Mission-led Business Review

Submitted by UnLtd: the Foundation for Social Entrepreneurs to Cabinet Office in response to its Call for Evidence published May 2016

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[redacted]

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

UnLtd is the Foundation for Social Entrepreneurs.[1] Our mission is to reach out and unleash the energies of enterprising people who do good. We call these people social entrepreneurs.

We welcome this Review and Government's interest in mission-led business. The Review is important given the context of innovation within civil society, and changing attitudes to the role of business in society. Binary approaches to organisational form and function, which drew hard lines between profit and social purpose, are no longer helpful. Social entrepreneurs are developing a range of innovative business models to deliver social impact and public benefit which in the past would most likely have been delivered through the charity model. The distinction between social organisations and businesses is increasingly complex and nuanced. From a business point of view, there is increasing interest in purposeful business, which creates a huge opportunity for the business community to take a more rounded and long-term view of its role in society, and to play a far more substantial role in tackling society's challenges as well as reducing its negative impacts. Increasing interest in social entrepreneurship is part of this mix.

We welcome Government's ambition to enable any UK entrepreneur to be able to easily establish a business that makes a good profit while at the same time making a commitment to social impact. A subset of these entrepreneurs will be what we consider as social entrepreneurs, who generally establish a venture with a primary social purpose; another subset will be entrepreneurs who seek to establish businesses which seek to create some social impact in the context of their commercial goals. Both of these subsets have important roles to play – alongside organisations in the regulated social sector – and have the potential to improve our society.

[1] Registered charity 1090393.

In general, our responses to this Call for Evidence refer to our data on and experience of working with the subset of mission-led business that could be categorised as having a primary social purpose. We recognise that these social ventures have particular characteristics and needs that may not apply to other mission-led businesses. For example, they may seek social investment as well as commercial investment; they may seek support from organisations like UnLtd; and their social purpose or impact may be an integral part of their business model and marketing. The same is less likely to be true of mission-led businesses at the other end of this broad space. It is helpful that the Review relates to both, and some conclusions and recommendations will apply across the board – but it is important to note that the Review may need to distinguish between the two subsets in some respects.

We are not aware of any data source which gives clear evidence of the number and profile of mission-led businesses in the UK. As the Review has suggested, there is data suggesting that a substantial proportion of UK businesses - most of them Companies Limited by Shares (CLS) - are established and run with a social purpose. The Small Business Survey is the most prominent source of this data.

In addition, a survey carried out by the National Enterprise Network in collaboration with UnLtd found that 27% of its members' clients - recipients of mainstream business support - said that they are starting and/or managing a business that has a particularly social, environmental or community objective. https://unltd.org.uk/wp-content/uploads/2015/09/Spotlight-Paper.pdf.

Neither of these sources identifies how many of these businesses have taken steps to formalise or embed a social purpose, commit to delivering on that purpose, or report on its social impact. It is highly unlikely that many of them have done so, as taking such steps remains an exception rather than the norm. It is impossible to say how many of them would take such steps, were they to be more straightforward, more widely understood and acknowledged as normal and desirable.

Our own data is limited to those social entrepreneurs and social ventures which have applied to UnLtd for support. We only support social entrepreneurs whose ventures have a primary social purpose and a clear intention to create social impact. We support these social entrepreneurs irrespective of the legal forms that they choose for their social ventures, recognising that social entrepreneurs themselves should be given flexibility to select the most appropriate form for their social venture, depending on their market context, impact model, growth ambitions, and other factors.

The proportion of our social entrepreneurs choosing legal forms other than the regulated social sector organisations is relatively low overall. Our data suggests that around 9% of our Award Winners have incorporated as a CLS at the time of their Award.[2] Given that we only work with social entrepreneurs whose ventures have a primary social purpose, it is reasonable to conclude that all of our CLS-based Award Winners would potentially qualify within the Review's definition of mission-led business, at least at an aspirational level. In practice, few of them would actually distribute any profits given the early stage of their development, although some of them have made commitments to restrict future profit distribution. Some have taken formal steps on social intent and reporting in

[2] Based on UnLtd application data covering Awards made since January 2014, for which data is available [N=1501]. A small proportion of these social ventures use the CLS as part of a hybrid structure.

line with your key characteristics, but many have not. From our experience, these social entrepreneurs might have not done so either because their ventures are at such an early stage that they are not yet in a position to take these steps; because they are not envisaging imminent change of ownership or taking on investment; or because doing so is not yet 'normal'.

