

# Response to Mission-Led Business Review: Call for Evidence

## Instructions for responding to the call for evidence

You can fill out this PDF form to respond to the Call for Evidence. Respondents are invited to respond to all questions or only to some.

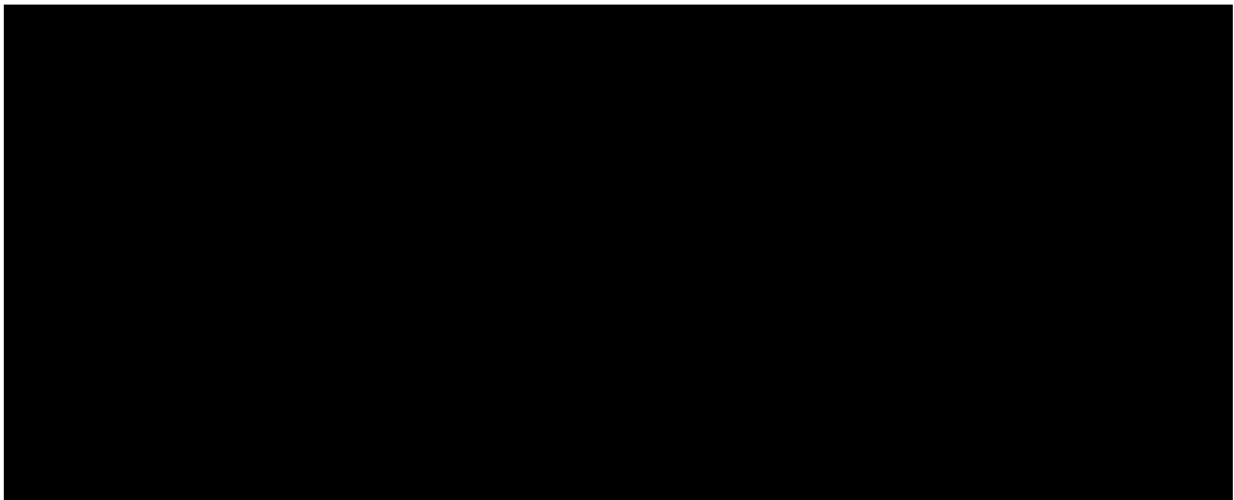
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

[missionledbusiness@cabinetoffice.gov.uk](mailto:missionledbusiness@cabinetoffice.gov.uk)

Or if you would prefer to send your response by post:

Mission-led Business Review Secretariat  
c/o Alexandra Meagher  
Cabinet Office  
1 Horse Guards Road  
London  
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## Contact information



## Part 1: Profile, drivers and potential of mission-led businesses

Question 1: What do you know about the number and profile of mission-led businesses operating in the UK? Please share evidence.

Social Enterprise UK (SEUK) was established in 2002 as the national body for social enterprise in the UK. A social enterprise is a business that trades for a social or environmental purpose and reinvests its profits in that mission. Social enterprises are businesses driven by social or environmental objectives, whose surpluses are reinvested for that purpose in the business or in the community. They operate across a wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade and at all scales, from small businesses to large international companies. They take a range of organisational forms from co-operatives and mutuals, to employee owned structures, Community Interest Companies, and charitable models. SEUK's members come from across the social enterprise movement, from local grassroots organisations to multi-million pound businesses that operate across the UK.

SEUK is a membership organisation. We conduct research; develop policy; campaign; build networks; support individual social enterprises; share knowledge and understanding; support private business to become more socially enterprising; and raise awareness of social enterprise and what it can achieve.

Question 2: What do you know about the impact of being a mission-led business on business performance and social impact? Please share evidence.

The good news is that environmentally and socially responsible business behaviour can be great for business in the long-term. Evidence shows that more sustainable firms outstrip traditional firms in terms of both stock market and accounting performance. An MIT poll of more than 3,000 corporate leaders reported that sustainability adds to companies' profitability, especially those who take it seriously in their structures, operations and business models. A more responsible approach can deliver reputational benefits, greater customer loyalty, brand recognition, more effective staff retention and recruitment, and lower costs.

