

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.

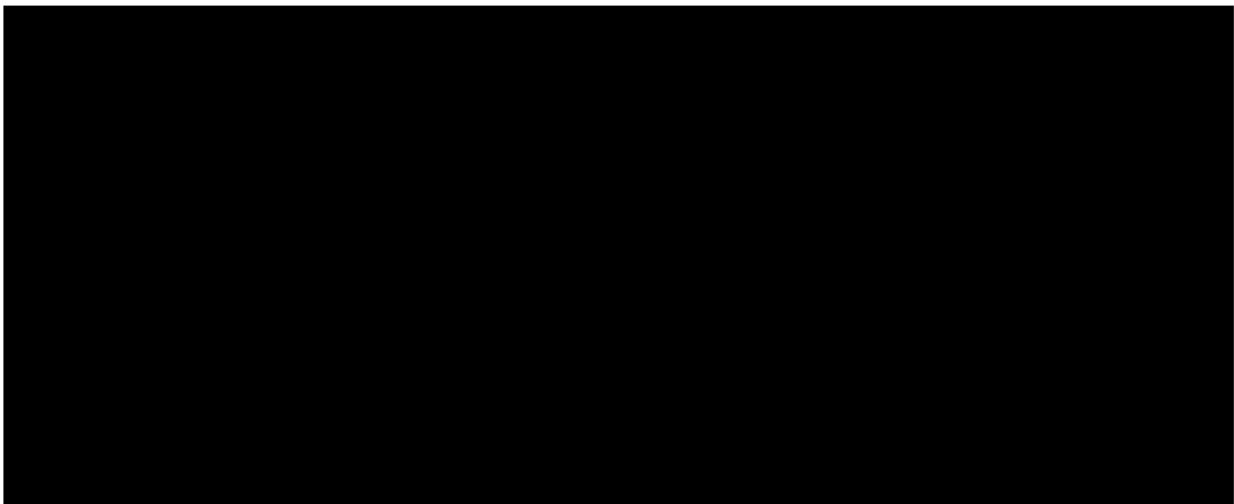
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

missionledbusiness@cabinetoffice.gov.uk

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

Mission-led Business Review Secretariat
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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.

Mission-led businesses in the UK span a diverse set of structures. They span the categories of fair trade enterprises (as opposed to businesses using Fairtrade certification), social enterprises, employee-owned businesses, community-owned businesses, social businesses, foundation-owned businesses (where foundation prioritises a social mission) and cooperatives. These models share the common characteristic that they prioritise the interests of stakeholders they directly impact (e.g. workers, supplier farmers, communities, consumers) rather than just the suppliers of capital to the business (e.g. shareholders).

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

Mission-led businesses prioritise social impact over profit maximisation. This can best be tested in situations where there is a trade-off between profits and impact. While in many circumstances, the commercially optimal decision would be to prioritise social impact, it is situations where this is not the case that helps reveal if a business is truly mission-led (or only incidentally doing some 'good' in some places).

Mission-led businesses (e.g. fair trade enterprises such as Cafe Direct and Divine, and employee-owned businesses such as John Lewis Partnership) have hardwired important stakeholder interests into ownership and governance arrangement. This means that the interests of specific stakeholders (e.g. employees, or farmers growing the coffee and cocoa) drive key decisions where there is a trade-off between profits and impacts on those stakeholders.

The impact of such mission-led businesses is best seen in the income they channel back to workers and farmers. Cafe Direct (to date) has invested over 50 per cent of its profits back into the 40 producer organisations they support across 14 countries. John Lewis meanwhile distributes all profit, after reinvestment, with their employees (amounting to 15% of salary for each employee in 2013).

References:

<http://www.fairtrade.org.uk/en/buying-fairtrade/coffee/cafe-direct>
<http://employeeownership.co.uk/case-studies/john-lewis-partnership/>

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

As mission is best assessed when one can evaluate how a business behaves when there are trade-offs between profit and purpose, the quantitative data should focus on metrics that unpack this further. An important measure is share of profits going to workers and farmers.

More broadly, data can unpack the broader social and environmental impacts of business. Good frameworks include the UN Global Compact's Poverty Footprint Methodology and Doughnut Economics, and good examples include AkzoNobel.

References:

<https://www.oxfam.org/sites/www.oxfam.org/files/dp-a-safe-and-just-space-for-humanity-130212-en.pdf>

<https://www.unglobalcompact.org/take-action/action/poverty-footprint>

<http://report.akzonobel.com/2014/ar/case-studies/sustainable-business/measuring-our-impact-in-4d.html>

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

One path is due to founders of a company wanting to leave a legacy or leave their business in stable hands (e.g. employee-ownership and foundation-owned enterprise models in Denmark). Other times, businesses are set up as mission-led enterprises to begin with (e.g. social enterprises).

