

Corporate governance that emphasizes social values: The Case of Danone

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Abstract

This paper explores the impact of the 2019 PACTE Law in France on Danone's corporate governance and corporate social responsibility (CSR) strategy, employing Moquet's (2010) analytical framework. In response to the growing pressure to align profitability with social responsibility, businesses have transitioned from shareholder-oriented governance to stakeholder-inclusive models. The PACTE Law mandates companies to integrate social and environmental considerations into their strategic planning. In 2020, Danone became the first listed company to transform into a "société à mission" (mission-driven company), emphasizing its commitment to social impact and financial success. This paper delve into how Danone incorporated CSR into its governance, from early initiatives such as "The Danone Way" to the more recent pursuit of B Corp certification. The study analyzes the legal and societal factors influencing Danone's governance and CSR strategy using Moquet's framework and proposes avenues for future research on the law's impact at the subsidiary level.

Keywords: PACTE Law, CSR Strategic Control, Corporate Governance, Management Control

I Introduction

In recent years, corporate requirements for transparency and accountability have expanded beyond financial performance to include social responsibility. In response to this development, an increasing number of companies are acknowledging the existence of diverse stakeholders, simultaneously pursuing economic

and social benefits, and promoting long-term, sustainable value creation (e.g., Henriques and Richardson 2004; Porter and Kramer 2011; Mackey and Sisodia 2013).

Additionally, for companies to operate sustainably, corporate governance must transition from a short-term, shareholder-oriented focus on profits to a more inclusive approach that emphasizes coexistence with diverse stakeholders (Moquet 2010).

A growing number of firms are integrating corporate social responsibility (CSR) into their business strategies, considering diverse stakeholders and pursuing economic and social values. In this context, control mechanisms are being developed to encourage companies to actively engage in CSR. In France, controls to integrate CSR into business strategies are sometimes referred to as “CSR strategic control” (*Contrôle d'une stratégie de Responsabilité Sociétale*) (Moquet 2010).

In this approach, economic and social values are pursued concurrently through corporate governance and corporate control. In Moquet's (2010) research on CSR strategic control, considering the relationship between corporate governance and control systems, she exploring the interconnections among sustainable development, CSR, and governance. As a case study, Moquet (2010) took the French company Danone, a leader in social values, illustrates in her framework (see below) how the discourse of social responsibility permeates the organization. Moquet (2010) referred to corporate social value creation, corporate governance, control, etc. Following this study, a shift has occurred in France toward corporate governance with an emphasis on social values, including in the legal system. This movement has influenced Danone in significantly.

Accordingly, this paper aims will analyze the corporate governance situation in France in recent years by examining how the country's corporate governance movement has affected Danone, who the company has responded, and what implications these developments may have about in framework of Moquet (2010). The analysis will clarify recent developments in French corporate governance and assess Danone's response to these changes. Subsequently, the recent trends and Danone's initiatives will be situated within the context of Moquet's (2010) framework.

II Corporate governance and CSR

In the 1990s, corporate governance was shareholder-oriented. However, as shareholders changed from entrepreneurs to institutional investors, incidents of corporate scandals and critical failures in organizational risk management became more frequent, resulting in wide discussions of corporate governance (Yoshitomi 1999). With corporate scandals occurring against the backdrop of shareholder-oriented corporate governance that puts the interests of shareholders first, have threatened public trust in corporations (Keizaidoyukai 2008).

To address this issue, it is necessary to realize and further develop CSR to enhance the social dimension of corporations (Adachi 2012). Simultaneously, corporate governance must become more inclusive of diverse stakeholders, and internal control mechanisms are expected to evolve toward a sustainability-oriented approach (Kuroiwa 2021).

Given the tension between the economic expectations of shareholders and the social expectations of multiple stakeholders, concepts such as “strategic CSR” or a “CSR management strategy,” have become essential in striving for compatibility between these seemingly conflicting demands (Adachi 2012). In essence, CSR strategic control is considered indispensable for corporate governance that is inclusive of diverse stakeholders.

