

Contemporary management problems

Activist funds and “entreprise à missions”



Théo JUSTY



About me



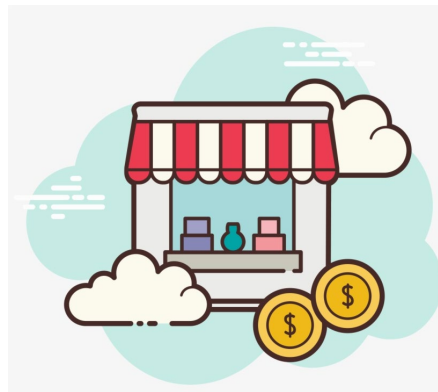
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- Specializing in new technologies and organization studies
- Teaching and research assistant at Montpellier Management
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Presentation of the course

Objectives of the course

Understand the company and its context through case studies to see what really makes theory and to give you the skills to describe and analyze reality.



General session development

Sum up concepts
from last lecture

2 Group
presentations

Case study
correction



*Read and
work on the
case study
at home*

Schedule (1/2)

Session 1	Session 2	Session 3	Session 4
Introduction & Case study 1	Case study 2	Case study 3	Case study 4
September 28 th	October 05 th	October 12 th	October 19 th
Correction of case study	Presentations & correction of case study	Presentations & correction of case study	Presentations & correction of case study

Schedule (2/2)

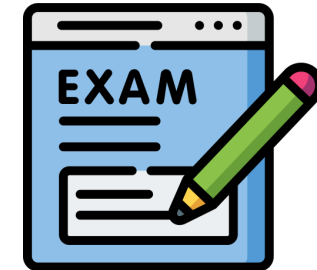
Session 5	Session 6	Session 7	Session 8
Case study 5	Case study 6	Case study 7	WRITTEN EXAM
November 09 th	November 16 th	November 23 rd	November 30 th
Presentations & correction of case study	Presentations & correction of case study	Presentations & correction of case study	EXAM

Assessment system

- **Presentation → 30%**
 - Group grade (3 or 4 students)



- **Written exam → 70%**
 - Individual grade



- **Class participation → +1,5 points**
 - Individual grade



Group presentation

2 groups will present their work every week based on a case study



Objective: to present a problematized analysis of the case



Groups of 3 people



10-12 minutes



Presentation material (e.g. Powerpoint)
+ to be sent before the class

Group presentation

2 groups will present their work every week based a case study.

- Groups of 3 or 4 people
- Synthesis of 1800-2000 words
- Presentation of 10-12 minutes
- Powerpoint
 - 1^{ère} slide: title and names of group members
 - 2^{ème} : introduction
 - 3^{ème} : research question
 - ... : case study analysis
 - 8^{ème} : conclusion
 - 9^{ème} : bibliography



Group presentation

Content evaluation criteria (10 points)

- Problematization (of the theme)
- Synthesis (of the information in the text)
- Conduct document research.
- Answer the question

Evaluation criteria for form (10 points)

- Be within the time limits
- Clarity and fluency of speech
- Clarity and relevance of presentation material (e.g. Powerpoint)

Methodology of the course

Preparatory homework

- This course requires mandatory preparatory homework.
- Before each session, you must:
 - Read the case-study and answer the questions (individual work)
 - OR Prepare the presentation and the discussion (group work)
- The teacher reserves the right to take your work for evaluation.



Methodology

- As in a document synthesis, you must follow certain steps to answer the questions:
 - Read the documents
 - Identify core keywords and concepts
 - Highlight sentences or extracts relevant to the subject
 - Always define the concepts related to the question
 - Always provide an analysis and a justification to your answer
 - Cite your references or extracts from the documents



Please, don't ...