The proportion of social entrepreneurs choosing the CLS is higher among Award Winners who apply for our growth- and investment-oriented support programmes. The proportion of Big Venture Challenge Award Winners 2013-16 using the CLS model is 55%.[3] These social ventures are more established than our average Award Winner, having typically been operating for two to three years. However, in conventional business terms, they are still early stage, and are typically seeking a first round of investment.

This data confirms the existence of a subset of social entrepreneurs whose ventures have a primary social purpose, who for various reasons have chosen the CLS over regulated social sector organisational forms. How large this potential pool of social entrepreneurs is, and how many more entrepreneurs could be drawn into the mission-led space given clear routes to do so, is unclear.

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

Our own evidence on this question is limited to our evidence of the business performance and social impact of the CLS-based Big Venture Challenge Award Winners whom we supported from 2013-15. On average, these social ventures report average growth in trading income of 120% per year since joining the Big Venture Challenge programme, alongside average growth in the number of beneficiaries reached of 54% per year.[4]

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

We would suggest the following are explored:

- Including more specific questions in the Small Business Survey
- Including an identifier within Companies House data, for example inviting newly registering businesses to self-identify as mission-led businesses
- Developing model Articles and tracking/surveying companies who download or otherwise express interest in them
- Making use of B Lab UK data on certified B Corps as well as potentially drawing out anonymised data related to the B Impact Assessment, should this be possible

[3] Some of these use the CLS as part of a hybrid structure.
[4] Median, excluding outliers.

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

From UnLtd's point of view, this question can helpfully divided into two parts:

Firstly, what drives social entrepreneurs to establish a business with a primary social purpose?

What social entrepreneurs have in common is the desire and commitment to solve a particular social challenge, and to use an entrepreneurial approach to doing so. The drivers for doing so vary but can be illustrated by the statements of some social entrepreneurs whom we consulted for the purposes of this Review, for example:

"I wanted to make a positive difference to society and to build a business with real purpose."

"Some social problems are the most in need of innovation."

"Because we set out to solve a social problem ... I felt this was an opportunity to move communities from traditional methods to more sustainable forms of infrastructure."

"I am passionate about education and I saw an opportunity to make a positive contribution to the lives of young people."

These statements are in line with our experience that for social entrepreneurs, the primary motivation is personal. When asked how important their commitment to social impact was to themselves and to a variety of other stakeholders, the social entrepreneurs we consulted rated it as 'very important' to themselves, while at most 'fairly important' to at least one section of their stakeholders (customers, employees, investors/funders, others).

Secondly, why do some social entrepreneurs choose to incorporate as a CLS for their social venture, rather than a regulated social sector legal form?

We have previously published research on the reasons that some social entrepreneurs choose to incorporate as a CLS, available at https://unltd.org.uk/wp-content/uploads/2014/04/UnLtd_Research_Publication_Number71.pdf.

The main factors emerging from this research were:

• Simplicity – the CLS is seen as easy and cheap to set up, with minimal bureaucracy.

• The CLS enables access to a wide range of finance, notably investment finance from diverse investors (including commercial, social and angel investors), while not precluding certain grants. The CLS's openness to substantial commercial investment was seen as particularly important for R&D-intensive technology ventures that require significant amounts of capital in the initial stages, as well as for those aiming to scale globally.

• The flexibility of the CLS was seen as a major benefit in terms of allowing both an investable structure and social purpose to be built in via various 'mission lock' mechanisms. This flexibility also meant that entrepreneurs felt able to adapt their venture to meet the emerging needs of their business model and social purpose as these evolved, rather than a more rigid structure pre-determining this.

• The CLS is often seen as the ‘default’ option, given a lack of familiarity with other forms of social business among the founders and/or the venture's stakeholders. In many industries, the CLS is the recognised ‘business standard’.

• The CLS can provide a return for both entrepreneurs and investors, thus incentivising the growth of the venture.

• The desire to demonstrate that social impact and profit making can co-exist.