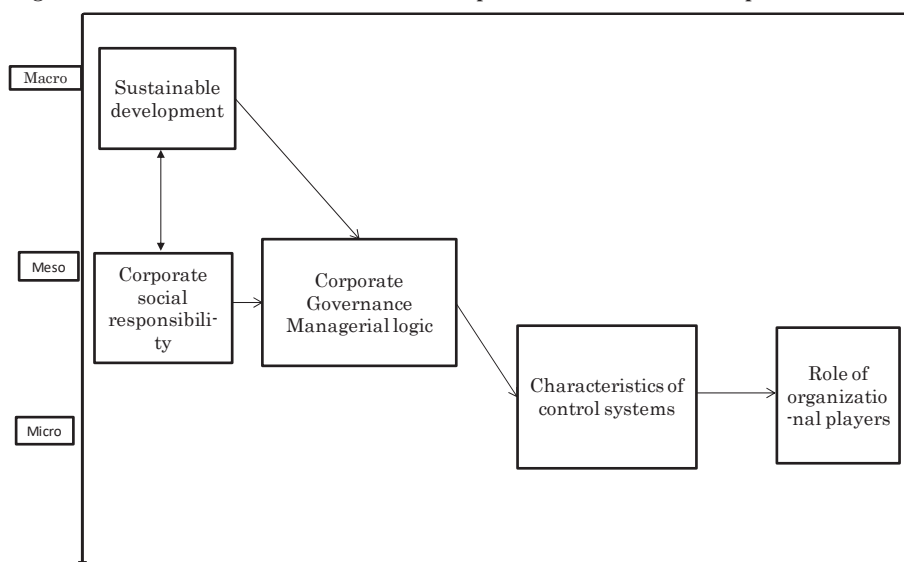
This paper examines the case of Danone in France, which has consistently advocated for proactive CSR initiatives ahead of its peers and has implemented strategic control mechanisms for CSR. Moquet’s (2010) framework is employed to clarify recent trend in corporate governance trend in France and analyze the current state of governance at Danone. This framework is adopted specifically because it facilitates an analysis of Danone’s CSR strategic control and explains how “sustainable development,” increasingly emphasized in recent years, permeates the organization through the interplay between corporate governance and control systems.

Figure 1 presents Moquet’s (2010) framework. The vertical axis denotes the scope of the perspective, divided into three levels: macro (political and international organizations), meso (corporate headquarters), and micro (project leaders and others representing corporate activities in local areas). The horizontal axis rep-

resents time. Sustainable development ideals and discourses are formulated at the macro level—comprising political, nongovernmental, and social organizations—which are subsequently linked to CSR through management at the meso level. Under this influence, corporations develop their own managerial and administrative logics, which are integrated into the strategy/control schema defined by corporate governance. The control system is thereby shaped by “sustainable development” and “social responsibility,” leading to the evolution of the organization’s role.

In the following sections, we employ the framework in Figure 1 to evaluate the recent developments in corporate governance in France, including relevant legal frameworks, and to analyze Danone’s corresponding responses. We begin by examining Danone’s initiatives to enhance its social value.

Fig. 1 The Diffusion Process of the concept of Sustainable Development



Source: Author's translation based on Moquet (2010), p. 15.

