

# NPC'S RESPONSE TO THE CABINET OFFICE MISSION-LED BUSINESS REVIEW

**Patrick Murray**

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As the line between the private and social sectors continues to blur, the Cabinet Office has launched [a review into mission-led businesses](#) to better understand this model and what it could achieve for our society. NPC is an organisation that works with a range of non-profit organisations, and we wanted to bring our perspective and expertise to the consultation. We have answered only the questions where we have a particular point of view to share.

## Overview

NPC exists to increase the impact of charities, non-profits and their funders. In recent years the blurring of boundaries between the private and social sectors offers new ways of delivering greater social impact for beneficiaries and communities across the country. Whether it is established charities or new entrants to the market, some social sector organisations are looking to adopt more sustainable business models. Meanwhile businesses are responding to drivers from consumers, and changing attitudes of the workforce—particularly millennials—to go beyond traditional models and ensure they have a social impact as well as returning profits to shareholders. Responding to these changing demands can take many forms, and if businesses do wish to have an impact they would do well to work more closely with the social sector. However, new organisational forms arising from the blurred boundaries also have an important role to play.

NPC welcomes [this Cabinet Office review](#), since there is undoubtedly a case to be made to support the profit making sector to deliver greater social impact. Government already supports businesses in a variety of ways, including schemes to help small and medium sized enterprises grow. Where organisations are genuinely seeking to deliver social purpose, should they not receive support too?

There are, however, risks in this approach. There is a danger that without the appropriate measures in place, some businesses may achieve nothing more than a 'social impact wash' of their organisations. Beyond the obvious issues with this, it would also undermine those that are seeking to become genuinely mission-led. Furthermore, it is unlikely that there will be markets for products or ways to monetise operating models for all the varied causes and beneficiaries the social sector supports. There is a particular danger that in moving to support profit making organisations to make a social impact, investment is diverted away from supporting good, effective not-for-profit organisations that do have an impact in communities up and down the country. Diverting funds away from charities or social enterprises to support profit making businesses raises some difficult issues. Should organisations that can raise capital elsewhere be able to access support for social investment, for example, at the expense of those that have fewer options?

Our overriding recommendation is that government should proceed carefully when thinking about new models, and focus on support for organisations that deliver impact, regardless of organisational constitution. A government focus on the impact delivered across the board by organisations will increase accountability, transparency and the effectiveness of all those attempting to achieve social impact in the country—be they charity, social enterprise, or a mission-led business. There needs to be much more work put into how organisations can measure and demonstrate their impact. Government is well placed to play a leading role in this agenda.

## NPC response

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

To date there is little evidence for all organisational forms about impact on business performance and social impact, let alone for an emerging form such as mission-led businesses. In order to develop a better understanding, government should consider measures to support greater research into this area. Proper measurement of social impact will be crucial, and NPC has done a lot of work to further this area of study such as our work with the [KLF foundation](#) and [G8 social investment taskforce](#).

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

As with government policy on social enterprise and charities, NPC would like to see data built up through standardised measurement approaches around specific outcome areas, with consistent data sets developed over time. The environmental sector has already made progress in this and could provide some useful approaches to adapt for those organisations focusing on other forms of social impact. This would enable much greater transparency and accountability for mission-led businesses, guard against 'greenwash' approaches, and give greater reassurance for any potential investors looking to grow the market.

### **4. Why would a business set-up as, or become, a mission-led business? Please share evidence.**

Greater diversity of organisations seeking to deliver a positive impact could help foster greater innovation and new ideas. New organisational forms, such as mission-led businesses can do things charities are not able to, such as issue shares and attract equity investment. Social enterprises too have a role to play in accessing different forms of funding to deliver impact. This potentially increases investment into the delivery of social impact.

Similarly, there may be some areas where charities are not the best organisations to invest in to deliver impact. Given the challenges charities face aligning technology investment with grant and donation funded business models, for example, it is not surprising that [NESTA have focused their investment](#) in technology on other organisational forms, such as social enterprises.