Of course, the truth is that sometimes the social commitment can be an advantage and sometimes a disadvantage commercially. Community-owned shops harness the loyalty of their owner-shareholders while business which employ staff with particular challenges may need more support. There are of course advantages and disadvantages in the short and long term. But with regard to social enterprises in particular, the data suggests that overall, these enterprises appear to be outperforming other business, on average. Co-operatives and social enterprises are growing faster than 'conventional' business. In the UK, the co-operative sector grew by more than 25% between 2008 and 2011, social enterprises are outstripping SMEs for growth, business confidence and innovation and a range of evidence suggests that both social enterprises and co-operatives appear to be more resilient in tough economic circumstances.

Other research concludes that a social 'mission lock' is correlated with high growth, more successful capital raising, and higher net income. But there is a lack of evidence on the extent of the trade-offs between commercial and social imperatives and the added commercial value that

Question 3: In your view, what are the ways that quantitative data on mission-led businesses could be better captured over time?

The best place for policymakers to start is with the Small Business Survey (SBS). Inconsistent approaches and varied interpretations from this survey over the past decade have compromised the credibility of the data relating to social enterprises. Successive governments have suggested that the number of social enterprises has grown from around 12,000 to 50,000 to 70,000 to around 200,000 and now 741,000 in the 2014 market trends report.

This is frankly not credible, at a time when the rest of the world is looking to learn from our methodologies – SEUK is currently undertaking a project with the British Council to estimate the number and nature of social enterprises in India, Pakistan, Bangladesh, Ghana, Ethiopia, Kenya and the Philippines, learning from the UK methodology.

There is no great need to start new research. Refining the approach to understanding and reporting social enterprise and social purpose in the SBS is key and would be the most cost-effective and credible for the Government. We can draw on and improve the evidence base that already exists.

The SBS can also be particularly useful in identifying issues which are specific to a sub-set of businesses. Access to finance may be an issue for all small businesses, but is it a problem for a specific subset, for instance?

Question 4: Why would a business set-up as or become a mission-led business? Please share evidence.

As per our response to answer one, we are unable to answer this question on the basis that the term mission-led business is problematic, as currently defined. Nevertheless, it is clear that more evidence is required.

It is valuable to have a variety of organisational structures available for entrepreneurs, with the flexibility to select the most appropriate form(s) for their particular context. It is important to recognise that even when specific legal structures are introduced for social entrepreneurs, there will still be valid reasons for some social entrepreneurs to choose other structures. Although this leads to a complicated environment from a data collection and policy point of view, this flexibility is important for the development of a vibrant social economy. We, and partners such as UnLtd, believe that this review can be useful – if BIS embrace this agenda - in prompting Government to improve the full range of organisational structures that are used by all entrepreneurs.

It is important to note that, for instance, a CLS may be chosen over regulated social sector forms, particularly the Community Interest Company (CIC), as a result of perceptions rather than the intrinsic nature of the CIC. Across the economy, and specifically in many of the market sectors in which social entrepreneurs operate, the CIC is relatively unknown, or misunderstood. Many advisers - lawyers included - are not familiar with the CIC, and do not feel able to recommend it to their clients. Despite the reforms to the CIC CLS in the last two years, there remains a perception among some entrepreneurs, investors and other stakeholders that it is not appropriate for social ventures who wish to take on substantial investment capital or for 'serious' businesses. The asset lock is commonly misunderstood. Awareness of changes to the rules on par value is limited. The

Question 5: How do you see mission-led businesses developing over the next decade?  
Please share evidence.

We don't know. It is a very uncertain time in the UK and perhaps harder to predict the future than ever.

We are concerned, however, that there is a risk that a Government-backed "mission-led business" agenda is perceived as a threat to or criticism of regulated social sector organisational forms, rather than as an alternative within a plural economy, which seeks to encourage more businesses to commit to a positive social impact. So we think the recommendations of this Review should include measures that mitigate this risk. For example, the Review should recognise the importance of improving understanding and increasing take up of the CIC, and avoid any implication that mission-led businesses are inherently more desirable than other organisational forms. The Review should also state clearly that its intention is not to divert existing social investment capital away from regulated social sector organisations to a new set of businesses which although mission-led, would not currently be eligible for it (see below).

## Mission-led business - case studies:

If you are a mission-led business, or know of mission-led businesses that you are willing to share publicly, please complete the following table.