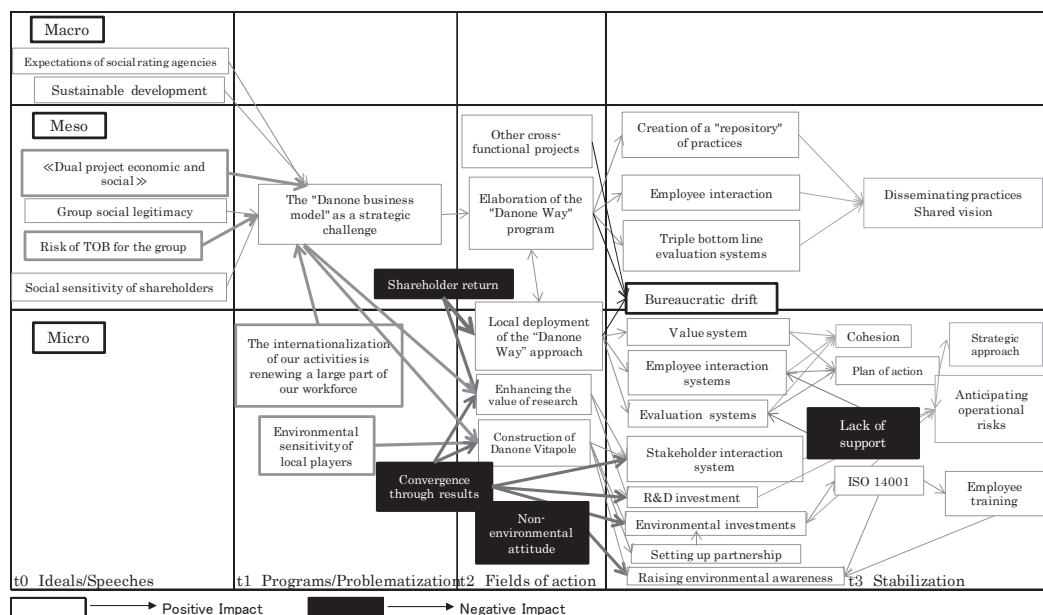
III About Danone

Founded in 1919, the Danone Group is an international food company headquartered in Paris, France. It operates in 120 markets in three main business areas: chilled dairy and plant-based products, water, and specialty nutritional foods. Group sales were €27.6 billion in FY2023 (Danone 2024).

The company's efforts to enhance its social value began in 1972 when company president Antoine Riboud proposed a "dual economic and social project" that would "combine social development with corporate success." In 2001, the company launched "The Danone Way," a voluntary initiative encouraging employees and stakeholders to self-evaluate their environmental responsibility and balance it with business success. In 2005, the company established the mission of "bringing health through food to as many people as possible around the world." As a specific initiative, the company partnered with Grameen Bank in 2006, jointly creating Grameen Danone Foods in Bangladesh, which began producing yogurt. In the environmental area, Danone achieved the goal set in 2008 to reduce the Group's overall carbon footprint by 30% over a five-year period by the end of 2012 (Danone Japan website).

Figure 2 illustrates the process of institutionalization of social responsibility at Danone.

Fig. 2 The Institutionalization Process of Social Responsibility at Danone



Source: Modified by the author based on Moquet (2010), p373.

In France, when the "glorious 30 years" of prosperity came to an end in the early 1970s, environmental concerns and the unequal distribution of wealth began to be recognized as issues affecting the social fabric at the level of the international community (Moquet 2010). Within this context, Danone's institutionalization of

social responsibility marked the emergence of social responsibility at the macro level (international political economy) and the advocacy of a “dual project of economy and society” at the meso level (corporate executive). The Danone corporate model was subsequently regarded as a strategic issue at the meso level, prompting detailed development of the Danone Way, which would serve as the basis for the activities, was developed in detail to determine the areas of activity. At this stage, the Danone Way was developed locally at the micro level, and the value of research for quality product development was recognized. During the stabilization phase of institutionalization, the Danone Way evolved into a set of concrete systems, including a “reference standard of practice,” a system of employee interaction, and a triple-bottom-line evaluation framework. The local development of the Danone Way encouraged the adoption of value and evaluation systems at the micro level and encouraged the development of action plans for a strategic approach. In this manner, Danone developed a method to spread disseminate social responsibility as a strategic principal, spanning from the macro (international political economy) to the micro (individual company employees) level.

In 2013, the company announced its intention to establish targets in the four areas—climate change, water resources, packaging and containers, and agriculture by 2020, and strive to achieve them. The “One Planet. One Health” vision was established in 2017. In 2018, the company initiated efforts to obtain B Corp certification, an internationally recognized for certification of “good companies,” as of 2024, 92.8% of its global sales had achieved this certification (Danone website).

Additionally, the PACTE Law (*le Plan d'Action pour la Croissance et la Transformation des Entreprises*: the Law on Action Plan for Growth and Transformation of Enterprises) mandates that “sociétés d'établissements” be certified in 2020 under the framework outlined in the French Companies Act. In line with this requirement, Danone decided to transition into a “société à mission” (a company that fulfills its mission) in 2020, following the framework outlined in the French Companies Act. Because this conversion would affect Danone’s corporate governance, we discuss the PACTE Law in the following sections.

1. What is PACTE Law?

A European Commission conference held in January 2019 identified the need

to reform corporate governance regulations to promote the creation of long-term value for companies and to include stakeholder concerns alongside social and environmental considerations into corporate strategy (AMF 2019).

In response to this increased emphasis on social and environmental issues, a debate emerged over the interpretation of the purpose of corporations, referenced in Article 1833 of the French Civil Code, which stipulates that all companies must possess a legitimate corporate purpose and be established in the common interest of shareholders (Hayashi 2021).

The French Ministers of Labor, Justice, and Economy and Finance requested that Nicole Notat, founder of Vigéo Eiris—a rating agency that evaluates companies' social and environmental performance—and Jean-Dominique Senard, CEO of Michelin, to prepare a report addressing the relationship between firms and collective interests. This led to the development of the Notat-Senard Report.