Social entrepreneurs we consulted for the purpose of this Review confirm many of the above reasons for selecting the CLS over regulated social sector forms, for example:

"We need to raise funds and felt a CLS would be the best way to do this."

"We work incredibly hard and if we are successful would like to benefit from our efforts."

"We do not believe that businesses should be penalised for doing something good for society."

"Whilst we have a social mission, our culture is more aligned with a tech startup."

"Because charities [in our sector] are failing to gain funds and are shutting down."

"Other social venture legal structures are complex."

"Businesses and charities are understood by the buying public - we have found that they are suspicious of other entities."

"We knew that we would want to attract social investment at some point - you need to be able to offer a financial return as well as social impact return."

"We wanted to be fleet of foot, make and act on decisions quickly."

"We stayed as a CLS because we knew we would need to raise investment in order to reach the largest number [of beneficiaries] possible and to have the greatest impact possible."

From our experience, it is valuable to have a variety of organisational structures available for social entrepreneurs. Flexibility to select the most appropriate form(s) for their particular context enhances their ability to innovate and to operate successful social ventures. 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 – particularly in terms of identifying which organisations should be eligible for tax reliefs or other incentives – this flexibility is important for the development of a vibrant social economy. This Review should seek ways to improve the full range of organisational structures that are used by mission-led entrepreneurs.

It is important to note that in some cases, the CLS is 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.

Some of the social entrepreneurs we consulted for the purpose of this Review commented:

“Setting up [our venture] as a CLS was vital to enable us to raise investment. We felt that investors’ perception of CIC’s can put them off and we didn’t want to create additional barriers for them in our negotiations.”

“Previous research I had conducted with CICs found that customers were suspicious of CIC structures and the CICs I spoke to found it had restricted their ability to sell their product or service.”

Whatever else is recommended as a result of this Review, we suggest that Government and the CIC Regulator pay serious attention to addressing these perceptions, in order to improve understanding and better use of the CIC, where appropriate.

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

In terms of the appetite to start up mission-led businesses, we can point to data from the quarterly RBS Enterprise Tracker, which consistently found that around 20% of those who would like to start their own business would choose to make this a social enterprise. The figure was higher for people aged 18-30, at around 27%. Around 70% of this age group would seek to use their business to benefit social causes. Almost half of those aged 18-30 would like to start their own business.

Given this interest in entrepreneurship per se, and specifically in using business as a force for good, it is reasonable to suggest that mission-led business will become more popular and widespread over the next decade - as long as doing so is straightforward and uncontentious.

We predict that mission-led businesses are particularly likely to develop in the digital tech space, due to the coincidence of mission-driven entrepreneurs, an open and collaborative start-up culture, investors with interest in mission-driven business, and a demand for substantial investment at the early stage. We also see mission-led business taking off in media and cultural industries for similar reasons. Some more traditional sectors, such as construction, retail and logistics, are also likely to develop mission-led businesses due to their capacity to deliver social impact through employment, while operating in a market context in which they must compete with (and often look like) traditional businesses. However, there is no reason that mission-led business cannot emerge in any sector – indeed, we expect this to happen.

There is a risk that the current interest in purposeful business leads to abuse and discrediting of the concept - already there are warnings of the risk of 'purpose-wash'. It is critical that new founders and established businesses are provided with straightforward mechanisms which allow them to embed mission into their businesses, and which they can use to communicate with credibility and integrity. It is also important that Government endorses these mechanisms and promotes them as desirable and 'normal'. We make specific recommendations on this below.

There is also a risk that the development of mission-led business (as defined by the Review) 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. 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 different set of businesses which although mission-led, would not currently be eligible for it.

Case study

Name of business	Harry Specters
Contact details for business	https://www.harryschocs.co.uk/
Brief description of business (please keep under 5 lines)	Harry Specters creates luxury and award winning chocolates whilst providing employment for young people with autism. They also offer free work experience for students from local special education needs schools and provide free training for young people with autism.
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	Harry Specters provides employment and training opportunities to young people with autism. Harry Specters is a CLS with a clause in its Articles that ensures that 51% of net profits are dedicated towards the benefit of people with autism. They produce impact data for their customers and investors.
Stage of business development (i.e. start-up, growing, mature, repurposed)	Growing, have recently raised over £200k of growth capital.
Industry sector	Manufacturing/Retail
Geographic focus	Nationwide
Evidence of financial growth	100% Year on year growth
Evidence of social impact	1 full time, 2 part time employees with autism and 6 on a contract basis. 50 students with autism have completed work experience in the three years since company was launched
Any other details (e.g. legal form)	CLS

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?

