A global company, that has always had environmental considerations at the heart of its ethos, found ways of upping its game and leveraging its reputation through a programme to lower its carbon footprint.

THE BUSINESS
Danone is a global food company providing fresh dairy products, bottled water and both medical and baby nutritional products. It operates in over 120 countries, has more than 160 production plants and employs around 100,000 people. Danone’s commitment to change was demonstrated by the introduction of a new Nature Division in 2008, with two main objectives: to reduce CO2 intensity by 30% by 2012 and to leverage environmental action plans to gain competitive advantage. It has also introduced new methods of appraising capital expenditure to promote environmental investments and best practice amongst others.

Danone is successfully embedding sustainability at the heart of its business and can demonstrate strong engagement with staff, customers and retailers. Listed on Euronext Paris, it is a component stock of leading social responsibility indices including the Dow Jones Sustainability indices DJSI Stoxx and DJSI World, ASPI Eurozone and the Ethibel Sustainability Index.

THE IDEA
The company’s mission is to bring health, through food, to as many people as possible. Its co-founder and long-time CEO, Antoine Riboud, said in 1972: ‘We only have one Planet Earth’. This ethos has always been at the heart of the company’s culture. Since the early 1970s, Danone has operated under what it refers to as ‘a dual project’. Having both economic and social objectives has embedded nature in Danone’s genes. In 2008, the decision was taken ‘to go one step further’ and create a ‘Nature’ stream. This would focus and embed environmental issues at the centre of the company’s strategy. ‘The whole idea’, says Laura Palmeiro, Vice-President Finance, Nature, ‘was that we should have one department that put nature at the heart of the entire business.’

THE INNOVATION
To emphasise the centrality of the Nature stream to the company, it was directly sponsored at the board level of the company by their Comité Exécutif (COMEX). It would embed sustainability into the business while applying financial skill tests to the way environmental data is measured and managed. It would have a clear focus on the development of KPIs and reliability assurance. And it would report directly to the company’s Chief Financial Officer. ‘The aim was to see how we could leverage consideration of nature and the environment to create new, sustainable, business’, says Palmeiro. This approach helped identify CO2 emission sources, created awareness among the owners of the different processes at the origin of these emissions and, therefore, helped create action plans to lower the footprint. This is the basis for a bonus system linked to CO2 reduction.
FINANCE FUNCTION LEADERSHIP
The finance function set up a specific governance organisation to build finance expertise and, for example, integrate CO₂ reduction targets in managers’ remuneration. ‘We started to measure one product along its lifecycle’, says Palmeiro, ‘and decided to measure CO₂ on a lifecycle analysis basis. It gives you much more detail than conventional corporate accounting methodology’. KPIs on projects always include CO₂ footprint measures and Danone worked with SAP, the software provider, to expand the group’s financial management system to include carbon emissions. There is a plan to extend this to other environmental indicators in the future. A new category, the ‘green capex’, was created for capital expenditure appraisal. This is for projects that have a measurable, significant impact on reducing CO₂ emissions and that have economic benefits, but which have a longer payback than other projects. This is where the inclusion of carbon as a KPI in the calculation of management bonuses comes in. This covers a third of management at group level, representing some 1,400 staff and all managers in the UK. For example, 30% of the bonus of the Chief Financial Officer of Danone Ltd in the UK is dependent on sustainability KPIs, which, for comparison, is more than on foreign exchange exposure. The company believes that social and environmental issues should be based on clear indicators that are auditable and comparable to other companies in the market. It partnered with a doctoral student who specialised in environmental management accounting and the resulting case study is now being taught at various French business schools as an example of innovative carbon accounting. A group of ‘Key Opinion Leaders’ has been set up to provide an independent view of Danone’s progress.

All of this work is seen as a useful foundation for the way carbon measurement is expected to develop. ‘It means we are also prepared for any regulation that may happen in the future’, said Palmeiro. And the whole process has meant expanded leadership from the finance function. ‘There was obviously some resistance at the beginning of the process’, says Palmeiro ‘There were new KPIs, new tasks and a lot of work, so there was also a lot of discussion. The change had to be managed. But now everyone has accepted it’. And it has had an effect across all disciplines in the company. ‘Finance is there to measure, but the people running the process are from every part of the business,’ she says.

POSITIVE LONG-TERM IMPACT
‘There are many long-term benefits’, says Palmeiro. ‘We really believe the information will be extremely useful. There will be rules and legislation in the future and we will be better placed to deal with that. And it also builds a reputational advantage. We get credit for doing this’. The company has, for example, removed the cardboard packaging from yoghurt pots. It has replaced the bottle for its pro-biotic drink from oil-based plastic to 100% plant-based material in several European countries. There have been additional costs, but also around a 70% reduction in carbon emissions. Switching from road to rail transport has increased travel costs, but led to environmental benefits. ‘By reducing CO₂ we have created a new angle that brings us savings’, says Palmeiro. ‘It is an extra reason to do this. All the savings have been accelerated by the programme. You start efficiency processes you had never thought of before. And we even make money out of it’. The Group sees this work as a productivity accelerator, which is good for financial stability. For example, energy usage in industrial processes is reduced at an increased rate. Before 2008, the average reduction was 3% a year. Now, it is close to a double-digit reduction each year. Also, the elimination or reduction of packaging is a clear source of savings. By developing a global carbon pact with its main suppliers, Danone required them to sign up to collaborate with them to reduce emissions. ‘At Danone we feel responsible, not just for our own business’, says Palmeiro. ‘But also to our suppliers and what happens to our products after they are bought by our consumers. The software they developed with SAP, to include carbon emissions in financial management, is now available to other companies.

LESSONS FROM THE CASE STUDY
It is important to provide tone, guidance and direction from the top. ‘In order to put something like this in place’, says Palmeiro, ‘you have to have the full support from the COMEX and the Board of Directors’. One of the difficulties, particularly with something quite technical, like carbon, is that it can become run by a small group of technocrats and is not shared fully by everyone else in the organisation. This has to be guarded against. ‘It cannot be a bunch of experts at the corporate level’, says Palmeiro. ‘You have to enrol people all around the world’. By spreading the responsibilities you also get more from people. ‘As you have people in the field involved from all over the world’, says Palmeiro, ‘they can come up with ideas for further carbon reductions. All of them feel responsible for their carbon emissions. And then they can act’.

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