

## Consultation Response

# Mission-led Business Review: Call for Evidence

July 2016

### About Co-operatives UK

Co-operatives UK is the network for Britain's thousands of co-operatives. We work to promote, develop and unite member owned businesses across the economy. From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-operatives are everywhere and together they are worth £34.1 billion to the British economy.

### What is a co-operative?

The definition of a co-operative recognised by the United Nations as provided by the International Co-operative Alliance is as follows:

*"A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise."*<sup>1</sup>

Members of co-operatives are driven by shared Values such as self-help, mutual aid and fairness. In practice co-operatives are guided by a set of internationally recognised Principles covering essential facets like the raising of capital, concern for community and democratic governance.<sup>2</sup> We suggest it is useful for Cabinet Office to think of the distinctive features of co-operatives as coming in three parts: **mutual purpose, joint or collective ownership, and democratic control.**

Co-operatives in the UK incorporate using a variety of legal forms. The majority are incorporated as co-operative societies, though many others are companies and community benefit societies. A smaller number are community interest companies and limited liability partnerships.

### General remarks

#### Excitement

The Minister for Civil Society, Rob Wilson MP, has personally encouraged Co-operatives UK to promote a better understanding of co-operatives through this review and we are excited by the possibilities it presents. We know there are many

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<sup>1</sup> International Co-operative Alliance '[Statement on the co-operative identity](#)'

<sup>2</sup> Ibid

businesses that are fully committed to a range of economic, social and environmental missions, but do not necessarily meet the accepted definition of social enterprise or cannot make use of the ‘regulated social enterprise’ legal forms.\* This includes a significant number of co-operatives and other mutuals, including credit unions, friendly societies and building societies.

We are especially pleased because this widening of Cabinet Office’s focus provides an opportunity for government to better understand the co-operative society legal form. This legal form could be seen to straddle the space between regulated social enterprise and unregulated businesses. Co-operative societies are subject to strict regulation to ensure their purposes are mutual, though while these may be social in nature they do not have to be. Their governance and ownership is also subject to strict regulation. And some aspects of their capital are also regulated, though crucially for this review, not the amount of surplus that members can distribute as profits. Co-operative societies and other mutuals make an important contribution to both the social and mainstream economies, and a focus on them is overdue.

**We would very much welcome the opportunity for co-operative business leaders to present to the Expert Panel.**

### Caution

However, we are slightly concerned that this attempt to introduce a new concept of ‘mission-led business’ which explicitly excludes all social enterprises and many mutuals could add damaging confusion. Social enterprises and mutuals are clearly mission-led businesses; and most policymakers, business people and the public will intuitively consider them as such. What Cabinet Office is really referring to in this review is a subset of mission-led businesses which are fully profit distributing. When policymakers, business people and the public are already bewildered by a myriad of overlapping concepts, choosing new terminology carefully is absolutely essential.

We also feel duty-bound to restate the value and growing importance of business forms which do have clear rules and mechanisms in relation to purpose and the uses of capital and profits. Social enterprise is now clearly defined and well understood, especially when regulated legal forms are used. A great deal of hugely beneficial economic and social activity has built up in this space, including huge growth in community co-operation and community shares where Co-operatives UK and our members are directly involved.

And most importantly for our members, co-operatives have clearly defined and well understood Values and Principles and rules and mechanisms which are used to deliver excellent economic, social and environmental outcomes. Some of the most significant social impacts businesses can deliver address damaging disparities in income, wealth and power. Co-operatives are particularly well suited to achieve these

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\* community benefit societies, community interest companies, charities

outcomes. For Co-operatives UK, who owns and controls a business, and who benefits from its activities and how, will always be vitally important.

All this said, we do believe there is significant merit of broadening Cabinet Office's focus to look beyond regulated social enterprise.

## **1     *What do you know about the number and profile of mission-led businesses operating in the UK?***

- 1.1     There are 6,797 independent co-operatives in the UK, with a combined turnover of £34.1 billion.<sup>3</sup> We believe many, but by no means all, share the characteristics of mission-led business set out in the Call for Evidence.
- 1.2     We should exclude co-operatives that are not profit distributing, such as those with 'mutual trading status'<sup>\*\*</sup> and community co-operatives incorporated as community benefit societies. We should also exclude co-operatives with limited profit distribution incorporated as community interest companies.
- 1.3     There are two types of co-operative which we think specifically share the characteristics of mission-led business:
  - Worker-owned co-operatives
  - Consumer co-operatives
- 1.4     These are fully profit distributing entities. There are no legal or regulatory restrictions on the extent of profit distribution for co-operatives using the co-operative society, company or limited liability partnership legal forms. What is more equitable sharing of profits among members is core to their mission. For example in a worker co-operative the fair sharing of profits among all workers is core to the socio-economic mission of the businesses. Meanwhile sharing profits among members in a consumer co-operative is central to their mutuality; aligning personal reward with collective benefit and ethical consumer choices.
- 1.5     Consumer and worker co-operatives have significant socio-economic missions hardwired into the core of what they do.
- 1.6     For more than 150 years consumer co-operatives have formed the bedrock of the UK and international co-operative movement. From the outset these businesses sought to deliver broad social and economic goods through their core activities. At the heart of consumer co-operatives is their mutual purpose to meet the economic social and cultural needs of their members, in

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<sup>3</sup> Co-operatives UK (2016) [The UK co-operative economy 2016](#)