The G8 Social Impact Investment Taskforce made the following recommendation:

Give Profit-with-Purpose businesses the ability to lock-in mission: governments to provide appropriate legal forms or provisions for entrepreneurs and investors who wish to secure social mission into the future

This recommendation was made in the context of the three-pronged conceptual framework for profit-with-purpose business developed by the Taskforce's Mission Alignment Working Group, which is helpful to restate for the purposes of this Review:

- INTENT: Committing to a social purpose
- DUTIES: Creating duties for directors and officers to strive for and deliver the social purpose
- REPORTING: Measuring and reporting on social impact, related to the intended social purpose and more broadly

We encourage the 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 the social impact created. This cuts across a number of questions in this Call for Evidence. Here, we focus on the first part, intent.

Our starting point is that the current permissive legal framework in the UK allows a mission-led business to make commitments to deliver on its intention to have a positive social impact. This is unlike some other jurisdictions, in which it is not possible for a private company to specify anything other than a commercial purpose. For analysis on this, please see Orrick (2014) *Balancing Purpose and Profit*: Thomson Reuters Foundation and its Addendum, published June 2016, both available via www.trust.org/trustlaw.

The flexibility allowed by the Companies Act is useful, and there are various steps that can be taken to commit a venture to a particular intent. The pressing challenge now is not to create new legal options, but to make the existing steps allowed by the law more meaningful, normal and better understood.

As the Call for Evidence states, the steps that a business can take are still very much in development. It is therefore not surprising that they are poorly understood by businesses, policymakers and other stakeholders including investors and advisers. We are aware that social entrepreneurs are sometimes given conflicting or incorrect advice, reflecting the lack of established and accepted best practice. It is important that this Review identifies ways to establish good practice and to raise awareness and acceptance of this.

UnLtd approaches this issue from two perspectives.

First, as a grant-making charity, we have an obligation to ensure that our support is used in line with our charitable purposes. Our due diligence and grant-making processes take this into account, irrespective of the organisational form chosen by the social entrepreneur. Where we are supporting a social entrepreneur who chooses to establish a CLS, we build into these processes certain conditions to mitigate any additional risk. Some of these conditions relate to steps that the venture must take to commit to social mission/impact, in order to access our support.

Second, as a supporter of social entrepreneurs, we are concerned that social entrepreneurs are able to make informed decisions about appropriate steps that they can take to embed and protect their social mission. We have worked with various policy processes on this (including the G8 Social Impact Investment Taskforce's Mission Alignment Working Group and the related UK-focused Social Business Frontier working group). We have also worked closely with lawyers advising our Award Winners on appropriate steps.

From both of these perspectives, we have developed our approach substantially over the last three years, and it continues to evolve with experience. We apply a risk matrix and use a combination of constitutional and contractual mechanisms, which include the following steps that a business can take.

1. Stating social purpose in Articles.

2. Making other commitments in Articles depending on the context, e.g. related to the distribution or use of a proportion of profits; renumeration of Directors or staff; affordability/accessibility by target beneficiaries; limiting private benefit on exit; assigning specific accountability for impact to certain Directors; committing to social impact reporting; etc.

It should be noted that neither of the above are sufficient alone to create a mission 'lock'. Amendments to Articles can be made with the consent of 75% of shareholders. However, they are important steps which create fiduciary duty on the Directors. They can also be used as a basis for contractual conditionality. For example, CLS social ventures in our Big Venture Challenge programme are only able to access match funding if they have amended their Articles to include an agreed social purpose statement; the wording of this statement and any other conditions are included in our Offer Letter. Any acts or omissions of the venture which deviate from the stated social purpose during the grant term (three years) will be treated as an event of default, which may result in demand being made for the full repayment of our funding.

We are aware of other contractual mechanisms, for example shareholder agreements, which can be used by social investors.