Critically, if the business enabling environment favours mission-led businesses, then more businesses will either be born as mission-led or transfer into mission-led structures. If tax advantages for instance were afforded to such models, this would lead to more investment into mission-led models.

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

Over the next decade, the mainstream economy should be on a path to becoming dominated with mission-led businesses. This requires clarity over what being mission-led truly is, and a deliberate economic vision to convert the economy into one populated by a new breed of business structures.

There are many companies, that have the core mission of maximising profits (and thereby shareholder returns). These companies do lots of good things in lots of places, because sometimes the most profitable path incidentally happens to be the one of greatest positive social impact. If a company can only 'do good' if it's the most profitable path, its mission is to follow the most profitable path (not a separate social mission). The next decade must see a clearer distinction between these companies and truly mission-led businesses that conduct commercial activity in a viable manner, whilst prioritising their social impact.

Critically, mission-led businesses in general (and as a movement) needs to become clearer about how they prioritise social mission over profit maximisation for shareholders. This will need to include an understanding of the stakeholder footprint of each enterprise model and a structure that gives greater power to the interests of those stakeholders within the business (e.g. if labour-intensive business, workers have great power through ownership and governance). These models should then be deliberately favoured via policy levers.

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	
Contact details for business	
Brief description of business (please keep under 5 lines)	Divine Chocolate is a company driven by a social mission: To grow a successful global farmer-owned chocolate company using the amazing power of chocolate to delight and engage, and bring people together to create
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	<p>Divine Chocolate has an ownership and board structure that is deliberately designed to prioritise the interests of cocoa farmers, rather than maximising returns to investors.</p> <p>Divine Chocolate Limited is a private company limited by shares. When the company was first established in 1998, its 99 ordinary shares were owned by three parties; 52% by the Fairtrade NGO Twin Trading, 33% by Kuapa Kokoo</p>
Stage of business development (i.e. start-up, growing, mature, repurposed)	Mature
Industry sector	Food
Geographic focus	UK and Ghana
Evidence of financial growth	<p>Divine has become a £12m business.</p> <p>From latest annual report: "Group sales were up over 50% to their highest level ever"</p>
Evidence of social impact	As well as trading with Divine Chocolate on Fairtrade terms, ensuring both the Fairtrade minimum price for cocoa, and the Fairtrade premium per tonne, Kuapa Kokoo's 44% share
Any other details (e.g. legal form)	

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?

- 1) Respect all human rights and comply with the UN Guiding Principles on Business and Human Rights
- 2) Pay a living wage
- 3) Share highest possible percentage of profits with worker, farmers and/or communities
- 4) Enter into long term partnerships with stakeholders most impacted (e.g. with supplier farmers, then long term commitment to long-term sourcing, with workers, put them on permanent contracts)
- 5) Use natural resources sustainably and pay the true cost of impacts on the eco-system
- 6) Challenge gender norms that keep women disempowered
- 7) Provide goods and services that benefit society without negatively impacting the eco-system

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

Yes, but communication alone will be inadequate. Critically, the impacted stakeholders (workers, farmers, communities) need to have a permanent avenue to communicate the issues that impact them, and have power to ensure that companies act responsibly towards them.

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?

If representatives of stakeholders that are most impacted by social and environmental issues have a position in the governance of the enterprise to raise the issues regularly, this would prevent mission drift. This could include, for instance, board positions or ownership stakes. For instance, community-owned energy companies or consumer-owned energy companies are better structured to ensure the interests of communities and consumers are prioritised than publicly-listed energy companies.

Additionally, asset-locks, dividend-locks and corporate charters (or business constitutions) can better embed the mission into business decision-making, limiting behaviour that diverts from the core mission.

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.

Lack of financial incentive is one barrier that could be addressed through tax policy favouring such conversions.

Lack of professional services is another barrier that could be addressed through support to legal, accounting and financial service providers able to support such conversions.

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?

The largest barrier is pressure from shareholders to maximise financial returns (particularly over the short-term). This leads to every commercial decision being made purely in terms of return on investment in financial terms (often unable to account for social or environmental impacts).

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.

Yes, because mission-led businesses are structured to pursue a mission other than profit maximisation (whilst remaining commercially viable). This structure translates into incentives for staff and shapes the dynamics of intra and inter firm interactions, as well as engagement with communities and consumers.