<sup>\*\*</sup> See here: <http://communityshares.org.uk/resources/handbook/mutual-trading>

accordance with the seven co-operative Principles.<sup>\*\*\*</sup> These Principles provide practical guidance for how to live out co-operative Values: self-help, self-responsibility, democracy, equality, equity and solidarity. In their core governing documents, their society rules, these co-operatives all commit themselves to putting member needs first and to adherence to the co-operative Values and Principles. In modern times these businesses have put adherence to Principle Seven: ‘Concern for community’ at the very heart of their corporate purpose and operate on what we today call a ‘triple bottom line’.<sup>4</sup> Consumer co-operatives report extensively on their economic, social and environmental impact.<sup>5</sup>

- 1.7 We provide two exemplar case studies of consumer co-operatives as mission-led businesses in the Annex to this document.
- 1.8 Worker co-operatives’ core purposes are always to create and sustain decent, fair work through a commitment to worker solidarity and concern for community. The mutual needs of workers and their community are put first. Worker co-operatives tend to be formed specifically by people who want to apply ethical socially responsible principles to their work. A shared ethical or socio-economic mission, to further fair trade and genuine sustainability for example, is often at the very heart of a worker co-operative. As with consumer co-operatives, worker co-operatives adhere strongly to Principle Seven: ‘Concern for community’ and strive to embed the ‘triple bottom line’ in their day-to-day business. Again, worker co-operatives hardwire their mission into their governance and operations. Commitments are made in their governing documents, and processes and procedures are in place to project and protect mission. But this is always about more than society rules or company articles. There many ways for a worker co-operatives to demonstrate a long term binding commitment to mission. Evidence of business plans and practices that further mission are least as relevant as what’s written in the rules.<sup>6</sup>
- 1.9 We provide two exemplar case studies of worker co-operatives as mission-led businesses in the Annex to this document.
- 1.10 Depending on how exactly the definition is applied, we think there are about 1000 co-operatives with a combined annual turnover of £23.5 billion that share the characteristics of a mission-led business set out by Cabinet Office. This includes household name consumer co-operatives such as the Co-op Group and employee owned co-operatives like John Lewis.

### *Breakdown of consumer co-operatives*

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<sup>\*\*\*</sup> See here: <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>

<sup>4</sup> For example see the [Rules of the Co-operative Group](#)

<sup>5</sup> For example see the reports of [Midcounties Co-operative](#)

<sup>6</sup> For example see Unicorn’s mission statement: <http://www.unicorn-grocery.coop/principles.php>

Co-ops UK Industry Sector	Number of Co-ops	Turnover
Retail	354	£13,082,277,204
Other	162	£3,516,971
	<b>524</b>	<b>£13,187,266,711</b>

**Breakdown of worker owned co-operatives**

Co-ops UK Industry Sector	Number of Co-ops	Turnover
Retail	57	£9,898,004,815
Manufacturing	40	£367,660,348
Professional and Legal services	59	£23,883,149
Health and Social Care	19	£12,170,638
Digital, Media and Communication	35	£5,398,998
Transport	7	£4,051,636
Arts and Culture	25	£1,966,911
Education	56	£1,664,112
Other	25	£1,209,366
Housing	9	£851,516
Energy and Environment	5	£791,147
Sports and Recreation	6	£390,095
Unknown	46	£246,173
Finance	3	£225,798
Food service, Accommodation and Pubs	9	£125,860
Agriculture	16	£102,122
Membership associations, social clubs and trade unions	10	£74,311
	<b>427</b>	<b>£10,318,816,995</b>

## **2 What do you know about the impact of being a mission-led business on business performance and social impact?**

- 2.1 For co-operatives the primary corporate purpose is to be mission-led from the outset, so the costs and benefits of fulfilling the mission are core to the business plan rather than being ancillary.

**Consumer co-operatives**

- 2.2 At their best the mutual ethical nature of consumer co-operatives is their invaluable ‘USP’ in competitive markets such as grocery retail. They provide consumers with a trusted, accountable, responsible and socially beneficial option for day-to-day purchases.
- 2.3 In the past the UK’s consumer co-operatives pioneered Fair Trade, getting it off the ground and associating it closely with their brands.<sup>7</sup> Consumer co-operatives also put a great deal of emphasis on investing profits in the local communities where they trade. And today these same co-operatives are leading the charge against tax abuse through their support of the Fair Tax mark. A number of regional consumer co-operatives have also begun investing heavily in local economic benefit; sourcing local produce<sup>8</sup> and measuring their impact in the local economy.<sup>9</sup> Examples such as these mean that many consumers rightly associate consumer co-operatives with ethical practices and local benefit.<sup>10</sup>
- 2.4 The mutual ownership of consumer co-operatives can also attract loyal custom. There has always been a cohort of consumers who given the choice prefer to be customers of mutuals and local or family businesses over PLCs. Such sentiments have risen quite significantly since the financial crisis of 2007-9. Consumer co-operatives, and especially those with strong local roots and identities, benefit from this.<sup>11</sup>
- 2.5 The link between mission and positive consumer choice is made all the stronger for the millions of UK citizens who are members of a consumer co-operative. For most the primary feature of membership is that the more they spend, the more they get back through the dividend. Getting a share of the profits is a powerful part of the consumer offer. Some consumer co-operatives have also begun offering member discounts as part of their trading model. This nurtures a loyal customer base that shares a stake in business success.<sup>12</sup>