Separately from such contractual 'locks', it is also possible for businesses to create entrenched provisions which further protect the social mission statement or other amendments to the Articles. For example:

3. Specifying specific Articles as a 'reserved matter' or 'supermajority matter', for example requiring a higher threshold than 75% for a shareholder resolution.

4. Golden Share. This gives a named third party the right of veto over amendments to specific Articles.

Most of the social entrepreneurs we support are at pre-revenue stage; others are post-revenue but pre-investment. At this point, most founders still own a controlling stake in the business. From a technical point of view, it is relatively straightforward for them to take any of these steps to embed their mission into the business. It is undoubtedly more complicated to do so for more established businesses, particularly those that are publicly listed or that are owned by diverse shareholders.

In our view, the pros and cons of these steps relate to:

- How meaningful they are in terms of influencing company behaviour, culture and impact
- How secure they are
- How easy they are to understand and communicate to stakeholders
- How easy they are to put in place
- How easy they are to enforce
- How flexible they are as the business grows and changes over time
- How they affect stakeholders' perceptions of the business
- At the regulatory/policy level, how easy they are to track and monitor

There is not yet sufficient experience of these steps to allow an evidence-based assessment against these criteria. However, we can comment on some of them.

It is clear that there is a hierarchy of steps in terms of security, from 1 and 2 (relatively insecure) to 4 (relatively secure) above.

From our experience, the Golden Share might not be appropriate for some ventures, particularly those for whom it is difficult to identify an appropriate third party to own the Golden Share, or who are not yet at a stage at which they wish to enter into a long-term relationship with a third party. Some social ventures have responded to this challenge by establishing their own arms-length organisation (usually a charity) which owns the Golden Share, but this will not always be desirable or practicable. There has been some discussion in the sector about Golden Shares being held by a central institution, akin to a regulator, but feedback from social entrepreneurs indicates that this is also undesirable – many would be unwilling to entrust such an important responsibility to anything other than a trusted institution which understands their social venture and mission in detail.

From the point of view of stakeholder perceptions of the business, it is clear that the current lack of understanding of these steps makes some stakeholders wary. Some social entrepreneurs express concern that taking any of these steps may put off investors. However, we have also heard that making a commitment to a social purpose through these steps can help social ventures to find like-minded investors. We elaborate on both points below.

From the points of view of enforcement and regulation/policy, all of the above steps have the disadvantage of being bespoke and relatively opaque. Although Company documentation, including Articles, are publicly available via Companies House, very few stakeholders are likely to access these in practice, and it would be laborious to do so meaningfully. However, this level of transparency does at least allow stakeholders with a substantial interest, including engaged investors and supporters like UnLtd, to undertake due diligence and to have a clear set of commitments against which to hold the venture to account. The same could be said in relation to the media or campaigning organisations, thus creating pressure on the venture to deliver on its commitments.

In conclusion, as these steps are not well understood, and there is limited understanding of their potential legal and market implications in the short- and long-term, there is significant work to be done to further understand, normalise and promote them and we recommend that the Review stresses the importance of this work.

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

Yes, these steps could and should be better communicated to entrepreneurs and businesses. BIS and Companies House have an important role to play here, for example in developing and promoting model Articles and guidance on these steps and their implications. Business associations and networks including the Institute of Directors, Federation of Small Businesses and the Confederation of British Industry should also help to popularise them. We recommend a coordinated and concerted education/awareness campaign that involves these and other players.

However, it is not just a case of communicating them – it is also important to first establish good practice. This Review could usefully set out some principles, for example endorsing the conceptual framework developed by the Mission Alignment Working Group which refers to intent – duties – transparency, as above.

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?

When working with social entrepreneurs, we consider the potential for the business to pivot away from its focus on impact. If there is a significant risk, we encourage the social entrepreneur to take extra steps to lock in mission; in some cases, we make doing so a condition of our support.

