

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.

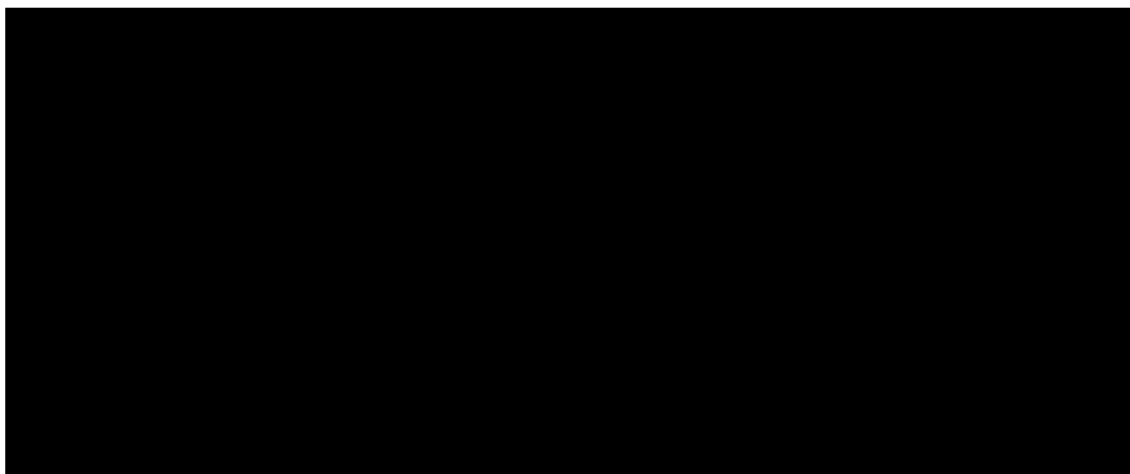
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

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.

Mustard Seed is an early-stage investor in London seeking business models that generate compelling financial and social returns. As such, our team reviews nearly 1500 business plans from socially-focused startups annually. Approximately 75% of these startups are UK-based. The vast majority of submissions received are socially-focused and fall into at least one of our five investment areas of focus: economic inclusion, education, the environment, health, and family & community.

Below are the number of venture submissions we have received per investment theme to date in 2016:

- Economic Inclusion: 110
- Education: 53
- Environment: 68
- Health: 72
- Family & Community: 54

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

Mustard Seed is uniquely positioned as one of the pioneers in early-stage impact investment in the UK. We believe our investment thesis – that solving the greatest of societal ills drives commercial success in the long run – is in line with emerging macro-indicators about the future of business. For example, 47% of millennials believe that the purpose of business is to improve society and/or protect the environment (2016 Deloitte Millennial survey). Furthermore, research published by Cambridge Associates and The FIIN in 2015 analyzing the financial performance of market rate private equity and venture capital impact investing funds, found that over the full period analyzed (1998–2010), the benchmark returned 6.9% to investors versus 8.1% for the comparative universe. We think this is a very positive finding.

Mustard Seed is currently an investor in nine socially or environmentally impactful businesses where we have seen first hand the positive impact of mission-led business in value creation. For example, Winnow Solutions, which tackles food waste in the hospitality sector, has saved its clients £2 million and 2700 tonnes of CO2 emissions to date.

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

At the point of investment, Mustard Seed works with our investee companies to set financial and social KPIs at the company level to be reported quarterly. The social KPIs set at the company level are meant to be transmutable to the industry-level. Again, using Winnow as an example:

Financial savings: £2 million

Social impact (company-level): 1 million meals in reduced food waste

Social impact (industry-level): 2700 tonnes of CO2 emissions saved.

Mustard Seed prioritizes regular dual reporting of both social and financial KPIs as we believe that rigorous reporting and quantifying the social impact generated alongside financial data will allow mission-led businesses to attract future investment and growth opportunities. Mustard Seed's methodology of social and financial performance capture can easily be adopted as a scalable measurement system. We foresee our data complimenting data from other existing measurement tools, such as GIIN's IRIS Metrics and B Corps' Impact Assessment. Comprehensive data analytics is key to this burgeoning sector.

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

Businesses may be ever more motivated to become mission-led because ultimately, they must cater to consumer preferences. Emerging evidence shows that consumers, especially millenials, are demanding that businesses consider social / environmental impact as a core part of their strategy (see statistic in Q. 1). Combined with the transparency brought about by the Internet Age, this means that it will become increasingly harder for businesses to ignore the demands of a growing percentage of consumers to create positive social / environmental impact.

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

Due to consumer trends and increased transparency, we predict that businesses will become vastly more mission-led, in both scope and number. As existing mission-led businesses expand their track record as per financial and social performance, legitimacy of the notion that there is a better way to do business will solidify.