### Worker co-operatives

- 2.6 Depending on the sector they trade in worker co-operatives may also benefit from increased ethical or pro-social consumer choices. This is because such businesses have strong demonstrable credentials in these regards. Worker co-operatives have the additional advantage of customers knowing they are spending their money in businesses with exceptional labour ethics where

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<sup>7</sup> <http://www.fairtrade.org.uk/en/buying-fairtrade/flowers/the-cooperative>

<sup>8</sup> For example see East of England Co-op’s [Locally Sourced](#) programme

<sup>9</sup> For example analysis of Lincolnshire Co-op’s [local economic benefit](#)

<sup>10</sup> [http://www.uk.coop/sites/default/files/uploads/attachments/PF15Presentations/trust\\_scandal\\_and\\_renewal\\_-\\_ed\\_mayo.pdf](http://www.uk.coop/sites/default/files/uploads/attachments/PF15Presentations/trust_scandal_and_renewal_-_ed_mayo.pdf)

<sup>11</sup> Co-operatives UK (2014) ‘After the storm: the reputation of co-operatives’

<sup>12</sup> <http://www.thenews.coop/94008/news/co-operatives/channel-islands-co-operative-offers-a-dividend-with-a-difference/>

workers get a fair share of the profits. Shining examples of how worker co-operatives' mission plays well with consumers include the success of Unicorn Grocery in Manchester and Infinity Foods in Brighton, both of which have invaluable intensely loyal customer bases.

- 2.7 Furthermore worker ownership and a clear mission centred on workers and their communities can bring significant business benefits in terms of engagement, motivation, worker responsibility, flexibility and ultimately productivity. This had been demonstrated time and again through academic research<sup>13</sup>

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

- 3.1 Co-operatives UK continually maps and measures the whole of the co-operative economy in the UK. Clarity from Cabinet Office as to which co-operatives it considers to be mission-led would help us to provide it with accurate data on: size, growth, activity in different sectors, productivity and social impact.

**4 *Why would a business set-up as or become a mission-led business?***

*Mission-led entrepreneurs*

- 4.1 The personal convictions and social conscience of entrepreneurs have a big part to play. Research into the motivations of 2,500 entrepreneurs with traditional businesses across 13 countries in 2011 and 2012 suggests that the majority are driven by a mixture of financial and non-financial motivations. While the most significant of these non-financial motivations are still self-seeking, there was a clear blend into broader social and economic values and motivations. For a sizable minority, these broader social motivations are especially significant and these people could be considered mission-led entrepreneurs.<sup>14</sup>
- 4.2 A growing number of entrepreneurs also recognise that demonstrable ethics and social benefit can be invaluable in building an effective brand and a loyal customer base. Furthermore, when a business is shaped by an individual and is closely associated with that person, factors such as conscience, peer pressure and personal reputational integrity are more likely for to have a significant impact. Sociologically such factors tend to lose potency when applied to larger groupings and less personal institutions.
- 4.3 Later on moves to become mission-led are likely to arise out of conducive organisational cultures and norms, and to be initiated by a committed group of

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<sup>13</sup> [https://www.uk.coop/sites/default/files/uploads/attachments/worker\\_co-op\\_report.pdf](https://www.uk.coop/sites/default/files/uploads/attachments/worker_co-op_report.pdf)

<sup>14</sup> Dr R Harding (2013) '[The collaborative entrepreneur](#)'

executives and a supportive board. Such moves may be part of brand investment in response to customer expectations and demand.

#### Co-operative entrepreneurs

- 4.4 The mission-led nature of consumer and worker co-operatives is always intrinsic to the mutual aspirations of the founding members. Given that existing consumer co-operatives are long established it is more relevant to use the example of worker co-operative formation in answering this question. Worker co-operatives are formed by people motivated by a sense of fairness, solidarity, concern for the community and a desire to shape and control the ethical dimensions of their work. As one co-operative puts it:

*“Workers’ co-ops give us a chance to change a small but significant part of how things are. They’re one way to take back an important part of our lives and gain control over how we work, not to mention the impact our work has on others and our environment.”*<sup>15</sup>

#### Stakeholders, ownership and mission

- 4.5 The likelihood of being or becoming mission-led can depend on the relationships between the business and its stakeholders, including employees, consumers, communities and the natural environment. The more a business recognises and sets priorities for the interests of these stakeholders alongside shareholders and investors, the more likely it is to have a well-rounded corporate mission beyond the single bottom line. If the organisation, governance, or ownership of the business empowers these stakeholders, then becoming mission-led is more likely still. Thus trends in the UK such as growth in employee ownership and other forms of mutualisation could result in more existing businesses becoming mission-led over time.

### **5 How do you see mission-led businesses developing over the next decade?**

- 5.1 We expect to see steady growth in the number of worker co-operatives over the next decade. A new generation of entrepreneurs who have entered the labour market in the aftermath of the 2007-9 economic crisis is attracted by the Values and Principles of worker co-operation. Meanwhile the UK’s consumer co-operatives are making considerable efforts to revitalise and rearticulate their ‘USP’ in a fast changing and highly competitive retail sector. While the Co-op Group has experienced high profile difficulties in recent years, it is moving confidently into a period of renewal with a rejuvenation of its mutual mission core to this.<sup>16</sup> Meanwhile a number of our regional consumer co-operatives have gone from strength to strength over the same period;

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<sup>15</sup> <http://radicalroutes.org.uk/publicdownloads/setupaworkerscoop-lowres.pdf>