One of the main factors we take into account is the social business model. For some businesses, the social impact is delivered through its core business, and is inseparable from it – what is sometimes referred to as 'lockstep'. For these ventures, the risk of mission drift is relatively low, as commercial success and social impact are fully aligned. In recent research (https://unltd.org.uk/wp-content/uploads/2016/06/UnLtd-Findings-Paper-10-Understanding-Social-Business-Models-in-the-Employment-Sector.pdf) on social business models used to create social impact in the employment space, we identified three models:

The Impact Seller: social impact is bought directly (often by public sector clients) to improve employability and connect individuals with employment opportunities. In these models, the social impact and commercial success is directly aligned and it is unlikely that the business would pivot away from the original mission – although the ongoing need to attract sufficient income could still lead to the business taking on contracts that are less aligned with its mission.

The Impact Employer: the buyer pays for a product or service, where the cost of social impact delivery is factored into operating costs and taken from the operating margin. Impact Employers typically sell to the general public and to other businesses. In these models, there may be greater scope to pivot the business model unless there are mission lock or reputation-based mechanisms in place.

The Profit Donor: the venture generates net profit to “buy” social impact elsewhere, i.e. from other social ventures or charities. Here, the commercial success and social impact are in line with each other, but are not operationally connected. The risk of mission drift is potentially higher, unless there are suitable mechanisms in place.

For relatively early stage social entrepreneurs, concerns about mission drift tend to focus on three key points of the venture’s journey.

The first is the point at which external investment is taken on, as this will be the first time that the founder cedes some control of the business, and there is the potential for a misalignment between the founder’s vision/mission and the interests of the investor(s). One of the social entrepreneurs we consulted for the purposes of this Review commented:

“We put a social mission lock into our articles and according to our shareholder agreement it would require 90% of shareholders to vote for it to be changed or removed. We did this to protect a future shareholder being able to change the direction and aims of the company.”

They described the advantage of taking these steps as “knowing that an investor couldn’t ever change our purpose as an organisation.”

Anecdotally, we hear that social entrepreneurs who take formal steps to embed their mission into the business find that this helps to attract the ‘right’ investor, who buys into that mission from the start. The same social entrepreneur commented that they now “feel secure that all investors who come on board are doing so to help us achieve our social aim.”

A second key point is an investor exit, when a significant change of ownership and control can influence the venture’s ongoing mission, and potential financial gain may conflict with the venture’s mission. Conditions in shareholder agreements or Articles may be helpful in dealing with this.

A third key point is when the founder steps away from the venture. Many social entrepreneurs find it hard to plan for this, particularly at the early stage. Encouraging social entrepreneurs to take steps to embed their vision and values into the institution for the long term can help them to focus on the legacy that they would like to leave through it.

In relation to all of these points, it is much more straightforward to pre-empt such situations well in advance. We recommend that the Review finds ways to encourage founders and existing businesses to pre-emptively consider these risks and how they should deal with them.

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?

There are considerable barriers to new entrepreneurs who want to convert their intent to make social impact into a long-term or binding commitment. The most significant of these is a lack of awareness and acceptance of such steps in the market, linked to a concern by the social entrepreneur about the potential implications of taking such steps – particularly the risk of putting off investors. One of the social entrepreneurs we consulted reported that the steps they had taken to embed social mission helped with accessing institutional social investment, but discouraged angel investors. This may be due to a lack of understanding of such steps among potential investors, rather than a rejection of the notion of investing in mission-led businesses more broadly.

We are not aware of any direct regulatory barriers, although misinterpretation of regulatory implications is a challenge. For example, one of our social entrepreneurs was advised by a lawyer that amending their venture's Articles to state a primary social purpose might affect eligibility for EIS tax relief for its investors, even though this is incorrect.

In many cases, social entrepreneurs are not aware of the options open to them, and lack of access to informed, affordable legal advice on this topic is a barrier for most social entrepreneurs. Programmes like the Big Venture Challenge, which build in such support on a pro bono basis, are only accessible to a limited number of social entrepreneurs. As one of the social entrepreneurs we consulted for the purposes of this Review said, "I'm not sure we would have taken these steps without this support, as it would have been very costly and we weren't aware that you could lock in a social mission before beginning the programme."

We recommend that this Review considers ways of reducing the need for bespoke legal advice, for example by providing government-endorsed model Articles and guidance notes, and through the development of online tools. Such tools would also serve the purpose of educating lawyers, as part of a broader education campaign about mission-led business.

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?

We are not well placed to respond to this question, although we are aware that it is more straightforward for small, early stage, privately owned businesses to take steps to commit to and deliver on their intent to social impact than for large corporates, particularly those that are publicly listed.

