

In March 2021, Emmanuel Faber was removed as Danone's CEO and chairman. Some view this ousting as primarily led by an activist investor who acquired shares in the company in late 2020, just a few months after Faber oversaw a shareholder vote in favor of becoming a purpose-led business via the "Entreprise à Mission" French legal framework. Coverage of Faber's fall has billed it as "a case study in the pitfalls of purpose," a "fall from favor for a purpose-driven chief," and a "battle for the soul of capitalism."

At the time of Faber's removal, Danone's financial performance lagged that of its peers. Even so, his efforts to shift the company's culture and legal framework made him, to many, an emblem of purpose-driven business. It's easy to view the events leading up to his removal as a clash between stakeholder capitalism (where Faber is a heroic leader who took on Milton Friedman) and activist investing (where Faber's removal heralds the failure of stakeholder capitalism and the triumph of shareholder value maximization). One might imagine ears ringing with the clatter of what Faber himself called the toppling of the statue of Milton Friedman when the *Entreprise à Mission* structure was backed by shareholders, only for the economist to emerge unscathed and perhaps more imposing than before.

Such narratives are evocative, but they don't tell the full story. Danone offers a much more important lesson: In the quest to design a corporate ecosystem that reliably — and profitably — meets the needs of people and the planet, there can be leaders. There can be luminaries. There can be innovators and iconoclasts. But there can be no singular heroes. Addressing the interconnected emergencies facing our societies and planet will require systems change, and transformations of that scale are a team sport.

Systems change is premised on a deep understanding of the relationships between entities and causes, like the ones among educational and childcare systems, cultural norms, and industry forces that negatively impacted women's labor force participation during the pandemic. Leadership that's focused on systems change is not a "nice to have," nor is it just about those at the top. Anyone who leads, works for, buys from, or invests in a business that has made a commitment to purpose should be watching what's unfolding at Danone closely, and through a systems-change lens.

Simply put, what happened at Danone will repeat unless — and until — policy makers and business leaders agree that even the most ambitious, skilled, and dedicated CEOs cannot deliver systems change alone. Executives are increasingly beginning to understand this. The world's 3,900+ B Corporations, for example, think of themselves as a community and a movement that can drive changes in their sectors that a sole company cannot.

The story of Faber's unseating points to four core principles of this type of systems change. The principles provide guidance for businesses deciding how

to navigate the growing call to focus on stakeholders, not just shareholders. We took our inspiration from the Better Business Act, a campaign launched by our organization, B Lab UK, that would make it mandatory for businesses to consider shareholders and stakeholders equally in their decision making. Leadership driven by these principles allows companies to deliver on their ambitions, regardless of who's CEO.

[Principle 1]

Align Interests

Understand that systems leadership relies on culture.

Faber clearly knows this; he signaled it in a tweet following his announcement that he was stepping down as CEO: “Yesterday, as a board, we chose to act as one. As our Chair, I chose to play the collective. The project will always be larger than any individual person. #CollectiveIntelligence, serving a unique project for @Danone, now and tomorrow. Proud of Danone. #EntrepriseàMission.” And in a recent FT article on his departure he shared his belief that “Entreprise à Mission will stay ... I’m absolutely convinced about it”. Through his words and actions, Faber highlighted the importance of embedding purpose in the organization’s culture so that it becomes more than a slogan on a boardroom wall. As the adage goes, culture means doing the right thing when no one is looking. It’s culture that ultimately shapes behavior and the decisions people make. Aligning the interests of both shareholders and stakeholders creates the conditions to harness this collective power as a force for good.

Put products to the purpose test.

Company purpose means articulating why your firm exists and what role it plays in the world. In short, think about what you do and who is better off because you do it. Equally (or more) important, who is worse off because you do it? Current ESG (environmental, social, and governance) regimes are largely product-agnostic; fossil fuel companies and the world’s largest plastic polluters, for example, can score well on the ESG front. This shows the rules are missing a component. Systems change requires companies and industries to reflect, innovate, and transparently assess how their core products (Danone’s single-serve dairy products included) meet the needs of shareholders and stakeholders.

[Principle 2]

Empower Directors

Uphold purpose within and outside the boardroom.

Faber is without doubt a remarkable leader, one whose impact on both Danone and his peers will be long-lasting. He is also, in at least one way, entirely unexceptional: although he worked at Danone for 24 years, he was CEO for only seven, which is within the average range of CEO tenure. As the long-term governance body of a company, boards are tasked to uphold the company's purpose over time and to ensure executive teams deliver on it. But many board members do not feel equipped to take on this role, which means it's essential that directors are trained, empowered, and knowledgeable in delivering on purpose. One of Faber's recent comments reflecting on pursuing purpose alongside profit is very revealing of the importance of this point – "You need just to make sure the board is there with you"

Lock in purpose.