<sup>16</sup> <http://www.co-operative.coop/about-us/>



attracting new members and increasing dividend payments. These same co-operatives are expanding into new markets where their mission-led USP can be a real asset, such as local food and domestic energy supply.<sup>17</sup>

- 5.2 Given that we see a link between broader stakeholder ownership and the likelihood of becoming mission-led, more employee ownership is likely to increase the number of mission-led businesses over time.
- 5.3 The arrival of B Corps in the UK is also set to make a difference. The criteria for B Corps and Cabinet Office's mission-led criteria are strikingly similar. B Corp's accreditation and metrics framework could certainly assist in the encouragement, recognition and measuring of mission-led businesses. Cabinet Office should note that it is entirely possible for worker and consumer co-operatives to gain B Corp accreditation.<sup>18</sup>

## **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?***

- 6.1 Businesses need to clearly define their mission; what their positive social impacts will be and how they will generate these through their commercial activities. These missions need to be stated in the objects of business and reflected in the duties of directors. Governance needs to include clear reporting on and accountability for mission. Business planning should make provisions for the delivery of identified social impacts.
- 6.2 Going further we believe mission-led businesses using the company legal form could make use of the statutory mechanism of 'entrenchment', under Section 22 of the Companies Act.<sup>19</sup> This could mean, for instance, that company articles relevant to mission could only be altered or removed by a super-majority of members balloted on a 'one member one vote' rather than a 'one share one vote' basis. Going further entrenchment could require the consent of multiple stakeholders, such as employees, before articles sensitive to mission are changed or removed.

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

- 7.1 Government includes numerous functions which encourage and assist entrepreneurs and business development. Some of these could become useful channels of communication. For instance Start-up Loans and related advice and coaching could include mission-led approaches, and cover a greater diversity of business forms including co-operatives. Local Enterprise

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<sup>17</sup> See [Co-operative Energy](#)

<sup>18</sup> <https://www.cabotcheese.coop/about>

<sup>19</sup> <http://www.legislation.gov.uk/ukpga/2006/46/section/22>

Partnerships (LEPs) could also play a role in communicating to entrepreneurs and businesses.

- 7.2 The approaches discussed in answering **question 6** are not applicable the social economy alone and have relevance and merit across the economy. As such any communication and promotion agenda needs to be taken up by BIS, LEPs and by business policymakers in devolved polities.
- 7.3 We warn Cabinet Office that excluding social enterprises and many mutuals from its definition of mission-led business could cause damaging confusion. Social enterprises and mutuals are clearly mission-led businesses. What Cabinet Office is really referring to in this review is a subset of mission-led businesses which are fully profit distributing. Policymakers, business people and the public are already bewildered by a myriad of overlapping concepts, choosing new terminology carefully is absolutely essential. We urge Cabinet Office to rethink or at least qualify its chosen nomenclature.

**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?***

*When do you think this is most likely to happen?*

- 8.1 Mission drift can be more likely when mission-led entrepreneurs begin raising capital from external sources. This is especially the case when they begin ceding control of their business to outside shareholders. Over time the power and influence of investors motivated by return on investment alone can lead to the imposition of a ‘microeconomic discipline’ at the expense of mission.
- 8.2 If a mission-led entrepreneur leaves the business completely this will certainly increase the risk of mission drift.
- 8.3 Economic pressures such as price competition, cost inflation or a shrinking market share can also impose microeconomic discipline on a business and thus reduce its ability to deliver on its social mission, especially if doing so comes to be seen as ancillary to, or at the cost of, profitability. Where investors or financiers have significant influence over or power within the business, the imposition of this discipline can be all the more pronounced. Where the fiduciary duty of the board is fixed on serving the financial interests of shareholders the imposition of such microeconomic discipline will be stronger still.
- 8.4 Drift is also more likely as a mission-led business grows to become a more impersonal institution. Over time the power of privileged actors within a firm, such as executive managers or investors, can erode mission. For example, the problems of management capture have long been understood academically and are now increasingly recognised more broadly. This can be

true for co-operatives as much as any other businesses, and the co-operative movement continually strives to minimise management capture.

- 8.5 It is also possible that over time a business's social impact can lose its relevance. Alternatively similar social goods can come to be delivered better in other ways. Some businesses may be able to repurpose themselves, but others will cease to be mission-led altogether.

*What could be done to prevent this?*

- 8.6 Cabinet Office has clearly already identified governance as the primary tool for making and keeping a business mission-led. Through key governing documents, such as company articles, a business can identify its intention to have a positive social impact as a central purpose of its business. And through its governance processes its directors can monitor and report on this.
- 8.7 Having clearly defined purposes and objects committing the business to delivering a positive social impact is essential for any mission-led business. Going further, the statutory mechanism of 'entrenchment', under Section 22 of the Companies Act, discussed in our answer to **question 6**, would also guard against drift.
- 8.8 Over time the co-operative movement has developed distinct governance tools specifically intended to align mission with commerciality and to protect that mission within an ever evolving business. For instance, the primary duties of co-operative directors are always to serve and safeguard the businesses' mutual mission (the creation of benefits for members) and uphold the co-operative Values and Principles.<sup>20</sup> Prudent stewardship of the businesses' resources forms part of this, but cannot be an end in itself. Mission and director duties are thus one and the same. Good co-operative governance includes structures, policies and procedures, and skills and behaviours, which seek to empower members as the key stakeholder and to ensure the primacy of the mutual mission. While non-mutual mission-led businesses won't empower and privilege members in the same way, they can still adapt co-operative governance tools which make mission an end in itself.
- 8.9 Going further Cabinet Office should consider that there is something intrinsic in the mutual model that helps protect mission. Effectively recognising and empowering those with a stake in mission in governance arrangements acts as a driver of purpose and a safeguard against drift.
- 8.10 However, while good governance is essential in protecting against mission drift, culture and values can be equally important. Shared values and motivations are essential in the development of culture. Being vocal about a

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<sup>20</sup> All consumer co-operatives in the UK are signed up the Corporate Governance Code for Consumer Co-operatives, which includes requirements in this regard.

demonstrable positive social impact can attract people to the business who share complementary values. If done with commitment, educating directors, executives and staff about mission can instil shared values as well.