If you would like to share examples of more than one business please complete an additional table and submit with this questionnaire.

Name of business	N/A
Contact details for business	N/A
Brief description of business (please keep under 5 lines)	N/A
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	N/A
Stage of business development (i.e. start-up, growing, mature, repurposed)	N/A
Industry sector	N/A
Geographic focus	N/A
Evidence of financial growth	N/A
Evidence of social impact	N/A
Any other details (e.g. legal form)	N/A

## Part II: Challenges faced by mission-led businesses

Question 6: What are the practical steps that a business can take to make a commitment to deliver on its intention to have a positive social impact?

Other respondents to this Review may have more experience than SEUK when it comes to amendments to articles, using golden shares, etc.

At SEUK, we have significant experience of the CIC model and many CIC members. There are now over 11,000 CICs in the UK. We believe that the CIC model may be more suitable for entrepreneurs wishing to make a commitment to deliver on their intention to have a positive social impact than many realise, including even the Government. Since the CIC rules around the dividend cap and the par value of shares have been changed, the CIC is much more attractive to some entrepreneurs and investors than it was previously. But this is not yet widely understood. The Review should consider the possibilities which the CIC limited by shares, in particular, offers, and consider how well this is understood more widely. The G8 Social Impact Investment Taskforce recommended that governments provide appropriate legal forms or provisions for entrepreneurs and investors who wish to secure social mission into the future. The CIC does this already.

It is worth emphasising that, as the G8 Impact Investment Taskforce pointed out, intent is only one part of the picture. Duties for directors and reporting are also critical. We encourage this Review to consider the connections between these three elements. In practice, being able to commit a business to a social purpose or impact will be meaningless unless doing so creates obligations for its directors and governance, and unless there is a mechanism to measure and report on its work.

Question 7: Do you think these steps could be better communicated to entrepreneurs and businesses? If so, how?

Communication by policymaker matters. We are fortunate in the UK that the national Government, several government departments, the national membership body for social enterprise and the European institutions share a more or less common definition of social enterprise, sharing the following characteristics:

- aiming to generate their income through trade - by selling goods and services, rather than through grants and donations
- reinvesting the majority of the profits they make in their social mission
- having a defined social and/or environmental mission
- being independent of the state

Each characteristic on its own is not enough to define social enterprise but together, they help define a movement of businesses trading for a social purpose.

Of course not everyone agrees, definitions vary across the world and some argue that social enterprise is a verb rather than a noun, placing less emphasis on ownership and where profits go. But for over ten years now, there has been some consensus on the meaning of the term social enterprise amongst policymakers, representative bodies and government institutions. Most importantly, however, thousands of social enterprises across the country and many more across the world maintain a deep attachment to these principles and are proud to define themselves as social enterprise on these terms.

Question 8: The loss of focus on social and environmental aims has been identified as a potential problem for mission-led businesses (“mission drift”). When do you think this is most likely to happen? What could be done to prevent this?

SEUK is concerned that without due care and attention and taking steps to mitigate risks, this whole critically important agenda may be perceived to be purpose-washing private business. There is a risk that unless the Government reads carefully, the current interest in purposeful business across the UK and beyond may lead to abuse and discrediting of the concept of business with a social purpose, social enterprise and social investment.

Question 9: Have you identified barriers to new entrepreneurs or established businesses who want to easily convert their intent to make social impact into a long-term or binding commitment?

If yes, please provide details of these barriers, in particular identifying those that may be caused by regulation.

We have evidence of the converse – that new entrepreneurs or established businesses can easily convert to the CIC form but are not aware of this option; the flexibilities offered by the CIC model; and its characteristics, especially the CIC limited by shares.

Question 10: In your view, what are the barriers to a large corporate (including a public company) to becoming a mission-led business or owning a mission-led business within its group structure?

Executives and directors in public companies may feel unable to commit fully to mission, or may disagree with such approaches altogether. Corporate culture may at times pay lip service to mission. Public companies with disparate and disinterested shareholders and complex governance may also lack a clear agent able to make a decision as fundamental as becoming mission-led.

Question 11: Do you think mission-led businesses have or should have a different culture/values system to traditional (i.e. non mission-led) business? If yes, please provide best practice examples of this.

