareholders, that we will be able to observe the concrete effects of the company with a mission and judge its robustness.

Double checking

The interest of the executive of the company with a mission is indeed to allow a company to include in its statutes a mission consisting of a set of objectives of collective interest freely chosen. Once in the statutes, this mission then becomes legally enforceable.

Danone is committed to several objectives including: the promotion of best food practices; support for a regenerative, fairer and more sustainable model of agriculture; the concern to give each employee the opportunity to influence the company's decisions; as well as the support of the most fragile actors of its ecosystem. These objectives are not obsolete simply because of the departure of Emmanuel Faber. Tomorrow, several stakeholders could remind shareholders and new management of them.

Document 4 :

Thomas Legrand, 16 mars 2021, « Le cas Danone... un cas politique », *L'édition politique*, France Inter.

The Danone case... a political case

The way in which Emmanuel Faber, the boss of this flagship of the industry, has just been disembarked, under pressure from influential minority shareholders, so-called 'activist' funds, those investors who want to be able to enter exit, according to immediate profitability, raises political questions.

What is the point of passing laws, such as the Pacte law to promote the idea of companies with a mission, concerned about health and the environment, if a few shareholders, 'courtermists', can get rid of managers with another vision of the company?

[...]

But [Emmanuel Faber] was challenged internally? Are we sure that his dismissal is so political?

It is true that this lonely manager exasperated many executives of the company (even among those who had the same vision as him)... Franck Riboud, son of the founder [of Danone], himself, did not support him. And the government has not lifted a finger, even though it is still a symbolic undertaking of a virtuous capitalism, which it claims to be possible.

But how many bosses are rather lonely and authoritarian captains?

Obviously those who are and shake up the incredible conservatism of this world are more quickly disembarked. The shareholders of hedge funds know how to use the slightest management flaw to get rid of those who could carry a less voracious, more transformative, less short-term vision. Isabelle Kosher, CEO of Engie, very invested in the ecological transition was also thanked.

[...]

And after all, these characters have more impact and influence on our lives than many politicians. But the shareholders, not all... some funds at least, very dynamic and aggressive, hate the bosses who meddle in something other than immediate profitability.

We will soon know if Faber and Kocher were landed because of their character or because of their heterodox, progressive vision. Before the summer, Engie must give its ecological transition objectives. Will the ambitious course set by Isabelle Kocher be maintained? We will also quickly see if Danone remains a company with a mission... And it will be a political observation.

Document 5 :

Estival, L. (2021). Le monde chaotique des grandes entreprises. *Revue Projet*, 381, 22-23.

The chaotic world of big business

Stupor in the economic landerneau: on November 23, 2020, Danone announces a plan to cut 2,000 jobs worldwide, including 400 to 500 in France. "It is the survival of the company that is at stake," explains its president and CEO, Emmanuel Faber. The aim is to achieve a saving of one billion euros by 2023 with a view to returning an operating margin of 15% from 2022. If employees want to hear the impact of the [health] crisis on the turnover of the multinational, they have a much harder time admitting that, seven months earlier, 1.5 billion euros in dividends were paid to shareholders. Enough to chip away at the social image of a boss considered one of the most virtuous of the CAC 40...

[...]

Driven by the Pacte law (the action plan for the growth and transformation of companies), large groups are also jostling at the gate to acquire a "raison d'être", like Orange or Veolia. Others go a step further by becoming a "entreprise à missions". The emblematic measure of the law promulgated in 2019 follows the proposals of Nicole Notat, former secretary general of the CFDT, and Jean-Dominique Senard, former CEO of Michelin and now president of Renault. At the center of this multifaceted movement is the desire to inscribe a new chapter in the history of capitalism, without turning its back on profit. The "raison d'être" of companies underline that it is only a tool to promote access for all to healthy food, water, networks, sustainable mobility...

If the risk of greenwashing is not excluded, these commitments are not just empty slogans. Because large companies feel the wind of the ball whistling in their ears: climate change threatens their existence, inequalities siphon off consumer reserves and tarnish their reputation. It is imperative to act to avoid losing both one's soul and its profits, but multinationals have neither certainties nor compass. Because the characteristic of these

transitions is that there is no model that could be increased tenfold in a uniform way. Each company has its specificities and constraints. So, all those who go as scouts grope.

[...]

