

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.

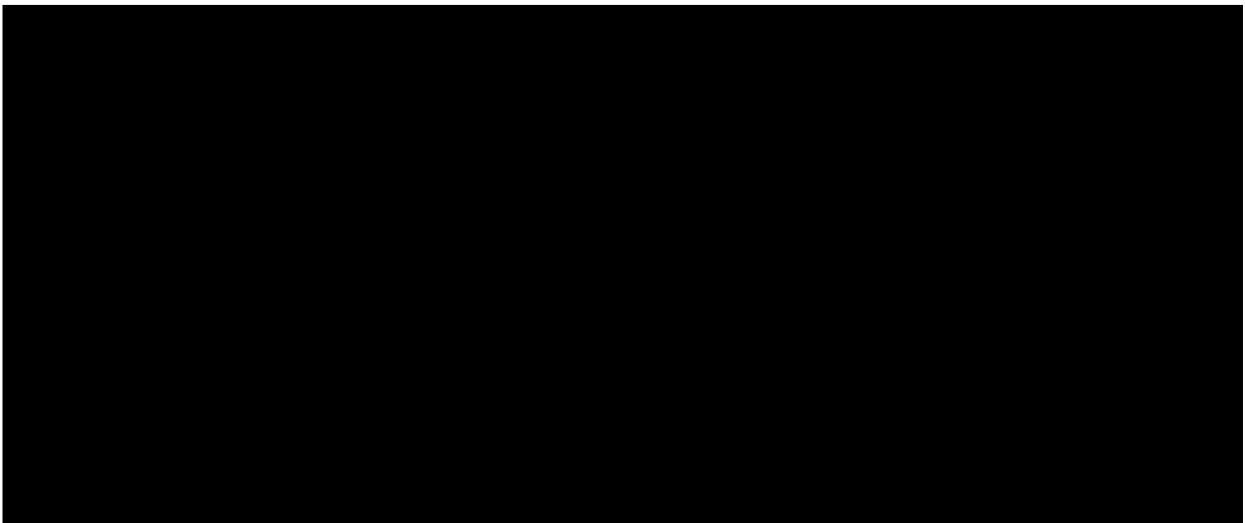
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

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.

I'm a Professor of Finance who focuses on Corporate Social Responsibility. To keep my answers focused, I will only focus on the questions where I have greatest expertise, and so leave some blank

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

Please see The Purposeful Company Project (<http://www.biginnovationcentre.com/media/uploads/pdf/The%20Purposeful%20Company%20Interim%20Report.pdf>), p26 for a summary of evidence. In particular:

- 1) Edmans (2011, <http://faculty.london.edu/aedmans/Rowe.pdf>) and Edmans (2012, <http://faculty.london.edu/aedmans/RoweAMP.pdf>) show that employee engagement improves stock returns by 2-3%/year over a 26-year period. Study shows that it's causation, not correlation. See my TEDx talk, "The Social Responsibility of Business" (<http://bit.ly/csrtedx>) for more detail.
- 2) Fornell et al. (2006) find that US companies with high customer satisfaction delivered triple the returns of the Dow Jones index
- 3) Derwall et al. (2005) find that companies with high eco-efficiency (value generated by their products and services relative to the waste they produce) beat their peers by 4%/year
- 4) Eccles, Ioannou, and Serafeim (2014) find that companies with high sustainability policies beat their low-sustainability counterparts by 2-5%/year.

For further detail, see my Wall Street Journal article "Does Socially Responsible Investing Make Financial Sense?" (<http://bit.ly/csrsj>) and my CityAM article "Why Purpose is Key to Success in 21st Century Business" (<http://bit.ly/cityampcp>)

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

(Intentionally blank)

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

(Intentionally blank)

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

(Intentionally blank)

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)	
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	
Stage of business development (i.e. start-up, growing, mature, repurposed)	
Industry sector	
Geographic focus	
Evidence of financial growth	
Evidence of social impact	
Any other details (e.g. legal form)	

Part II: Challenges faced by mission-led businesses

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

Tie executive compensation to the long-term, by extending the vesting period of equity. The current debate typically focuses on the level of pay, but it's the horizon of pay which has greatest impact on a firm being mission driven. In particular, being mission-driven involves sacrificing short-term profit for long-term value, and long-term incentives are critical for this. See my World Economic Forum article, "How should CEOs be paid?" (<http://bit.ly/wefceopay>), and my Wall Street Journal op-ed, "How to reform executive compensation" (<http://bit.ly/wsjceopay>).

Encourage blockholders to form. Blockholders, by virtue of their large stakes, have incentives to do detailed analysis - to gather intangible information a company's mission and long-term value. Small shareholders, by contrast, focus on short-term earnings because they're freely available. See my World Economic Forum Article "Why Companies Need to Think Long-Term" (<http://bit.ly/weflt>)

Many policymakers have proposed golden shares, loyalty shares, and higher capital gains tax on short-term trades, to lock shareholders into the long-term. This is /not/ a good idea. See my World Economic Forum article "How Can We Help Businesses Think Long-Term" (<http://bit.ly/wefliquidity>). There has been huge opposition to the Loi Florange in France (see <https://next.ft.com/content/05314dfe-e27d-11e4-ba33-00144feab7de>), and a similar law in Italy was repealed because of similar opposition - by both companies and investors. Instead of encouraging the pursuit of mission, locking in shareholders will lead to entrenchment. For example, VW's shareholdings were long-term, and they did not bother to monitor VW. The key is large shareholders with the /threat/ of selling in the short-term. Such shareholders have the incentive to engage, and also the "bite" of being able to leave if management is non-compliant.

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

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?

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.

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?

Short-term CEO compensation, meaning that CEOs are focused on the next quarter's earnings target rather than pursuing mission.

Note that performance-based vesting provisions (whereby CEOs need to hit certain performance hurdles for their shares to vest) worsen the problem. These were well-intentioned (to ensure the CEO isn't paid unless she performs) but backfire - in particular, they encourage the CEO to take short-term actions to meet the performance hurdle.

Small shareholders, who analyze the firm based on short-term earnings, because these figures are publicly available, rather than conducting detailed research into a firm's long-term value.

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.

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

Often investors think that social impact is a distraction - it's at the expense of shareholder value. Thus, we need to disseminate the evidence that social impact supports shareholder value - see the evidence in the answer to Question 2, and my TEDx talk "The Social Responsibility of Business" at <http://bit.ly/csrtedx>

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 systems may encourage box-ticking - compliance to achieve the certification, but nothing beyond that. However, frameworks are better, since they are likely to ensure that mission is embedded into the organisation. Frameworks are intrinsic and input-focused, certification systems are extrinsic and output-focused. The former will produce true change; the latter only encourages behaviour that can be reported and certified.

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

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.

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?

Disseminate the evidence that social impact supports shareholder value, since there is a huge misperception that mission-led companies are "fluffy" and distracted from the bottom line. See the evidence in the answer to Question 2, and my TEDx talk "The Social Responsibility of Business" at <http://bit.ly/csrtedx>

Thank you for your response.