The Notat-Senard report identified a disconnect between existing legal frameworks and the realities of contemporary business, concluding that the legal framework appropriate for businesses with creative characteristics. Accordingly, it proposed amendments to the law. In line with these recommendations, the PACTE Law was passed in April 2019 and promulgated in May of the same year. The law was enacted in recognition of growing societal expectations concerning business enterprises (*entreprise*), and examines the role, legal framework, and mission of companies. (Segrestin et al. 2020).

The PACTE reforms introduce new provisions to the Civil Code, mandating that companies take social and environmental considerations into account in their operations (Article 1833, Paragraph 2 of the Civil Code), and that the *raison d'être* may be specified in the articles of incorporation (Article 1 of the Civil Code). The latest article of the Civil Code (Art. 1835) and the new “sociétés à mission” (Art. L.210-10 of the Code of Commerce) are mentioned. The new law “rethinks the status of the corporation in society,” makes essential amendments, and establishes new, noteworthy institutions to realize this goal (Ishikawa 2021).

2. Becoming a “mission-driven company” (*société à mission*)

To qualify as a *sociétés à mission*, a company must satisfy five criteria: (1) The articles of incorporation must clearly state the company's *raison d'être*, (2)

The articles must identify one or more social and environmental objectives; (3) The company must establish a mission committee that includes at least one employee, and the results of its monitoring must be published annually; (4) An independent third party must evaluate the achievement of the company's social and environmental objectives; and (5) The company must notify the Commercial Court (AMF 2019).

The transformation into a *société à mission* requires shareholder approval. In other words, the company is not merely obligated to pursue the financial interests of shareholders, but also to fulfill the company's *raison d'être* and social and environmental objectives set forth in its articles of incorporation, which makes it relatively easy to respond to matters emphasized by long-term and impact investors who place importance on ESG factors, while at the same time eliminating the demands of short-term investors who ignore ESG factors and pursue only short-term profits. On the other hand, it is possible to eliminate the demands of short-term investors who pursue only short-term profit while ignoring ESG factors. (Hayashi 2021).

Danone's transition to a *société à mission* was approved by 99.42% of the shareholders present at the general shareholders' meeting in June 2020, making it the first publicly listed company to become a *société à mission* (Danone 2020a). Then-CEO Emmanuel Faber emphasized that balancing the interest of multiple stakeholders is essential for value creation and distribution, and that formalizing Danone's mission in its Articles of Incorporation represented a natural progression for the company (Danone 2020b). The conversion entailed the creation of a new Articles of Incorporation and the establishment of a mission committee.

Danone's Articles of Incorporation established 12 missions organized under four themes: improving community health, protecting and regenerating the planet's resources, empowering employees to shape a new future, and fostering inclusive growth.

In relation to the mission committee, Article L. 210-10 of the French Commercial Code states that "the mission committee should be distinguished from existing governance bodies (such as the board of directors) and must include at least one employee. The mission committee is responsible for monitoring the implementation of the company's mission, and it is required to submit an annual report

attached to the management report at the time of the annual general meeting of shareholders.”

The mission committee consists of international experts across various domains relevant to sustainable development, governance, health, and social issues, representing diverse geographical backgrounds (Levillain et al. 2022).

Thus, Danone became a *société à mission* in accordance with the PACTE Law. However, the CEO who championed this transformation, Emmanuel Faber, was dismissed in March 2021. It is widely believed that activist shareholders, who acquired Danone’s shares at the end of 2020, instigated the call for his removal, contending that Danone was underperforming financially relative to its peers (Johnstone and Love 2021).

Given Emmanuel Faber’s longstanding dedication to social and environmental issues, some commentators speculated that a vital element of Danone’s commitment to its new mission was at risk of being undermined by his departure (Levillain et al. 2022).

Nevertheless, the mission committee rapidly asserted itself as an independent voice within the company’s governance structure, particularly autonomous from the board, in the aftermath of the CEO’s dismissal. In response to concerns regarding whether the CEO’s departure would impede the realization of the company’s objectives, several committee members sought assurances from Board Chairman Gilles Schnepp that the mission would remain intact and that the committee would continue to possess the necessary means and resources to achieve its objectives. A special meeting was held to define the conditions under which these assurances would be implemented, during which the committee chairman stated his intent to resign should the company’s new governance challenge the mission (Levillain et al. 2022).

