**Danone S.A.: Becoming a Mission-Driven Company**

**Muhammad Nidal Khan**

**30071473**

**FNCE 559 – 01**

**Stephanie Kristensen**

**Introduction**

Danone’s motto “One Health, One Planet” (Esty & Billaud, 2021) describes their mission perfectly. The objective of the CEO Emmanuel Faber was to urge the shareholders to change the company’s bylaws and become a mission-driven company. In this case, the major concerns lie with determining if the company will be able to resolve conflicts between profitability and the advancement towards becoming a mission-driven company.

**Background**

The case highlights three important aspects with Danone being its strategic acquisitions, ESG initiatives and, the contribution to the French Regulations. In 1972 Antonine Riboud the previous CEO gave birth to the dual commitment to businesses and social progress. Leading Danone to become the third-largest, food processor in Europe. This was followed by several strategic acquisitions including the purchase of the company WhiteWave, which enabled Danone to increase both its plant based and non-GMO products. In 2009 Riboud’s son Franck further pushed ESG initiatives and broadened the mission stating, “It is in the company’s best interest to take good care of its economic and social environment, in one word it’s ecosystem.” (Esty & Billaud, 2021) Danone is also a strong advocate for sustainable agriculture and has put into effect several initiatives to advance it. Therefore, the impact Danone has on sustainable agriculture in French regulations is immense.

**What is working?**

In 2019, Danone introduced a set of nine long-term goals with slogans consisting of “delivering superior sustainability profitable growth, preserve and renew the planet’s resources, and foster inclusive growth.” (Esty & Billaud, 2021) One of the strengths implemented by Danone with regards to its goals is the employee engagement program. This allows each employee to actively engage themselves with the company’s strategies and development and instills a sense of belonging. Another strength of Danone is its green credentials and its B corporation certificate. Danone’s U.S. dairy division was among the first entities to be certified and became the largest certified B corporation in the world in 2018. This certificate not only set the standard for smaller businesses with respect to working towards promoting sustainable farming, but also would help attract supportive shareholders.

**What’s not working?**

Shareholders using their equity stake in a company to achieve certain goals is defined as shareholder activism. Shareholders mainly do this to bring about change with the company’s leadership or strategy. One of the major problems Danone is facing is being unable to maximize its efficiency with generating profits in conjunction with promoting social and environmental objectives. Due to this inefficiency with operations Danone can become the target of shareholder activism. With the current supervision of Faber, it is evident that the CEO is unable to strike the right balance between sustainability and shareholder value creation. As a result, Danone is left open to hostile activist shareholders who would want to change the current leadership and focus more towards improving profitability. Nestle was the target of activist shareholders in 2017, in which Dan Loeb invested over 3 billion euros due to the underperformance of the company’s financial performance. If Danone’s CEO continues to focus on sustainability without considering the probability of the company, it will lead to a similar situation as Nestle. The root of all these problems is the constant shift towards sustainability with numerous projects outstanding. Another major problem was identified in 2015 with Faber announcing a target of zero net carbon emissions across Danone’s value chain by 2050. The change in reducing Carbon Emission was positive in regards using natural resources sustainably. However, it also led to a huge loss with the basic EPS as seen in Exhibit 4 decreasing from **€**3.56 million to **€**2.13 million in 2018 and, **€**3.86 million to **€**2.39 million in 2019. Although this made Danone get an AAA rating for its commitment to reducing emissions, it does not take away from the fact that the EPS decreased by about 40% raising concerns relating to profitability.

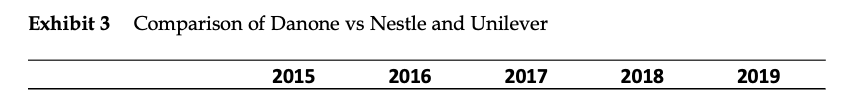
**Solutions**

One of the changes that Danone could bring about that would solve this inability to effectively manage both financial goals and suitability initiatives, is the change of its CEO. When observing the current state of the company, it is shown that the net margin has been decreasing consistently. Looking at the net margin ratios in Exhibit 3, we can see that Danone’s net margin ratio decreased from 9.5% in 2018 to 7.6% in 2019. This is extremely close to the net margin ratio of 8.0% Nestle had when they became the target of activist shareholders. Leading us to the conclusion that Danone will also be in a similar situation if it continues with the strategies implemented by the current CEO. Currently, the CEO is underperforming with regards to handling responsibilities of both financial and sustainability goals for the company. Another possible change they could put into effect is the introduction of a new Chief Sustainability Officer (CSO) role. The CSO is responsible for developing and executing strategies that are related to sustainability. This change will allow the CEO to focus on profitability of the company and its financial goals which is where Danone is lacking, whilst still working towards being more sustainable.

**Conclusion**

Danone is a company that is already leading in the sustainability aspect of its competitors. However, due to the current leadership profitability of the company is being overlooked. Finding a balance between being profitable and being more sustainable is the key for Danone. The best strategy to achieve this goal would be with the separation of the CEO role and CSO role. Delegating responsibilities on another officer will allow the CEO to focus on the financial goals of the company, while the CSO is able to focus on the sustainability goals. This will allow Danone to fulfil both financial goals and substantiality goals, whilst avoiding being the target of activist investors.

**Appendix**

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**Letter

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**References**

Esty, B. C., & Billaud, E. (August, 2021)*"Danone S.A.: Becoming a Mission-Driven Company (A)." Harvard Business School Case 722-354,* Retrieved January 26, 2023, from <https://www.hbs.edu/faculty/Pages/item.aspx?num=61103>