- 8.11 Again, co-operatives can be particularly effective here. The fifth co-operative Principle states:

*“Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives.”*

Helping stakeholders understand mutual mission has always been core to co-operative practice. Today Co-operatives UK and the Co-operative College are working with consumer and worker co-operatives to develop training schemes to do just this. Mission-led culture can be particularly strong in worker co-operatives, as worker-owners are motivated by shared values and have considerable agency within their businesses.<sup>21</sup>

- 8.12 Beyond governance and culture strategies to minimise mission drift should focus on two closely linked areas: succession planning and investment.
- 8.13 As discussed, as mission-led entrepreneurs cede ownership and control, the likelihood of mission drift increases. Learning from mutuals suggests that mission drift could be minimised through succession which empowers those stakeholders most likely to retain, renew and enhance mission, such as employees, consumers and communities.
- 8.14 Connectedly, mission-led businesses should seek investors who are likely to have more than a financial stake in the business. Raising capital from generalist social investors and from those with a more direct ‘social stake’ a particular mission could finance growth and facilitate succession in a way that limits drift. Cabinet Office’s ongoing work to develop a larger and more complex social investment market involving a wider range of players should continue. It should also consider the potential value in encouraging investment and ownership models centred on communities of interest with a more direct stake in the mission. New multi-stakeholder mutuals, accommodating ownership and investment from employees, customers and external investors could be developed as an innovative succession strategy.

**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.***

- 9.1 No comment.

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<sup>21</sup> <http://www.thenews.coop/88124/news/general/how-to-generate-and-nurture-a-strong-co-operative-culture/>

**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?***

- 10.1 One of the most significant barriers could be a lack of market confidence in mission-led performance. Investors and markets may well ascribe less value or higher risk to business plans that go beyond the single bottom line. Public companies with frequently traded securities are likely to be very susceptible to microeconomic discipline that can prevent mission-led intentions on paper ever becoming a reality.
- 10.2 Established corporate culture is at least in part a rationale response to stock market conditions. 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, while at the same time seeking to minimise its impact on 'real' business, in order to retain market confidence.
- 10.3 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.

**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.***

- 11.1 A mission-led culture generated from shared values is imperative if commitments on paper are to become a reality.

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

- 12.1 No comment.

**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?***

- 13.1 These can be very helpful. We particularly think the B Corp model has potential.
- 13.2 Furthermore we are convinced that co-operative identity has a significant role to play here too. Co-operatives UK is the body empowered by the International Co-operative Alliance to recognise co-operatives in the UK. We administer an identification policy interpreting the UN-recognised 'International Statement on the Co-operative Identity.' This sets out the fundamental of co-operative purpose, and key practices in relation to governance, capital and behaviour.

Only recognised co-operatives are able to use the global 'Co-operative Marque'<sup>\*</sup> and the '.coop' internet domain.

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

14.1 No comment.

**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.***

15.1 There are numerous barriers to growth both in terms of numbers and scale. Co-operative approaches in particular are less well understood than more traditional models and must overcome significant institutional and systemic biases.

*Education, advice, support*

15.2 Public understanding of co-operatives and other forms of mission-led business is low. Educational curricular rarely include an adequate treatment of the co-operative model. Meanwhile information, advice and support for would-be entrepreneurs tend to focus on traditional business models. While information advice and support in relation to social enterprise is increasing, there is a gap in relation to 'unregulated' mission-led businesses, including worker and consumer co-operatives. Through interventions such as Start-up Loans, government and its partners could do more to assist mission-led and co-operative business development in the 'mainstream.' To make progress in this regard Cabinet Office will a need to engage with BIS and with business policy and programmes in the devolved nations and at more local levels as well.

15.3 A lack of understanding of co-operative and mission-led business practices in professional services can also act as a barrier. The average lawyer advising entrepreneurs has no knowledge of the co-operative option or the potential of different legal forms. Thus the advice provided is often unintentionally biased in favour of traditional non-mutual models. Meanwhile larger co-operatives sometimes struggle to obtain legal, accountancy and leadership expertise that is sympathetic to their purposes or that understands how to balance commercial rigor and commitment to mission.

15.4 Professionals advising business owners and executives looking at succession tend to have similar gaps in their knowledge. Thus too few employee buyouts occur in the UK, and too little attention is paid to protecting and enhancing mission through succession.