Uber and other Deliveroo are starting to lose the game with the multiplication of lawsuits demanding to recognize the status of employees – and the rights that go with it – to bike delivery drivers and taxi drivers, forcing states to put in place safeguards. Of course, there are also, like Danone, companies that are going back to the past. Out of cynicism, some will no doubt say. Unless it is, as with alcoholics, the difficulty of definitively turning their back on an addiction that may nevertheless lead them nowhere...

Document 15 :

Aggeri Franck, 01 avril 2021, « Danone : l'entreprise à mission à l'épreuve des marchés financiers », *Alternatives Economiques*.

Danone: a company with a mission tested by the financial markets

The dismissal of Emmanuel Faber, CEO of Danone, illustrates two recurrent debates that run through contemporary capitalism: corporate governance and the compatibility between social commitments and financial performance.

The decision of Danone's board of directors on March 1 to remove Emmanuel Faber, its media-friendly CEO, from the company's top management was not enough to calm the outcry from some of its shareholders. In the end, the directors also removed him from the presidency of the group, it was learned on Monday, and replaced him with Gilles Schnepp, former CEO of electrical equipment manufacturer Legrand. This decision has caused a stir, because this is not just any company or any executive.

Not only is Danone one of the jewels in the crown of French industry, but it has also been the figurehead for 50 years of social capitalism, of the dual economic and social project that Antoine Riboud formulated at the national conference of the CNPF (formerly MEDEF) in 1972. This social commitment was then reaffirmed and deepened by his son Franck Riboud, who led the group from 1996 to 2014. He was particularly known for having experimented with new models of social innovation.

[...]

Emmanuel Faber, CEO since 2014, then CEO since 2017, went one step further by giving the group a *raison d'être* (bringing "health through food to as many people as possible"),

and then, in June 2020, making it the first company listed on the CAC 40 to adopt the brand new legal status of a company with a mission introduced by the Pact law (2019).

This decision was approved by more than 99% of shareholders at the Annual General Meeting. Danone then adopted ambitious long-term environmental and social objectives to guide the company's strategy: developing a portfolio of healthy products, promoting regenerative agriculture, developing social innovation, and promoting an inclusive policy for its employees and subcontractors.

By personally committing himself to this path, by multiplying media statements and debates with stakeholders, Emmanuel Faber embodied the role of the visionary leader, the champion of the transition to a more sustainable economic model. How then can we explain his sudden fall? Does this decision constitute a warning shot for companies on a mission to face the pressures of financial markets?

A déjà-vu

On paper, the story has an air of déjà vu. Two activist funds, Bluebell Capital and Artisan Partners, have been leading a campaign for several months now to ask Emmanuel Faber to leave the company's management.

These two funds believe that Danone's financial performance (margins, growth, profitability) is insufficient compared to its main competitors (Nestlé or Unilever), which has resulted in a decline of 25% in Danone's share price in 2020. They blame the management of its CEO for this poor performance.

In addition, they are campaigning for the adoption of rules of good governance, calling for the separation of the functions of Chief Executive Officer and Chairman of the Board of Directors, believing that the concentration of powers is a source of drift towards the personal power of the executive.

Despite the support of the unions, the board of directors preferred to sacrifice Emmanuel Faber. Most analysts made a direct link between the campaign of these two funds and the decision of the board of directors (BoD), which was under pressure a few weeks before a general meeting of shareholders where a third of them were to renew their seats. Despite the support of the unions for the executive, the Board preferred to sacrifice him. On the face of it, the Faber affair is nothing more than a new illustration of the conflict between shareholders and managers, and the primacy of financial logic.

Contested operational management

However, on closer inspection, things are less clear-cut than they seem. Indeed, several testimonies underline that Emmanuel Faber's management was the subject of much criticism internally. Unlike his predecessor, Franck Riboud, who was reputed to be open and warm, his management was considered authoritarian and he was accused of exercising power alone.

Two important and respected executives had recently left the company, causing a stir. The multiple reorganizations had apparently exhausted the internal staff and some pointed to an erosion of the company's culture of innovation. Others felt that the CEO had abandoned operational management in favor of political and intellectual debates on the long-term vision.

Several members of the Board of Directors echoed these criticisms, openly questioning whether the CEO should leave. Attentive to these criticisms, Franck Riboud, an honorary director and key figure in the company, had himself advised his successor to abandon the combination of the functions of CEO and Chairman of the Board. Emmanuel Faber seems to have remained deaf to these criticisms, seeking support from outside the company in order to maintain his position.