E.g. BRAC Bank in Bangladesh makes loan decisions not only on risk-weighted return on investment, but also on likely social impact. This fundamentally changes how they engage with consumers and communities. Similarly, Grameen-Danone Food Company has instilled a mission of promoting the nutrition of undernourished communities by putting in a cap on dividends that allows for profits to be reinvested into reducing the price of food and making it more nutritious.

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

Mission-led businesses, like all businesses, have to make choices about who's interests to prioritise when they encounter trade-offs between the interests of stakeholders such as customers, employees, suppliers and investors. Many businesses, who aspire to be mission-led, provide disproportionate power to only one of those stakeholders -- investors -- through having only the interests of shareholders represented on the board and being unable to compromise on the core mission of maximising shareholder wealth. The ownership and governance structure of most companies makes them unable to be mission-led, only being able to 'do good' if it also happens to be the path to maximum returns to shareholders. The misalignment between the business's mission and its structure means it is unable to engage stakeholder other than investors in an a way that fulfills a mission that's focused on their interests.

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?

Certification can be vital to set standards and communicate the unique attributes of a product or business to consumers and investors. However, existing certification standards fall short of adequately assessing the structural uniqueness of companies that are engineered to prioritise a mission other than profit maximisation. They do better with assessing company policies, but are unable to properly assess impacts and largely remain indifferent to the structures of the business that drive decision-making. Additionally, there's a risk that the proliferation of certification standards leads to further confusion among consumers in particular, who are faced by an ever increasing range of certification logos on products with little ability to distinguish them.

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

Social impact of companies is often broader and deeper than what is expected. Companies impact everything from job quality and gender norms, to business attitudes and access to resources for local communities. Critically, the first step should be a broad analysis of the potential impacts of a business to determine the issues to prioritise in measuring social impact.

Most of the negative impacts of business is not adequately costed, and organisations like Trucost have demonstrated that many of the world's top industries would be unprofitable if environmental costs were fully integrated. The IMF concludes that currently the fossil fuel industry is being 'subsidised' (in a very broad sense of the term) by \$10 million per minute in terms of costs imposed on others, including health costs due to pollution. Measurement of the impacts of businesses needs to go beyond what is currently easy to measure, and take account of the true cost of commercial activity on people and natural resources.

References:

Larkin, Amy 2013 Why Companies Need to be Held to Account Over Their Environmental Debt, Guardian, London, July 10, 2013

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=42940.0>

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.

ACCESS TO FINANCE: Mission-led businesses can deliver lower returns to investors, because they are structured to prioritise a mission over maximising returns to those investors. This means they are disadvantaged in accessing finance. Government policy (particularly around SMEs) can better target mission-led SMEs to help them access finance.

ACCESS TO PROFESSIONAL SERVICES: Many mission-led entrepreneurs have said that they have struggled finding the appropriate accounting, legal and financial services to help them structure and grow their business so it pursues a specific mission.

DISTINGUISHING THEMSELVES WITH CONSUMERS: Mission-led businesses can be materially different in their impacts to their mainstream competitors. However, the growth of certification schemes and sustainability marketing has meant that they find it difficult distinguishing themselves from their mainstream competitors (e.g. Cafe Direct vs their larger listed competitors). Companies who have a core mission of profit maximisation, but have incidentally found that pro-social behaviour in some places is consistent with their core mission, can appear at first glance (to consumers) just like genuinely mission-led businesses.

SCALE: Larger businesses have greater market power and can achieve favourable terms with suppliers and customers. Since many mission-led businesses are currently small, they can face great disadvantages in competing with their larger competitors.

INCURRING COSTS THAT MAINSTREAM COMPANIES DON'T: Mission-led businesses that

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?

Overall, government is in the right place to ensure that the rules of the economy ensure that the true social and environmental costs of commercial activity are correctly allocated, and that the policy environment deliberately favours mission-led enterprises, aspiring to have them become the mainstream of the future economy. This would create an incentive for more companies to transform into becoming mission-led and give an advantage to existing mission-led businesses. Some examples of government policies to achieve this include:

TAX: Government policy (e.g. tax policy) can provide financial advantages to such firms. The status quo can result in the opposite. For instance, currently, the tax system has lower rates for capital gains than income tax. This can disadvantage mission-led businesses that take on a cooperative model for instance, as they aren't delivering returns through increases in the share price (which would be taxed at capital gains tax) but instead provide income to members (taxed at income tax levels).

GOVERNMENT PROCUREMENT: Government can deliberately favour mission-led businesses in buying goods and services.

CORPORATE GOVERNANCE REFORM: Government can reshape the dominant corporate models so they structurally give greater power to stakeholders other than shareholders (e.g. workers and

Thank you for your response.