- When writing your answers to the questions, please do not:
 - Use bulleted list and unnecessary abbreviations
 - Write uncomplete answers
 - Answer everything and anything thinking the teacher will figure it out
 - Please, make sure you use the right concept for the right answer



DO'S



DON'TS



Session 1

Activist funds

& “entreprise à missions”

Corporate governance models

- **Corporate governance :**
 - refers to the decision-making model at work within the company
 - includes the organization and distribution of powers within the company
- In short, it is the way by which the company is managed, administered and controlled.
- The corporate governance model makes it possible to answer the following questions:
 - Who governs? Who are the stakeholders? Who owns the decision process?



Corporate governance models

- Different governance models exist:
 - **State:** absolute majority ownership of capital by the State
 - **Shareholder:** ownership of the company's capital divided among several shareholders
 - **Cooperative:** ownership of the company by its members
 - **Entrepreneurial:** holding of capital shares with an absolute or relative majority by a single holder of the company's capital



Stakeholders

- **Stakeholder** is an individual or collective actor directly or indirectly concerned by a project or a decision and whose interests may be affected as a result of this decision or project.
- All actors located inside or outside the company



- **Examples of stakeholders:**
 - Managers
 - Employees
 - Unions
 - Shareholders / Investors
 - Customers / Consumers
 - Suppliers
 - States
 - NGOs...

Business strategy

- **Financial (or business) strategy**

- This strategy aims primarily at making the shareholder's investment profitable.
- Maximization of shareholder value (the value of shareholders is to be maximized)
- Short-term strategy



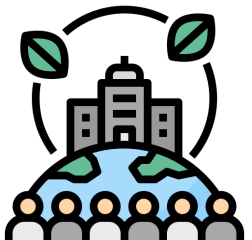
- **Industrial strategy**

- This strategy aims first of all at "building a brand image".
- Maximization of partnership value
- Long-term strategy



Corporate Social Responsibility

- **Corporate Social Responsibility (CSR)**
- It consists for a company in taking into consideration sustainable development issues on a voluntary basis or on a legal basis.
- Issues such as environmental, societal, economic or ethical impacts are integrated – weakly or strongly – into the activities of companies.
- As sustainable development, it is generally admitted that CSR has 3 dimensions: economic, social and environmental.



Case study 1 – Danone

Activist funds

& “entreprise à missions”

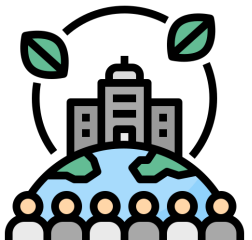
Question 1

- i. **What is the status of "entreprise à mission" like the one that Danone has acquired?**

- ii. **What are its characteristics?**

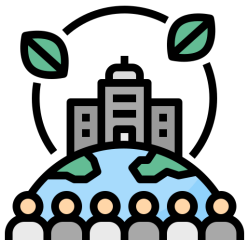
« Entreprise à missions » status

- The status of “entreprises à missions” inscribes in its statutes a set of objectives of “collective” interests freely chosen by the company.
- These interests are called collective because they focus on different stakeholders located inside and outside the company (dairy suppliers and consumers).
- The transcription of “entreprises à missions” in the statutes of the company has a legal value.
- A company with the status of a mission company requires a vote of more than 65% of the members of the Board of Directors of the company (shareholders) to reject this status.



« Entreprise à missions » characteristics

- The characteristics of a “entreprise à missions” are a company whose interests are directed towards objectives other than financial objectives alone.
- These interests are particularly oriented towards the sustainability in its activities and processus.
- This type of company has social, environmental and even public health objectives (more particularly mentioned in the case of Danone).
- This type of company is supposed to embody a compromise – or a reconciliation – between short-term objectives (profitability of the financial investment for the shareholder) and long-term commitments (due to various social projects).



Question 2

- i. In the case of Danone, does this company status bring progress?

- ii. From what point of view?

How does it bring progress?

- **Consumers**

- This legal status makes it possible to offer consumers more eco-responsible and healthy products. Danone is doing this with the aim of gaining market share.

