

Response to Mission-Led Business Review: Call for Evidence

Instructions for responding to the call for evidence

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

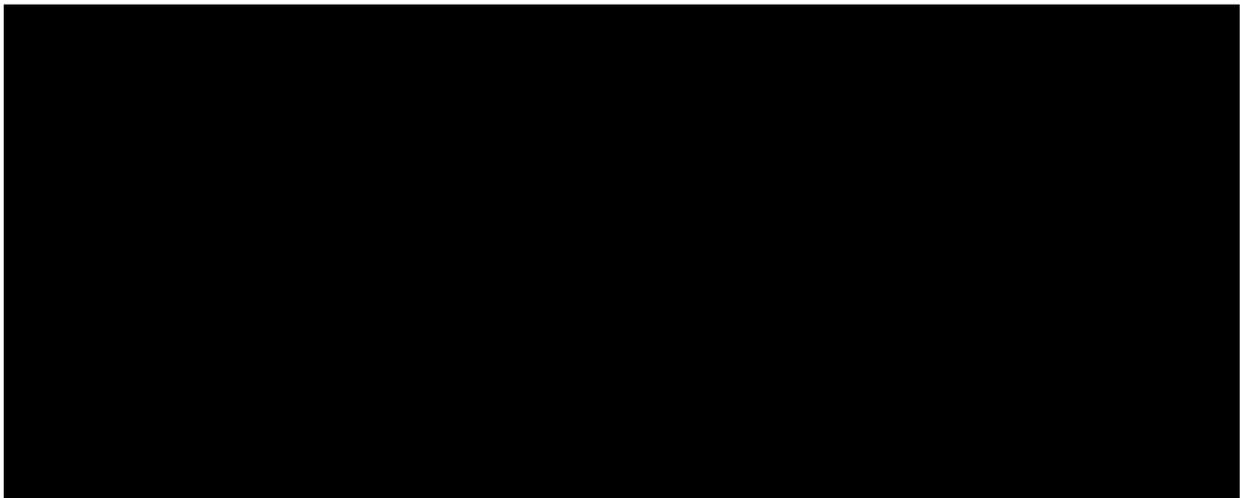
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

missionledbusiness@cabinetoffice.gov.uk

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

Mission-led Business Review Secretariat
c/o Alexandra Meagher
Cabinet Office
1 Horse Guards Road
London
SW1A 2HQ

Contact information



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

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

Traidcraft plc is a mission-led fair trade company. We participate in a group of like-minded organisations called the 'UK fair trade forum'. This comprises a growing number of mission-led businesses operating on fair trade principles and with a combined turnover of more than £50m. We define Fair Trade Organisations as social enterprises whose collective mission is to improve the livelihoods of producers in developing countries through trading partnerships based on dialogue, transparency and respect, and seeking greater equity in international trade. Fair Trade Organisations work directly with smaller scale producers and co-operatives, and the bulk of any surpluses made are reinvested in growing their businesses, returned to producer groups or used to pioneer the further development of fair trade.

Historically, there have been waves of mission-led businesses in the UK (and in Europe). In their earliest manifestation they arose out of, or as a consequence of, religious revival – or religious persecution. The Quaker companies Rowntree, Fox, Cadburys, Coleman, (food), Barclays and Lloyds (banking), Clarks (shoes) are the most well-known examples of this, but many others followed. Most of these companies have now been subsumed into multinational business forms and have generally been required to sacrifice their mission driven status. More recent examples

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

Traidcraft plc's mission is to fight poverty through trade. We are a dedicated fair trade company.

Social impact

One of the most important impacts that mission-led businesses have is on society at large. Traidcraft was not created to become the biggest player in its field, but to demonstrate the viability of best practice in how trade can be organised for social impact. Many of today's hot political issues, such as food provenance or living wage, are on the agenda because companies like Traidcraft have informed and educated consumers and made these issues relevant over a number of decades.

Traidcraft plc trades deliberately and exclusively with the intention of having a positive social impact on the producers we trade with and their wider communities. We measure this annually through a social accounts process which takes into account evidence from a selected group of stakeholders. Key metrics we monitor not only include the absolute volume of developing world purchases but also the degree of impact that these purchases have.