The evidence that high quality mission-led businesses are on the rise is already apparent, according to GIIN and JP Morgan's 2016 Annual Impact Investor Survey: respondents committed more than \$15 billion to impact investments in 2015 and plan to commit 16% more capital than in 2016.

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	Winnow Solutions
Contact details for business	
Brief description of business (please keep under 5 lines)	Winnow's core belief is that food is far too valuable to waste, and that technology can transform the way we use food. It is helping the hospitality industry tackle avoidable food waste by connecting the kitchen to empower chefs to run a more efficient operation
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	Winnow is a mission-led business because its express purpose is to implement a business model that cuts down on food waste - a huge culprit of resource inefficiency - while pursuing uncompromised profits. To date, Winnow is tracking the following KPIs: money saved by clients; number of meals in reduced food waste; and tonnes of CO2 emissions saved.
Stage of business development (i.e. start-up, growing, mature, repurposed)	Winnow is a start-up that has completed its Series A of funding.
Industry sector	Environmental Sustainability
Geographic focus	Europe / Asia
Evidence of financial growth	Key hospitality sector clients won.
Evidence of social impact	Tonnes of CO2 emissions saved.
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?

There are a number of practical steps a business can take to make a commitment to deliver on its intention of having positive social impact. They can work with a consultant or, in our case, an impact investor with knowledge of the sector to determine company-specific social and environmental KPIs. Additionally, businesses can pursue B Corps certification, which has a relatively easy and meaningful onboarding process, or elect to pursue a Social Enterprise Mark. These steps will help integrate social / environmental impact into the core strategy of the business.

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

Yes, these steps could be better communicated, which surely will happen as media coverage around this sector increases.

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?

Mission drift is most likely to happen when stakeholders change, i.e. when a company goes public and executives are subject to shareholders’ demands which currently are dominated by financial interests.

Mission drift can be mitigated by providing all stakeholders clarity and transparency around the company’s aims as it grows. Business owners should also choose investors who are aligned with the mission of the business.

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.

Because Mustard Seed exclusively invests in businesses with a ‘lockstep’ model – in that inherently the product or service the business produces is a benefit to society – we avoid the threat of impact erosion from the get go.

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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?

The most significant barriers to a large corporate becoming a mission-led business are attitude and legal. The idea that business can be both socially / environmentally responsible and financially profitable is not yet a mainstream idea. It is still generally accepted that there must be a trade off. This attitude should fall off as the track record for mission-led businesses increases.

Some current laws also impede large corporates seeking to be more mission-led. For example, in the US, shareholders can sue companies if they can provide evidence that the business is not doing everything to maximize profits.

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.

Largely, yes. That is not to say that a company lacking an express mission-orientation, like Google, cannot have a strong culture with moral values at the center. However, mission-led businesses that have chosen to identify themselves as such should hold themselves to a higher standard and endeavor to create a culture that places values at the center always, for all stakeholders. The requirements B Corps sets out serves as a best practice.

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

For financial stakeholders, i.e. investors or shareholders, credibility remains an impediment for mission-led businesses. Employees and customers are likely to remain neutral or become energized by their employer's increased emphasis on social / environmental impact.

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?

As an active member of B Corps, Mustard Seed appreciates the community-building aspect it provides. The challenge will be to speak to an audience beyond the already converted in the community.

Certification systems can best aid by providing credibility to the movement in the form of research that a) quantifies the performance of mission-led businesses and b) helps their members in sharing such findings in an interesting way (storytelling).

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

- IRIS: <https://iris.thegiin.org/>
- B Corps impact assessment
- Global Impact Investing Rating System (GIIRS)
- Acumen Lean Data <http://acumen.org/ideas/lean-data/>

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.

The UK has been a leader in fomenting social investment, and in turn, the mission-led businesses receiving funding, and other countries should follow suit. Some of the most significant initiatives are:

- SEIS/EIS tax relief;
- Tiered visa scheme for attracting top talent;
- And the creation of fund-of-funds mechanisms like Big Society Capital to lubricate the flow of capital in the social sector.

Geographies that lack this kind of legal, tax, and financial support could be impeding the growth of mission-led businesses.

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?

Legal, tax, and financial support will always be welcome (see answers Q. 15). Paving the way for more accelerators that specifically target growing mission-led businesses could also be a welcome addition to such policies. Lastly, increased research quantifying the financial and social / environmental impact of mission-led businesses is needed. Governmental bodies are best poised to enact the former; universities and other academic-affiliates are best positioned to conduct the latter.

Thank you for your response.