FINANCIAL TIMES

'Without fear and without favour'

FRIDAY 19 MARCH 2021

Danone is a case study in the pitfalls of purpose

CEO's departure shows need to marry sustainability with profitability

The G in ESG did for Danone's chief executive Emmanuel Faber in the end. Under a governance compromise, the champion of environmental and social responsibility would have stayed as chair of the consumer goods group. That messy deal failed to satisfy activist investors. On Monday, the board replaced Faber with immediate effect.

Last June, Faber congratulated Danone shareholders for "toppling the statue of Milton Friedman" after they voted to turn the company into an *entreprise à mission*, or purpose-driven company. The late economist and author of the famous 1970 New York Times essay, headlined "The Social Responsibility Of Business Is To Increase Its Profits", seems to have had the last laugh.

If France's most prominent advocate of purpose-driven capitalism cannot make it work, critics are bound to ask what is the purpose of "purpose"?

Over the past few years, the P-word has been badly abused, as some companies hurry to veil business as usual in an off-the-shelf cloak of vision and values. Faber's abrupt fall will add to cynicism about the trend. He was vulnerable, though, not because he pushed Danone towards a multi-stakeholder model, but because he spent too much time talking up the "mission" and too little energising the "enterprise". Shareholders attacked him because Danone's returns lag behind those of rivals such as Nestlé and Unilever, which are also pushing their credentials as progressive, purpose-led businesses.

Even Friedman acknowledged that acts of social responsibility were "one way for a company to generate goodwill as a byproduct of expenditures that are entirely justified in its own self-interest". Research published in 2017 in the Strategic Management Journal suggests, though, that while investment in such acts slightly reduces the likelihood of chief executives being dismissed when financial performance is good, it greatly increases the chance they will be shown the door when their company underperforms.

How business leaders sell their vision matters, too. Faber's management style put some board members' and investors' backs up. Many US chief executives who signed the Business Roundtable 2019 statement on purpose, diluting shareholder primacy, did so without consulting board directors, according to Harvard Law School researchers. Despite his early success in rallying board and investors round his long-term vision, even Paul Polman, Unilever's former chief executive and another vocal evangelist for purpose, eventually became disconnected from shareholders. The approach of his lower-profile successor Alan Jope may provide a better model of how to interweave sustainability and profitability.

Faber's fall comes at a critical point. A backlash against purpose-driven capitalism was overdue. Activists of the Friedman school are now doing battle with a new tribe of campaigning ESG investors, who believe their companies face extinction if they do not pursue environmental and social goals.

Chief executives' job — their mission, even — has always involved reconciling multiple demands. The mess in the Danone boardroom is a reminder that distractions from the core goal of making a profit can be dangerous. It does not, however, signal that leaders should rein in their ambition to go further and reassert the role of companies in society. The benefits for both business and society when they take account of the long-run social and environmental impact of their activities have only become clearer in recent years. To revert now to simplistic and damaging pursuit of crude share-price maximisation would be a mistake.