In the light of these elements, the Board's decision takes on a different light. It is more the exercise of power and the operational management of the CEO that are questioned rather than the strategic orientation of the company.

In this light, the Danone case illustrates two recurrent debates that run through contemporary capitalism: corporate governance, and the compatibility between societal commitments and financial performance.

Standardized corporate governance?

The first debate concerns the standardization of the governance of large French companies around Anglo-Saxon standards. The French anomaly of the status of CEO, who combines the two functions of CEO and Chairman of the Board, is tending to recede among CAC 40 companies, as illustrated by the separation of functions recently implemented at Renault and Engie, and soon at Bouygues and L'Oréal. The State shareholder is encouraging this separation. This is a rather healthy movement which avoids an excessive concentration of power in the hands of a single person, provided that the chairman is truly independent of the CEO.

The other debate is about the inevitable tension between the demands of short-term profitability and the long-term societal commitments embodied in the mission [corporate status]. The economic crisis caused by the current pandemic has only amplified this tension.

In the case of Danone, some commentators were upset that, just a few months after the adoption of the new mission statement, a plan to lay off 2,000 people was announced in November 2020, even though the company's profits were stable and dividends paid to shareholders increased by 8%.

One may wonder, Christian Chavagneux reminds us, about the legitimacy of the demands of the two activist funds who consider that an operating margin of 14% in times of crisis is insufficient. Is the objective, he explains, not, in the end, purely opportunistic: to identify large companies in difficulty, to put pressure on them to increase their short-term financial return and pocket the capital gain?

What future for Danone's mission?

Returning to Danone's case, what will be the consequences of this governance crisis on the mission? Are we moving towards a withering away, or even abandoning it? Nothing is less certain. The two activist funds reaffirmed their commitment to the company's mission. It is true that it is difficult to go against a strategy that has been so overwhelmingly approved by the general meeting of shareholders.

It is therefore unlikely that Emmanuel Faber's departure from the presidency and the general management will be likely to call into question the company's mission. It would also be problematic for the company's commitment to rest exclusively on its leader, however media-based it may be. As one company executive said on condition of anonymity: "The company with a mission stems from Danone's fifty-year history. It will continue afterwards. We must stop the hoax. This is also one of the interesting aspects of the mission, recalls Jérémy Lévêque, a doctoral student at the Ecole des Mines: once written in the statutes, it obliges the manager as much as it protects the company.

The dispersion of Danone's capital makes it vulnerable to attacks by determined shareholders

Danone's case, however, raises questions about the factors likely to weaken the company's mission. Among these, a structural weakness must be pointed out: the strong dispersion of its capital. Unlike companies with a stable core of shareholders, this dispersion makes the company vulnerable to attacks by determined shareholders and can limit the managerial latitude of managers. In this respect, it is questionable whether the mission committee, which guarantees the company's long-term vision, can be sufficient to counterbalance these centrifugal forces.

Danone's transition to the status of a company with a mission is less than a year old. The same goes for the hundred or so French companies that have adopted this status in France.

This is far too short a horizon to produce a judgment on the future of this type of device, while its potential effects can only be assessed over the long term.

Beyond the inevitable governance crises that will occur here and there, the challenge now is to document and analyze the effects that these devices produce over time on the strategy and activities of companies, to identify the conditions for success but also failure. This is the objective of the observatory of companies with a mission, recently set up by the community of companies with a mission and by the Chair of Business Theory at Mines-ParisTech. After the experimentation phase, it is time for observation and feedback to get out of the Manichean debates between the proponents of the shareholder value model and those of partnership value.

QUESTIONS

For each question you must first answer with a sentence by mobilizing the appropriate concepts and, in a second step, quote the relevant passages of text – *use quotation marks and indicate the number of the document cited.*

- 1. What is the status of "entreprise à mission" like the one that Danone has acquired? What are its characteristics?**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**2. In the case of Danone, does this company status bring progress?
From what point of view?**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**3. What are the aspects/details of the controversy surrounding the
entry into Danone's capital of activist funds?**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**4. What are the consequences of the arrival of new shareholders in the
company's capital?**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....
.....
.....

5. Is the status of a company with a mission likely to have an impact on the governance of the Danone company? To what extent?

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....