Business performance

Our business model flows from our mission. We operate differently to mainstream trade in the following ways:

- We often focus on the most marginalised groups in developing countries, working with suppliers that mainstream businesses might not choose to work with.
- We try to understand suppliers' problems and assist in finding solutions. We seek funding to implement short or long-term projects to help suppliers grow and develop sustainable businesses.

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

Mission-led business are in essence entrepreneurial, aiming to demonstrate an alternative reality. A quantitative approach therefore is not necessarily the best way to understand the important contribution they make.

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

Traidcraft was founded out of a strongly-held belief that trading in a just and equitable manner with long term business partners is the right thing to do, enables mutual benefit for the trading partners and can catalyst improved practice by mainstream business.
Mission-led businesses only ever survive if they satisfy a market demand, after the initial group of people or founders believe in something very profoundly to have set the business up. Once a more informed consumer base available, it is possible for new start ups to have a chance to enter as the market has been created.

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

This is clearly an area of growth and one that will challenge mainstream business practices. In the next ten years we expect to see a lot more producer driven organisations going straight to market (for example through farmer’s markets) and the big retail sector’s role as middlemen will be under increasing scrutiny. We also expect to see the internet support the democratisation of food supply chains and a much greater focus on corporate transparency.

Mission-led business - case studies:

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

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

Name of business	
Contact details for business	
Brief description of business (please keep under 5 lines)	Traidcraft plc is a fair trade company selling grocery and home products sourced from developing countries through multiple channels into the UK market. By selling direct to consumers who are engaged in issues of trade justice Traidcraft has managed to develop a
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	The social mission of the company, summarised as “to fight poverty through trade”, is protected in its memorandum & articles of association and other governing documents. Control of any mission change or ownership is controlled via a Guardian Share held by the Traidcraft Foundation, an independent trust. We have 5200 other shareholders and are shares are available to be publically traded on ETHEX. We were the first company in the UK to produce externally audited social accounts and we
Stage of business development (i.e. start-up, growing, mature, repurposed)	After more than 35 years of growth and stability, Traidcraft is about to re-launch itself, adapting to the changing nature of consumer expectation.
Industry sector	Grocery and homeware consumer goods
Geographic focus	UK market with suppliers in 30 developing counti
Evidence of financial growth	With a turnover of £11 million, Traidcraft plc returned to trading profitability in 2015/6. A platform has been created for future sustained growth
Evidence of social impact	We purchase on fair terms just under £3 million of goods from suppliers in over 30 developing countries, categorized in terms of their economic vulnerability and growth potential. In 2015/16 we spent £21000 directly on projects to
Any other details (e.g. legal form)	Unlisted Public Limited Company

Part II: Challenges faced by mission-led businesses

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

Our 35 year experience of operating as a mission-led business has demonstrated the following key factors in delivering positive social impact:

- Have clarity on the social objective which the business seeks to deliver. Traidcraft was set up to address economic injustice.
- Have clarity on the model. Traidcraft chose to apply a partnership approach based on trust, respect and development impact. We also developed very clear principles on 'terms of trade' which included ensuring fair prices, mutually beneficial contracts, pre finance and clear systems for joint planning and review.
- Evaluate and report to the Governance structures (board/trustees) as well as to other important stakeholders on how that performance is being achieved. Ensure this reporting is transparent.
- Put in place mechanisms to guard against mission-drift, for example Traidcraft's Foundation structure.

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

Starting a business is very difficult, many small businesses fail in their first 5 years. So being successful at delivering a social mission can be additionally difficult. Businesses are most likely to drop adherence to their social objectives when going through financial difficulties. The most obvious place for providing advice and guidance is when start-ups are looking for investment and support in writing business plans.

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?

Many of the shifts in the businesses founded by Quakers occurred when the businesses re-capitalised or were taken over. The same can also be said of the recent takeovers of some mission-driven businesses. The injection of capital and influence by people not committed to the mission clearly diverts the focus.

Traidcraft's governance structure, put in place when Traidcraft was about to re-capitalise in early 2000s and in particular the creation of the Guardian share, held by the Traidcraft Foundation is designed to prevent mission-drift. The Guardian share has the power to veto a potential purchase of Traidcraft shares by entities which might take Traidcraft ‘off mission’ for example a mainstream competitor.