The mission committee’s report to the 2021 General Meeting of Shareholders outlined the process it undertaken with Danone management and an independent third party to identify the initial performance indicators for assessing and measuring Danone’s progress toward its health, environmental, and social goals. As a result of this effort, 12 indicators were identified, including those related to the nutritional quality of the product portfolio and pay equity between men and women. The report also described the impact of governance changes on the commit-

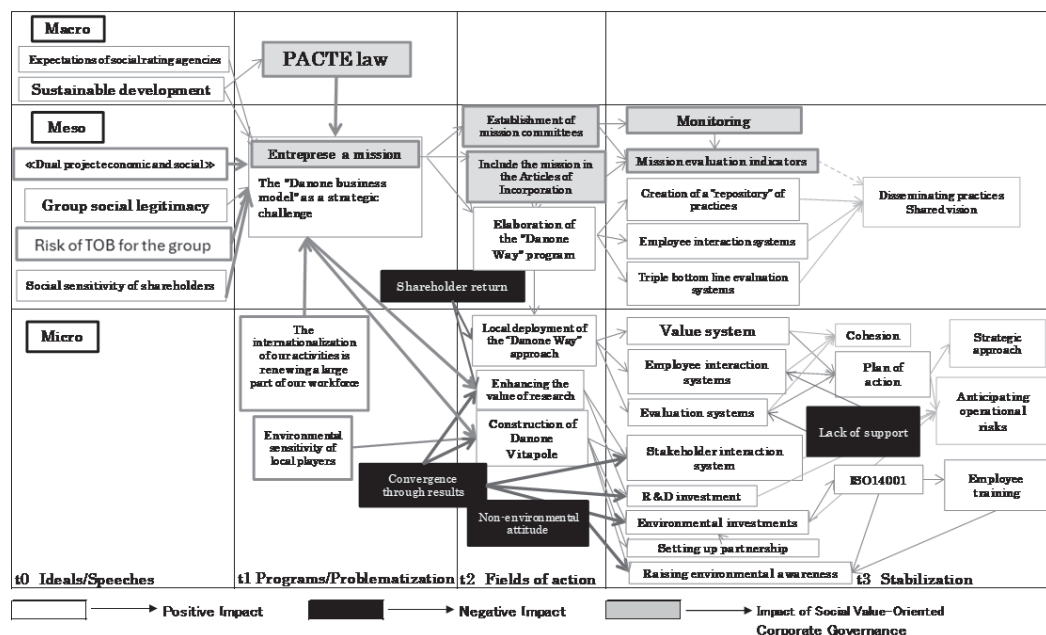
tee's work and reaffirmed that committee members had sought and received assurances from the new president, Gilles Schnepf. Notably, he reiterated his support for the “company on mission (société à mission)” status, his commitment to investing in transformative programs essential for achieving the 2021 goals established by the mission committee, his ambition to secure B Corp-certification for all entities by 2025, and Danone's continued participation in the Business for Inclusive Growth (B4IG) coalition, (Danone 2021).

Thus, the mission committee played a significant role in ensuring the continuity of Danone's mission.

IV Consideration

Danone's corporate governance trends can be analyzed using Moquet's (2010) framework, as illustrated in Figure 3. First, the enactment of the PACTE Law—specific to the France—is classified as a macro-level initiative promoting social and environmental values. Furthermore, with the PACTE Law, Danone includes “a company that fulfills its mission” as part of the “Danone business model” at the

Fig. 3 The New Institutionalization Process of Social Responsibility at Danone



Source: Modified by the author based on Moquet (2010), p. 373.

meso level. It also “includes its mission in its articles of incorporation” and “establishes a mission committee” as a more tangible initiative. The committee monitors performance indicators for implementing the company’s mission, an activity situated at the meso level due to its company-wide application.

Additionally, the annual reporting of the monitoring outcomes regarding mission will help consolidate Danone’s mission both internally and externally and foster a shared vision.

At the meso level, the CEO’s removal—prompted by activist shareholder influence—can be interpreted as an expression of “shareholder profitability.”

This study applied Moquet’s (2010) framework to examine developments in Danone’s corporate governance. However, the analysis was limited to the macro/meso level of impacts and did not explore the micro level (i.e., individual subsidiaries). Notably, initiatives such as B Corp certification at the subsidiary level should be integrated into the framework. Future research should address how changes at the macro and meso levels influence developments at the micro level.

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