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?

Most social entrepreneurs would argue that their commitment to a social purpose inevitably influences their ventures' culture, values, strategy, operations and behaviour. However, the culture and values of mission-led businesses will vary, and it would be inappropriate to seek to define these too closely. The conceptual framework proposed by the Mission Alignment Working Group of intent – duties – transparency appears to be a reasonable basis for ensuring that a mission-led business lives out its values. However, some mission-led businesses may wish to adopt more specific systems, tools and mechanisms.

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

Some social entrepreneurs report no challenges when engaging with potential customers, employees and investors about their social impact. As one social entrepreneur consulted for the purposes of this Review said, "No – they all think what we are doing is great." Another said, "No, if anything it has helped us to connect with and engage potential customers, employees and investors." One reported that "customers are increasingly more understanding and 'get' that we are focused on social impact; employees are incredibly focused on social impact."

However, others do report problems, particularly with strategic partners, funders and some investors. One social entrepreneur commented, "Corporates are very hard to engage with if you are not a charity. They want to be seen to be supporting only charities". The same respondent said, "Angel investors – in my experience – are not interested, despite saying that they are. When push comes to shove, they appear to only be interested in the return. The only exception is when an Angel [investor] wants to present themselves as socially focused for a different personal reason."

Our evidence shows that there is potential to change attitudes like this through the experience of investing in mission-led businesses. Research we carried out on how angel investors' attitudes to investment in social ventures changed as a result of investing in their first social venture (https://unltd.org.uk/wp-content/uploads/2014/05/UnLtd_Research_Publication_Number_8.pdf) found that several angel investors became more conscious of social ventures as investment propositions, started to differentiate this activity from their other investments or philanthropy, and became more conscious of the social value and impact companies create. Some made a commitment to factor social impact into their future investment decisions, whether social or commercial.

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?

B Corps certification fits well with the impact – duties – reporting framework proposed by the Mission Alignment Working Group, and UnLtd has welcomed the launch of B Lab UK. Since it was launched in September 2015, some of the social entrepreneurs that we have supported have already become certified B Corps, and we anticipate more to do so as the B Corps community becomes more established. Many more are likely to use the B Impact Assessment for benchmarking purposes, without seeking formal certification. The fact that the B Impact Assessment is freely available is helpful in encouraging businesses to try it out; we assume that this will helpfully draw some businesses into the mission-led space.

The take-up of B Corps certification by social entrepreneurs will depend on the fit between B Corps branding and the positioning of each social venture. This relates to the distinction we drew above between the subset of mission-led businesses which have a primary social purpose, and the rest. B Corps certification is more likely to be attractive to ventures which wish to position themselves as responsible businesses with a commitment to the triple bottom line and to having an overall positive impact on society, than as primary social purpose businesses which focus on a particular social challenge. B Corps certification would therefore be seen as a useful but insufficient indicator for institutional social investors, or for supporters like UnLtd, which are likely to continue to rely on additional due diligence and eligibility criteria.

When asked whether they have considered using a certification system such as B Corps to help measure or communicate social purpose/impact, one social entrepreneur we consulted for the purposes of this Review said, “No, we have a golden share to protect our social mission and a commitment to sharing our profits in the future. We think this is sufficient.” Another responded, “We have certainly considered using B Corps and if we gain the social investment we are seeking this year, we will probably embark on their certification system.” We emphasise that it is still early days and we will only see the full value of B Corps certification for UK mission-led businesses over time.

We are not well placed to comment on the role of frameworks such as Blueprint for a Better Business.

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

The issue of social impact measurement applies not only to mission-led businesses, but also to charities, social enterprises, and other institutions in the private and public sectors. There has been a substantial amount of effort put into understanding and defining best practice, not least by the OECD, Social Impact Investment Taskforce, European Commission’s GECES group, EVPA, NCVO and others, and we do not seek to summarise this in our response to this Review. We do not endorse any particular framework or system, as what will be right for one social venture will be inappropriate for others.

As far as social entrepreneurs are concerned, we recognise that measuring and communicating their social impact is a key challenge, and we seek to help them to consider how they can do this in a way that is appropriate, and that helps them to be accountable for and to enhance their impact over time. The same applies to mission-led businesses more generally.