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<sup>\*</sup> <http://identity.coop/>

### Finance

- 15.5 A lack of appropriate, sympathetic or mission-led investment can also be a significant barrier to the growth of co-operatives and other mission-led businesses.
- 15.6 Beyond the difficulties in accessing credit and investment experienced by most SMEs, worker co-operatives face additional challenges. They can find it harder to access corporate finance because they are poorly understood by lenders. This is more acute when using the lessor known society legal form. We also have reason to believe that societies are sometimes penalised in the workings of credit reference agencies; in part because of government under investment in the Mutuals Register.
- 15.7 As discussed in our answer to **question 8** we consider many forms of external investment to be inappropriate for mission-led businesses. Investors focused only on the single bottom line are more likely to require the same focus for the businesses they invest in, and their influence can erode mission over time.

### Legal and regulatory barriers for co-operative societies

- 15.8 We assert that the co-operative society legal form is very much part of the mission-led business policy landscape. This legal form allows for full profit distribution while also requiring business to be conducted for specific mutual purposes, which in consumer and worker co-operatives often include a commitment to having one or more positive social impacts.
- 15.9 Unfortunately government's effort to maintain an enabling legal framework for business tends to focus exclusively on companies. The society legal forms are too often overlooked, neglected and misunderstood. And while decent policy for regulated social enterprise has meant some attention is paid to community benefit societies, this has left the co-operative society legal form side-lined all the more.
- 15.10 Responsibility for society law and regulation is inappropriately sited in government. In theory BIS is responsible for creating an appropriate environment for all businesses, but in practice it has no part in legislating or policymaking for societies. This role belongs to HM Treasury, and while its officials are a great help when they can be, the department is often too busy with financial services and fiscal policy to pay much attention to societies. The knock-on of this odd arrangement is that the UK financial regulator acts a registrar for societies. And while the FCA Mutuals Team performs its role diligently an organisational focus on entrepreneurship, cutting red tape and sector growth is all but impossible. This fragmentation of responsibility hampers government's ability to provide a level playingfield for co-operative societies. This state of affairs has grown out of historical happenstance, not logical design.

15.11 This leaves co-operative societies underserved by the good practical work of government, and thus competing on an uneven playingfield. To provide just a few examples of how co-operative societies are disadvantaged:

- They face increasingly burdensome account reporting and audit requirements, especially when compared with companies
- Government's impressive deregulation agenda stops short of providing for societies
- Official data on societies is harder and more expensive to access for industry and the public; this is resulting in millions of pounds in extra pension protection costs this year alone
- There is no government time to undertake routine maintenance of the society legal forms, let alone to make more proactive reforms

15.12 One department in government should be given adequate responsibility and resource to champion the cause of all business forms. If responsibility were to move to BIS, societies will be served by officials with a specific business development remit, rather than by officials in HMT responsible for financial services. We believe that once BIS has practical responsibility for the society legal form it will be easier for this to be maintained alongside the company legal form as matter of course. It will also become less likely for societies to be unwittingly or unnecessarily excluded from deregulation agendas and schemes to support business. Moving the registrar function to a better-resourced Social Economy Registrar with a specific and clear remit to help people set up and run co-operatives and social enterprise, while also guarding against misuse, could have significant positive impacts for the usability of the society legal forms.

**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?***

Support

16.1 Mission-led businesses need well maintained and enabling legal and regulatory frameworks, and we specifically include co-operative societies within this. We need to coproduce and promote distinct mission-led governance approaches, learning from the longstanding practices of mutuals among other traditions. Education, advice and support for entrepreneurs provided by the state and other sources needs to provide for the development of mission-led businesses, including co-operatives. The breadth and depth of understanding within professional services of mission-led business needs to improve. And lastly, the UK needs to develop new forms of mission-led



finance, investment and stakeholder ownership, some of which should be mutual.

- 16.2 In recent years the Office for Civil Society has directed hundreds of millions of pounds, through their spending review settlement, via the Big Lottery, Big Society Capital and more, to civil society organisations. Notwithstanding 16.1, Cabinet Office and panel members' should be aware of the fierce resistance from representatives of the social sector, the media and the public at large if this review is seen to pave the way for directing these resources away from charities and towards privately owned businesses. There is significant reputational and thus policy risk, in the potential that stakeholders may suspect that money earmarked in the spending review for charities, that lottery money to be directed for good causes, and unclaimed assets seen as the people's money may be directed towards privately owned businesses without a primary social purpose.

### Incentives

- 16.3 The biggest incentive government can offer is to be more enabling of mission-led approaches in the ways set out in 16.1. Too often institutional and systemic biases act as disincentives. Removing these biases will make mission-led business development more likely, and in more diverse forms.
- 16.4 More effective measurement and demonstration of the commercial advantages that mission-led businesses can enjoy, especially in consumer markets, could also act as a powerful incentive. However, this must go hand in hand with efforts to measure and demonstrate genuine social impact to consumers.
- 16.5 While some might argue for tax incentives to adopt mission-led approaches we advise caution. The motivation to create a mission-led business should not be tax efficiency. At present social investment tax relief (SITR) is only available for returns on investment into 'regulated' social enterprise, where the social purpose, the rate of returns, and the use of profits, are all subject to rigorous regulation. We believe it would be inappropriate to extend this subsidy by tax payers to investments in enterprises with unverified mission and unlimited returns on investment.
- 16.6 Possibly some form of relief could be extended to 'unregulated' enterprises that have made a clear but non-statutory commitment to social impact. But this may require government to administer a 'mission-led register' so that HM Treasury and HMRC have a straightforward reliable means of assessing eligibility. Cabinet Office and HM Treasury could perhaps explore a tax relief on profits reinvested in mission-led businesses, rather than attaching support to capital in the process of being extracted from the business. A relief available to smaller businesses that rely more on internal reinvestment to grow may be most appropriate.