"wanting to make its products more eco-responsible" (doc. 1)

"bringing "health through food to as many people as possible" (doc. 6)

"inequalities siphon off consumer reserves" (doc. 5)

- **Employees**

- This legal status gives employees the opportunity to make decisions that are likely to have an impact on the company. Nevertheless, the company still pursues profitability objectives for shareholders to the detriment of employees.

"the concern to give each employee the opportunity to influence the company's decisions" (doc. 3)

How does it bring progress?

- **Suppliers**

- The status of EAM seems to be favorable to the company's suppliers.

"by paying its dairy suppliers well" (doc. 1)

"support for the most fragile players in its ecosystem" (doc. 3)

- **Shareholders**

- The status of a company with missions does not seem to impact the financial strategy pursued by the shareholders.

"It is imperative to act to avoid losing both one's soul and its benefits" (doc. 5)

"primacy of financial logic" (doc. 6)

How does it bring progress?

- **Activist hedge fund**

- EAM like Danone remain exposed to activist funds that have a short-term vision.
- These companies can be an opportunity for these types of players like any shareholder company with low profits.
- The mission committee of an EAM does not influence by the scattering of its capital between various shareholders.

"companies that display their social responsibility can quickly become a prey for media and investors looking for optimization" (doc. 2)

"so-called 'activist' funds, those investors who want to be able to exit, according to immediate profitability, raise political questions" (doc. 4)

How does it bring progress?

- **Civil society**

- The status of an EAM gives a greater right of scrutiny to civil society, which can counter the demands of activist funds or shareholders pursuing short-term financial objectives.

"took into account the needs of all the actors in their companies, not only their shareholders, and also helped to attract CSR-oriented investors" (doc. 2)

"The interest of the executive of the company with a mission is indeed to allow an enterprise to include in its statutes a mission consisting of a set of objectives of collective interest" (doc. 3)

How does it bring progress?

- *In the case of Danone, the status of a company with missions seems to bring progress for the whole of civil society and all the company's stakeholders. Nevertheless, by distinguishing the impacts for each of them, this observation may be more nuanced.*
- *The status of mission company seems to be favorable to the company's suppliers. It is stated that Danone is committed to "fair" remuneration from its suppliers.*
- *This status also allows Danone to offer consumers more eco-responsible and healthy products at an affordable price. The company adopts this strategy with the aim of maintaining market shares made up of consumers with unequal incomes.*
- *This status attaches importance to employees being able to make decisions that are impactful for the company and respect its missions. At the same time, the company always pursues profitability objectives for shareholders even if this is achieved to the detriment of employees. In fact, the status of a company with missions does not seem, here, to impact the financial logic pursued by the shareholders.*
- *Companies with missions like Danone remain exposed to activist funds that have a vision of short-term profitability. Like any shareholder company with low profits, these companies can be a boon for these types of players. The mission committee of a company like Danone's does not influence the scattering of its capital among various shareholders, which facilitates the entry into the capital of this type of fund. Nevertheless, the status of a company with a mission gives a greater right of scrutiny to civil society, which can counter the demands of certain activist funds or shareholders who pursue only financial objectives.*

Question 3

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

The aspects of the controversy

- **Activist funds make Danone lose "the missions" it has assigned to itself.**
- **Activist funds do not change the missions that Danone has assigned to itself.**
- **Certain factors can limit companies with a mission in their action.**
- **It is too early to judge the abandonment of the missions that Danone has assigned
itself**

The aspects of the controversy

- *Some observers believe in a theory that the entry into Danone's capital of new funds causes the company to lose the objectives related to its status as a company with a mission. This vision focuses mainly on the media personality of its former leader Emmanuel Faber. The old PDF, reputed to be favorable to sustainable business models, is also thanked following the entry into the capital of these new activist funds.*
- *Other observers believe in the legal robustness of the status of company with a mission. This vision focuses mainly on the measures put in place to force the company to respect its commitments.*
- *In a more nuanced way, other reflections focus on the identification of factors that are likely to limit the company in the pursuit of its social and environmental missions such as the scattering of its capital between a multitude of different shareholders.*
- *Another thought is to argue that companies with missions set themselves long-term goals. In fact, it is too early, even contradictory, to wish to formulate opinions on the idea that Danone renounces or not the objectives set by its status as a company with a mission.*

Question 4

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

New shareholders in Danone's capital

- **Document 2**

- “However, Paul Polman and Emmanuel Faber's strong commitment to CSR may have also attracted... the activist investors who ousted them”.