### **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?**

Being able to hold mission-led businesses accountable is critical to avoiding the risk of exploitation of any benefits to businesses of that status. Mission-led businesses should commit to reporting on their impact in their annual reports. Audits of these accounts would create further incentives and drivers to deliver on intentions to deliver a positive social impact.

For mission-led businesses to be serious contenders as organisations delivering social impact, comparable assurance frameworks to those in the social sector should be developed. NPC's work with the [KLF Foundation on impact investing](#) is an example of what a good assurance framework could look like.

**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?**

Mission drift is most likely to happen at times of stress, such as when potential investors and existing shareholders seek to maximise profits—and therefore returns—at the expense of social impact.

As with the social sector, governance is particularly important to ensuring organisations stay on mission. Boards need access to training and advice that is tailored to the particular challenges likely to be faced by profit making organisations committed to delivering social impact. Strategies for circumstances where there is a market failure need to be developed and challenged internally to ensure organisations stay on mission. Furthermore, there needs to be a recognition that cross subsidy—from customers with money to those without—may not always work, and organisations need to be able to adjust these strategies where circumstances dictate.

Certifications systems such as B-Corps can also prevent mission drift as they enable organisations to focus on wider factors than solely profit maximisation.

**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.**

Organisations that want to convert intent to make a social impact into a binding commitment face the challenge of getting agreement from existing shareholders. Running an organisation that takes account something other than financial returns involves engaging with a broader group of stakeholders with differing priorities, which may clash with fiduciary duties.

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

The greatest challenge is being able to capture and demonstrate their impact in a robust way. As we have stated in our answer to question 6, better reporting, auditing and agreed measurement frameworks will enable mission-led businesses to engage with a wide range of audiences about their social impact.

**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?**

Frameworks need to be credible and robust in order to inspire public and consumer confidence, as well as investors. The growth in the fair trade movement has shown that certification systems that are easily communicable to the public are popular and enable consumers to make clear choices when buying products that support the delivery of positive social goals. Although this is much harder with many desirable social outcomes than it is in the sustainable agriculture space, the same principles should apply.

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

NPC has significant experience in working with charities and funders to develop impact measurement frameworks. Our most recent work with the Money Advice Service sets out the [proportionate measurement](#) approach and builds on our [Four pillars approach](#) and work on [qualitative evidence](#). It is early days for mission-led businesses so it is not clear to what extent measurement frameworks are being robustly applied.

**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?**

As already stated, NPC's view is that mission-led businesses could play a valuable role in delivering greater social impact, attracting new investment, and bringing new ideas and innovation. However, perhaps the bigger prize is supporting more existing businesses to become genuinely mission-led businesses, rather than focusing on start-ups.

Public confidence is key to this. A big shift will only come in response to consumer activity and if the public do not believe mission-led businesses are delivering social impact this will undermine these organisations. Just as the broader social sector and social investment markets need to remain accountable and transparent about the impact they achieve, so too does the mission-led business sector.

There is a danger that mission-led business becomes the latest 'social impact wash'. Changes to regulation, the development of clear and robust measurement frameworks, and impact auditing will enable consumers and investors to be confident about the role of mission-led businesses and enable the market to grow effectively over the coming years.

However it is important to not make the mistake of thinking that mission-led business can solve all the issues the social sector—and civil society as a whole—faces. Government should proceed with caution and be clear that support for growing mission-led business does not come at the expense of support for not-for-profit organisations. Likewise, the benefits of a focus from government on measures to improve impact, accountability and transparency should extend beyond mission-led business to all organisations seeking to deliver a social impact. In order to do this there needs to be continuing and increased support for organisations to measure and demonstrate their impact, and investment in the infrastructure required to enable this. Government is well placed to play a leading role in this agenda.

## TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

**Increasing the impact of charities:** NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

**Increasing the impact of funders:** NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

**Strengthening the partnership between charities and funders:** NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