## Annex – Case Studies

Name of business: Suma Wholefoods

Contact details: info@suma.coop

Brief description of business: Suma is the UK's largest independent wholefood wholesaler/distributor, specialising in vegetarian, fairly traded, organic, ethical and natural products. It is a workers' co-operative committed to ethical business. To year end September 2014 its turnover was £37,997,355 and it made £253,630 profit. It has 130 worker owners.

Why is this a mission-led business?: Suma's commitment to co-operative Values and Principles feature in its rules and governance arrangements. Suma's business is rooted in the shared values of its members and consists of wholesaling fairly traded, organic, ethical and natural products. As a worker co-operative it is committed to providing decent empowering employment with a fair share of responsibilities and rewards. It is also committed to ethical buying, Fair Trade, and as a distribution business is *"acutely aware of the impact that business has on the environment at local and global levels and [it] continually strive[s] to keep it to a minimum."*<sup>22</sup>

Stage of business development: Suma is a growing business, founded in 1975.

Industry sector: UKSIC07-463 Wholesale, distribution

Geographic focus: Nationwide

Evidence of financial growth: Suma's turnover grew 43 percent in the past 5 years from £26.5 million to £37.9 million.

Evidence of social impact: Suma's fair sharing of profits with workers has stood out in recent years, with the workers' annual bonus being reported favourably by the Financial Times.<sup>23</sup> Its commitment to decent work has also earned it industry accolades.<sup>24</sup> Suma aims to use as close to 100 percent renewable electricity as possible and its reps share hybrid vehicles. It takes back plastic and cardboard packaging from its customers and recycles everything it can't reuse. Suma plants enough trees with Treesponsibility to get carbon neutral status and has appointed a 'carbon champion' to keep a constant eye on its footprint. It is a licensee of the Fairtrade Foundation.<sup>25</sup>

Any other details (e.g. legal form): Suma is incorporated as a co-operative society under the Co-operative and Community Benefit Societies Act. It is a highly engaged member of Co-operatives UK.

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<sup>22</sup> <http://www.suma.coop/about/>

<sup>23</sup> <http://www.ft.com/cms/s/0/3c59e65e-6bd4-11e3-85b1-00144feabdc0.html#axzz4DRKaqWIM>

<sup>24</sup> <http://www.suma.coop/2016/06/suma-wins-employer-of-the-year-at-the-annual-grocer-gold-awards/>

<sup>25</sup> <http://www.suma.coop/about/>

Name of business: URBED (Urbanism Environment and Design) Ltd

Contact details: Sangeetha Banner, Director, sange@urbed.coop, 0161 200 5500

Brief description of business: A worker co-operative, URBED is an urban design and sustainability consultancy. It provides expert urban design, town planning and architecture consultancy services, specialising in masterplanning and sustainability assessments for public and private sector clients. The company also carries out research into topics relating to the built environment. Their work won the 2014 Wolfson Economic Prize.

Why is this a mission-led business?: As a worker co-operative, URBED is committed to the co-operative Values and Principles, and to the provision of empowering rewarding work. These objects are clearly set out in its company articles.<sup>26</sup> URBED has a clear mission set out in four founding principles: Urbanism, Community, Sustainability and Design.<sup>27</sup> This mission is clearly lived out in the work URBED does.

Stage of business development: URBED is an established business with a very strong reputation in its field.

Industry sector: SIC07-71112 Urban planning and landscape architectural activities

Geographic focus: Nationwide

Evidence of financial growth: In very challenging market conditions URBED continues to employ 10 staff and grew its total net assets from £44,849 to £104,648 in 2014-15.<sup>28</sup>

Evidence of social impact: URBED's professional output evidences how the business stays true to its four founding principles in ways that contribute to social and environmental impact. For example it is developing a masterplan for a major housing development in the Trent Basin in Nottingham, with an emphasis on landscaping and the public realm.<sup>29</sup> It has also recently worked on the development of 'My Home Energy Planner', an online tool to enable householders to understand current energy usage and decide which energy efficiency improvements might best suit their home.<sup>30</sup>

Any other details (e.g. legal form): URBED is incorporated as a company limited by guarantee. It is a member of Co-operatives UK.

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<sup>26</sup> <https://beta.companieshouse.gov.uk/company/05741006/filing-history?page=4>

<sup>27</sup> <http://urbed.coop/about>

<sup>28</sup> <https://beta.companieshouse.gov.uk/company/05741006/filing-history?page=1>

<sup>29</sup> <http://urbed.coop/projects/chapelgarth-sunderland>

<sup>30</sup> <http://urbed.coop/projects/my-home-energy-planner>

Name of business: Lincolnshire Co-op

Contact details: enquiries@lincolnshire.coop

Brief description of business: Lincolnshire Co-op is a consumer co-operative trading in Lincolnshire, owned and controlled democratically by 250,000 people. The co-operative operates food stores, pharmacies, post offices, florists, funeral directors and travel agency. In 2014/15 the co-operative had a turnover of £250,900,000 and made £17,701,000 profit. It employs 2,770 people.

Why is this a mission-led business?: Lincolnshire Co-op's mission is stated as:

*"Providing the widest possible range of services for our members; Maintaining quality, value and ethical principles; Building for the future by generating profits to develop our services, pay dividends to members and support our local communities; Encouraging customers to become members and to be involved in running their society; Developing the skills our staff need to help achieve our mission."*<sup>31</sup>

Underlined are the key commitments to having a positive social impact. The alignment of ethical trading, commercial success and sharing profits equitably with local people and communities delivers significant benefits. Furthermore, giving more local people a direct stake and say in the business creates new social capital.