- **Document 3**

- “Emmanuel Faber was finally dismissed by the board of directors, urged by two activist funds newly acquired into the capital”

- **Document 6**

- “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.”

New shareholders in Danone's capital

- The main consequence of the arrival of new shareholders in the capital of the company is the withdrawal of the former CEO, Emmanuel Faber, from the management and then the presidency of the company.
- A new chairman has been appointed, namely **Gilles Schnepp** (former CEO of Legrand).



Question 5

- i. **Is the status of a company with a mission likely to have an impact on the governance of Danone?**

- ii. **To what extent?**

New shareholders in Danone's capital

- It was the shareholders who voted for the status of company with a mission for Danone in 2020 (Doc. 3). This vote took place during the presidency of Emmanuel Faber. The challenge at the time of the arrival of a new activist fund in Danone's capital is that the company retains the objectives set by this statute and therefore the sustainability objectives previously defined by the shareholders.
- Nevertheless, an activist fund consists in identifying companies for which the stock market price is not very high but for which they perceive a "potential". Their objective is therefore to invest in the company in order to take part in its governance and thus hope to increase its share price (Doc. 1).
- In fact, these funds seek, a priori, to include companies in financial rather than industrial strategies. These funds also tend to pursue short-term strategies since they wish to withdraw from the company's capital once the target stock market price has been reached (Doc. 2).
- The status of "company with a mission" gives Danone an additional committee to that of the Board of Directors which is responsible for ensuring the execution of the missions (Doc. 6). The Mission Committee is responsible for "monitoring" the decisions taken by the Board of Directors but must also be accountable to shareholders, which is a so-called "double control" mechanism. In fact, the status of this type of company does not profoundly call into question Danone's governance model.

Complementary resources

1

"Il faut être tenace" : les confessions de l'activiste qui a fait tomber le patron de Danone :

https://lexpansion.lexpress.fr/actualite-economique/il-faut-etre-tenace-les-confessions-de-l-activiste-qui-a-fait-tomber-le-patron-de-danone_2159115.html

2

« How much influence do CEOs have on company actions and outcomes ? The example of corporate social responsibility », Christophe Boone, Miha Sajko et Georg Wernicke, Academy of Management Discoveries, 15 janvier 2021

https://www.researchgate.net/publication/348538533_HOW_MUCH_INFLUENCE_DO_CEO_S_HAVE_ON_COMPANY_ACTIONS_AND_OUTCOMES_THE_EXAMPLE_OF_CORPORATE_SOCIAL_RESPONSIBILITY

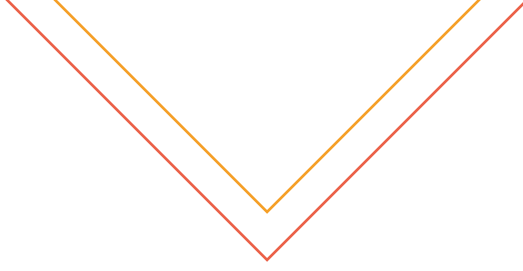
3

« Why Activist Hedge Funds Target Socially Responsible Firms : The Reaction Costs of Signaling Corporate Social Responsibility », Mark DesJardine, Rodolphe Durand et Emilio Marti, Academy of Management Journal, 22 avril 2020

<https://journals.aom.org/doi/10.5465/amj.2019.0238>

**Who are the 2 groups
for next week?**

Any question?



Contemporary management problems

Case study 1 - Danone

Thank you