These locks take the form of benefit corporation legislation in some countries, such as the Enterprise à Mission corporate form in France, and are a requirement for B Corp certification more broadly. Such structures create the governance, transparency, and accountability to ensure businesses make good on stakeholder commitments regardless of leadership shifts or investor pressure. It is not unreasonable to cast doubt on even the most earnest corporate commitments made in the absence of such locks.

[Principle 3]

Change the Default

Fix the rules.

Companies need clear rules of the game that allow them to deliver on stakeholder commitments in a credible and enduring way. In many countries, laws designed to guide these decisions are ambiguous at best. But calls to

ensure these rules align shareholder and other stakeholder interests are becoming more commonplace, and increasingly come from industry insiders. Consider the recent argument for a carbon price from the former chief investment officer of sustainable investing at BlackRock, the world's largest asset manager, or sustainability expert Bob Eccles's open letter to Bill Gates regarding the Gates Foundation's investments in carbon-heavy assets. Consider also that, at time of writing, close to 500 UK businesses have signed on to the Better Business Act. While pioneers and trailblazers can meet these kinds of goals for the companies they lead, systems change means advocating for laws and smart regulations that provide a road map for all businesses.

Use direct language.

The words we use to talk about how corporations impact society are often imprecise. The growing range of warm and fuzzy descriptors appended to the words "capitalism" and "business" are designed to differentiate "new" models from current, less adequate ones. A case in point: that flurry of headline-grabbing references to the "soul" or "purpose" of capitalism that marked the end of Faber's tenure as CEO. John Elkington, who coined the well-worn sustainability shorthand "triple bottom line," recalled his own concept in 2018, in part because "the bewildering range of options now on offer can provide business with an alibi for inaction." We believe the proliferation of terms like "stakeholder capitalism," "sustainable capitalism," "social business," and "purposeful companies" does the same thing. It muddies the waters and distracts from what's actually a straightforward goal: to have all business models and economic systems operate in a way that benefits all shareholders and other stakeholders.

Move from corporate goals to industry- or systems-level goals.

Companies are increasingly setting stretch goals with regard to their impact on the environment and society. But without systems change, many of these goals will be extremely costly for individual companies to achieve — or simply unachievable. For example, the scale of the shift away from a carbon- and consumption-based economy is enormous, and the investment required is similarly immense. Challenges of similar scale exist at the level of global packaging and waste, human rights across supply chains, and gender equity in corporate organisations. Collaboration will be key to making a dent in these problems. Collective action in the form of meaningful, transparent industry-

level work between competitors can turn aspirational corporate talk into substantive change.

[Principle 4]

Reflect with Reporting

Account for ESG's limitations.

ESG reporting is on the rise. An estimated \$30 trillion of assets under management globally is invested in line with some form of ESG data, a number that has grown more than 30% in the past five years. A huge array of reporting regimes, standards, ESG funds, and ESG service providers have recently emerged.

And yet, for at least two reasons, ESG-led approaches will not necessarily lead to systems change, and may even undermine it. First, the language of reporting is discordant at best. Too often, a company's performance on ESG standards and frameworks correlates poorly with its performance on others, leaving investors and the public less than convinced that ESG is a meaningful indicator of a "good company." This lack of coherence results in a kind of aggregate confusion that puts ESG in a weak position to galvanize systems change. Second, and more fundamentally, ESG performance in general does not require a board-sanctioned commitment to corporate purpose that's reflected in governance over time.

This doesn't mean ESG is without value. Like the Fair Trade label, it may act as a powerful sensitizing concept, a force for consumer and investor awareness, and a management tool. But single-company reporting across a heterogeneous range of regimes is not a credible path to systems change.

Advocate for better standards.

One of the most important ways business can overcome ESG reporting's limitations and lead on systems change is by advocating for ambitious, clear, and consistent measurement and reporting standards. Efforts to ground corporate purpose in governance, to rethink performance measurement, and to design laws and governance in line with stakeholder and shareholder performance are the cutting edge. Most important, global institutions, regulators, and key standards bodies have made significant strides toward standardizing nonfinancial performance measurement.

“Globally consistent, comparable, and reliable sustainability disclosure standards” are on the horizon. In this context, individual companies creating their own standards is retrograde. Systems change means pushing for broad consistency rather than depending on individual corporate claims.

The lesson is simple: for claims of corporate purpose or commitment to stakeholder value to be credible, they must be embedded and governed in a manner that can outlast even the most visionary chief executive. After all, stakeholder claims do not turn over at the end of a CEO’s tenure. Building an inclusive, equitable, and regenerative economic system requires sustained collective action across generations.