In its annual report Lincolnshire Co-op includes 'Co-operative Environmental & Social Performance Indicators'. As per the 'UK code of governance for consumer co-operatives', Lincolnshire Co-op embeds its mission in its society rules and governance arrangements.

Stage of business development: A mature business, Lincolnshire Co-op celebrated its 150<sup>th</sup> birthday in 2011.

Industry sector: SIC07-4711 – Retail

Geographic focus: Lincolnshire

Evidence of financial growth: In 2014/15 members received a bonus of 85p per £1 of dividend received during the year, a total of £1.56 million on top of the £1.83 million paid out in dividend throughout the year. Total sales grew to £293 million. Profits grew by £2.2 million to £20.9 million. 20,000 new members joined the co-operative. It made £17 million of capital investments and its net assets grew to £282 million.<sup>32</sup>

Evidence of social impact: Lincolnshire Co-op's 2014-15 annual report states that £3.39 million profits were shared equitably among local people, rather than leaving the local economy in dividends to distant shareholders. 5 percent of its pre-tax profits were invested in the communities it trades in. Meanwhile it sourced 98 percent of its

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<sup>31</sup> <http://www.lincolnshire.coop/about-us/mission-statement>

<sup>32</sup> <http://www.lincolnshire.coop/about-us/financial-reports>

food through the Co-operative Retail Trading Group, which has clear commitments to ethical supply chains. And 92.5 percent of its waste was recycled.<sup>33</sup>

Any other details (e.g. legal form): Lincolnshire Co-op is incorporated as a co-operative society under the Co-operative and Community Benefit Societies Act. It is a highly engaged member of Co-operatives UK.

Name of business: Channel Islands Co-operative

Contact details: customer.relations@channelislands.coop

Brief description of business: Channel Islands Co-operative is a consumer co-operative serving the Channel Islands, owned and controlled democratically by 123,000 people. The co-operative operates food stores, home stores, pharmacies, a funeral directors and travel agency. In 2015 the co-operative had a turnover of £168,746,000 and made a £3,611,000 profit. It employs 829 people.

Why is this a mission-led business?: The co-operative's stated mission is to "*develop and protect long-term member value*" and "*make a real difference to the communities [it] serve[s]*."<sup>34</sup> The co-operative places considerable emphasis on sharing profits equitably with its members and with the communities it trades in. It also makes strong commitments to local and global social responsibility, including a commitment to the local economy, ethical supply chains and Fair Trade. The society rules commit it to trading as a co-operative, in accordance with co-operative Values and Principles. Its Board has a specific duty to ensure the mutual mission and adherence to co-operative Values and Principles.<sup>35</sup> Channel Islands Co-operative reports against its mission in its annual reports.<sup>36</sup>

Stage of business development: A mature business, Channel Islands Co-operative has traded since 1919.

Industry sector: SIC07-4711 – Retail

Geographic focus: The Channel Islands

Evidence of financial growth: The co-operative's turnover has grown from £162.8 million to £168.7 million between 2012 and 2016.

Evidence of social impact: Channel Islands Co-operative distributed £8.3 million to local people in dividends in 2015. It also distributed £250,000 to local community projects. As part of its commitment to the Channel Islands economy the co-operative

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<sup>33</sup> <http://www.lincolnshire.coop/documents/page/financial-report-2015.pdf>

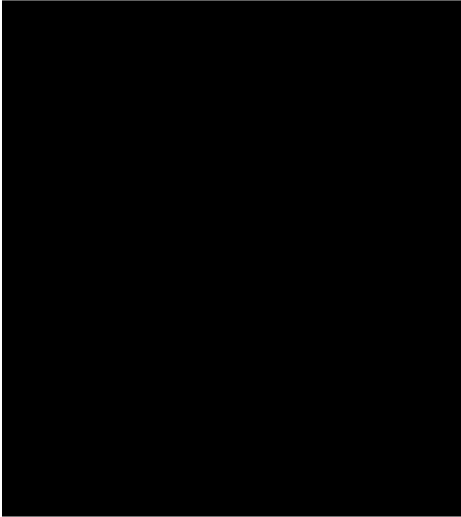
<sup>34</sup> <https://www.channelislands.coop/your-society/mission-vision-values/>

<sup>35</sup> <https://www.channelislands.coop/media/1208114/rules-of-the-society-as-amended-november-2015.pdf>

<sup>36</sup> [https://www.channelislands.coop/media/1208085/cicoop\\_annualreport\\_2016-webversion\\_2-final.pdf](https://www.channelislands.coop/media/1208085/cicoop_annualreport_2016-webversion_2-final.pdf)

stocks over 1,000 local products in its stores and procured over £11 million in produce from local producers in 2015.<sup>37</sup>

Any other details (e.g. legal form): Channel Islands Co-operative is incorporated as a co-operative society under the Co-operative and Community Benefit Societies Act. It is a highly engaged member of Co-operatives UK.



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<sup>37</sup> [https://www.channelislands.coop/media/1208085/cicoop\\_annualreport\\_2016-webversion\\_2-final.pdf](https://www.channelislands.coop/media/1208085/cicoop_annualreport_2016-webversion_2-final.pdf)