Question 15 Have you identified specific barriers to the growth of mission-led businesses?

This question can usefully be broken down into two parts.

Firstly, are there barriers to the growth of individual mission-led businesses, as a result of them being mission-led businesses? They do face specific barriers, including access to the necessary bespoke legal advice on ways to embed their social mission into the business, and scepticism and lack of understanding among some funders, investors and corporate partners, as described above.

Secondly, are there barriers to the growth of mission-led businesses as a class of businesses? Currently, relatively few ventures would qualify as mission-led businesses fully in line with the definition used by this Review. This is largely because few are aware of the steps that they could take, or they have few incentives to do so. There is likely to be a natural increase in the number of people interested in establishing purposeful and/or primary social purpose businesses, but mission-led business as a whole will only grow substantially if it becomes more straightforward, normal and acceptable to do so.

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?

We suggest that the Review recommends the following steps that would support the development of mission-led businesses over the next decade. The overall objective should be to make mission-led business normal, natural, aspirational and easily doable. Within the following themes, there will be a need for different solutions for different types of mission-led business.

1. Positioning and promoting mission-led business and entrepreneurship

Government has an important role to play in endorsing the concept of mission-led business. This should piggy-back on the current interest in purposeful business. As one of the social entrepreneurs we consulted for the purposes of this Review said, "Government needs to send a clear message that companies limited by shares who have a clearly stated social aim have a place" alongside other social sector organisational forms. This endorsement should be inclusive and balanced, and avoid any implication that mission-led businesses are inherently more desirable than other organisational forms.

To be effective, this endorsement should be led by BIS as well as Cabinet Office, and it should be integrated into BIS marketing and other initiatives. There should be easily accessible information on gov.uk for entrepreneurs on the role of business in society, and what businesses can do to become mission-led and to improve their social impact. Government and industry should invest in the development of future leaders who are committed to, and are seeking to develop, mission-led business.

There should be clear calls to action. For example, Companies House could include prompts for entrepreneurs at various points of interaction (e.g. initial company registration) inviting them to reflect on their motivations and interest in increasing the social impact of their business, with links to guidance and tools if they wish to act on this interest.

2. Clarifying, establishing and communicating good practice

Government should set out clear guidance on the steps that mission-led businesses can take to commit to social intent and impact, and to deliver on this commitment. This should clarify what can be done in the context of the existing CLS to commit to a mission. It should unambiguously state that taking such steps creates duties for directors to deliver that mission. Government should ensure that the guidance is accessible for businesses and other stakeholders. The aim should be to establish and document what constitutes good practice, and to disseminate this as widely as possible.

These steps should be built into good practice on corporate governance, company formation, stakeholder accountability and other relevant specialist fields, working with Companies House, the Institute of Directors, and respective professional and advisory bodies as necessary. A concerted awareness campaign should target investors, lawyers, accountants, management consultants and other advisors, as well as mainstream information channels such as the BIS Business Support Helpline. This should include information on the Community Interest Company as well as what can be done with the CLS.

3. <u>Tools</u>

Government and industry should create tools that make it easy for businesses to take steps to commit to a social intent/mission. As a first step, Government should publish model Articles for various types of mission-led businesses. As a further step, Government and industry should work together to create online tools, which would reduce the need for bespoke legal advice, and help to establish norms. Such tools could cater for both primary social purpose businesses and other mission-led businesses, and could be promoted via Companies House and other routes.

4. <u>Recognising social intent and impact in regulation, commissioning and business support</u>

Government and industry should take steps to ensure that the social impact created by mission-led businesses is recognised, valued and incentivised. We do not consider it appropriate to see mission-led business as a status in itself which would allow regulatory distinction or fiscal incentives, as there would be no clear eligibility criteria to allow these. However, we do see merit in building measurement of social value more firmly into Government and industry incentives and support. For example, investment incentives such as EIS and SEIS could offer higher allowances for investors in businesses which have committed to delivering, and which deliver, greater social impact. The Social Value Act could be extended and strengthened. Start-up support and incubators/accelerators could prioritise mission-led businesses. These and other potential measures may require detailed consideration and feasibility studies beyond the immediate Review.