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

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

There are several barriers to companies having a positive social impact:

- a) Commercial pressure from their competitors who behave unethically. In any given market there is a spectrum of practice, but the stretch from the top to the bottom in the volume section of the market is finite. The absence of effective regulation of the worst practice at the bottom end of the market effectively caps the ability of those striving to have a social impact to innovate and to break down barriers.
- b) Some supply chains are controlled by a handful of traders who in turn may control other services such as loans/banking. This impacts both on the choices available to mission-led businesses, and severely limits options available to their suppliers. For example it is very difficult to purchase cocoa mass, cocoa liquor or cocoa butter without purchasing from one of a handful of traders, none of whom operate to high social standards. Creating new supply chains which bypass these traders is expensive, time-consuming, and sometimes impossible. In these circumstances a social enterprise, which is purchasing small volumes and has little leverage does the best it can to influence the larger more powerful traders to operate to better standards, but that influence is clearly limited.
- c) Commercial pressure from supply chain partners or buyers. Businesses rarely operate in isolation and unfair trading practices in other parts of the supply chain can make it very difficult to have a positive social impact, irrespective of intention. For example, as a supplier ourselves, practices such as lack of respect for commercial contracts, last minute changes to order volumes, short termism in sourcing all make it very difficult for Traidcraft plc as a buyer to conduct business with our suppliers in the way we would choose.
- d) Negative pressure on enterprises in supplier countries. The owners and managers of

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?

There are a range of barriers:

- Many large companies choose not to engage in mission driven activities because they would lack credibility
- There are many examples of mission driven activities being undermined when a company is bought or gains a new major shareholder
- It is an expensive undertaking
- Larger companies may have a different relationship with their customers more focused on a volume-price trade off
- There is a contradiction between people-centred businesses and the demands of shareholders for short-term returns. Companies struggle to hold these two contradictory business models in balance
- It is easier to incorporate a mission into a company's governance structures at start up phase. Therefore the barriers to an existing business becoming mission-led include inertia and the challenge of achieving shareholder / leadership alignment.

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

The culture of a mission-led business is often different to traditional businesses, in particular employees benefit from their work being more closely aligned with their personal values. However there also need to be greater incentives to encourage non mission-led businesses to learn from and adopt best practices.

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

- Short termism from investors.
- Being focused on customer needs as well as the mission.
- Getting a consumer to focus on any of the myriad issues behind their purchase is a challenge, in particular as large companies are able to 'buy' attention through advertising.

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

Certification schemes have only as much value as the quality of their standards. While many schemes began with good intentions, they tend to "value crumble" in the face of big volumes. If the government relies on voluntary schemes as a way of absolving itself from regulatory responsibility then this would be a bad step.

Separate from independent certification schemes designed to benefit a clearly identified group (such as Fairtrade), there are various schemes which companies can sign up to. These schemes are in danger of being rather nebulous and reliant on self declaration rather than 3rd party verification.

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

Social accounts which Traidcraft plc pioneered identified all of the stakeholders that Traidcraft impacted upon. Feedback from these stakeholders was gathered, and these stakeholders were part of setting the key indicators which Traidcraft measured itself against.

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

Lack of regulation of unethical practice by some businesses can be a real problem for the competitiveness of mission-led businesses.

- There is no comprehensive regulation in the UK to stop abusive business to business practices, although anti-competitive practices are prohibited in some other countries. The setting up of the Groceries Code Adjudicator is very much valued as her office has started to address unfair trading practices in the grocery sector.
- Some markets have been allowed to be controlled by a handful of large companies. In this situation cartel-like behaviour can occur and when these business practices are unethical this is a barrier to market entry for mission-led businesses.

Lack of consumer engagement is also an issue. Mission-led businesses can only sell if people understand the issues. There is a clear role for Government education here - letting the market slug it out will only ensure a flight to the bottom.

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?

There are two important roles for Government here:

- Have in place a clear and enforced set of minimum standard which all companies must abide by.
- Invest in civic education on pertinent issues which will allow citizens/consumers to make informed decisions.

Thank you for your response.