Further evidence is required.



Question 12: What challenges do mission-led businesses face when engaging with potential customers, employees and investors about their social impact?

Further evidence is required. Social Enterprise UK has been delighted to work with the Cabinet Office on our Buy Social campaign and together we have developed a clearer understanding of steps which can be taken to raise customer awareness of the social impact of their spending power

Question 13: What do you think is the role of certifications systems (e.g. B Corps) or of frameworks (e.g. Blueprint for Better Business) in helping mission-led businesses engage with external stakeholders?

Further evidence is required. It is very early days for B Corps in the UK and there are other frameworks also available, including the Economy for the Common Good, popular in other countries across Europe.

### Question 14: What are best practice examples of social impact measurement and how are they being applied by mission-led businesses?

All businesses can think more carefully about the social impact they have. Any form of business can have a positive social impact, whatever their ownership structure and whatever their primary purpose. SEUK does not support one particular methodology in social impact measurement. We do support the development of consistent principles in the field.

Effective and efficient markets rely on high quality information. This means 'whole value' accounting, not just more open data and information but businesses taking responsibility to provide comparable and auditable reporting. Accounting for value is an idea that is gaining traction and is being embraced by mainstream businesses, attracted by the idea of delivering greater social benefits through their core business and supporting a more social economy. Almost two-thirds of voters have called for businesses to explain how they make and spend their money to the public.

Social Enterprise UK believe that all businesses could think not only about positive impact but also negative and net impact. There are significant difficulties with quantifying social impact and social enterprises and others who are considering their impact need to go beyond a narrow definition of one 'positive social impact.' Whilst organisations might have a self-stated intention to deliver a social impact, this does not mean that the net impact of their organisational activities achieves a social impact. A range of other factors, including the impact which their activities have, for example, on the environment, and the communities within which they operate, need to be taken into account.

For example, how profits are distributed can be a significant factor in the social impact of a business and its ability to deliver on its mission. We believe that, in an economy increasingly characterised by

### Question 15: Have you identified specific barriers to the growth of mission-led businesses? If yes, please provide details of these barriers, in particular identifying those that may be caused by regulation.

Further evidence is required.

This questions specifically asks about investment. The Minister for the Civil Society has also made a direct and explicit link between the Government's interest in so-called Mission-led Businesses and social investment.

SEUK is concerned that there is a risk here for the Cabinet Office that the Review is undermined as it appears to be driven by the Government's social investment agenda. It appears that the Government's interest in "mission-led businesses" is driven by the challenge in developing a vibrant social investment market. SEUK is concerned that the Government is intending to broaden what is understood by social investment to include investment in "mission-led businesses" beyond social sector organisations.

Whilst we must acknowledge that social investment is a market with currently too few takers, there are alternatives, such as improving the product, building the capacity of start-ups to increase demand from investment-ready social enterprises and supporting the development of revenue markets in which social enterprises trade.

We desperately need more socially and environmentally responsible businesses in order to ensure equitable and sustainable life on earth, not because Ministers, a team in the Cabinet Office or Big Society Capital are finding it more difficult than they envisaged to support access to finance for the social sector.

Question 16: What do existing mission-led businesses need in terms of support and what do you think could be done to incentivise the creation of more mission-led businesses over the next decade? Who is best placed to do this?

Further evidence is required. Without this evidence, there is no compelling case for any new policy changes, such as legal structures or regulatory intervention aimed specifically at so-called Mission-led Business.

As a first step, the Government could review the regulatory, tax and spending programmes it has taken to overcome barriers and support the growth of various other kinds of business, including charities, social enterprises, 'mutuals', co-operatives and employee-owned businesses. The Cabinet Office and the Department for Business, with the support of the Treasury should review these policies and evaluate the extent to which they have supported these enterprises and how they might be improved. If this Review prompts a revisiting, learning and renewing of these policies, then so much the better.

Beyond these particular forms, the Government could look at how to encourage all businesses to act with greater social and environmental responsibility. The Department for Business and the Treasury should realise their power to support and incentivise the creation of environmental and social value alongside financial value.

Our economy is driven by business. While we need government to protect us and charities, citizens and communities to help us, it is most often business that feeds us, clothes us, delivers heat and

Thank you for your response.