

B Lab UK Response to Cabinet Office Technical Review



Overview

- **The real shift in our economy and society will come when more of the 3.2m mainstream businesses become ML;**
- **This requires engagement from BIS and other departments and a radical rethink of how finance is used and accounted for:**
- **Terminology becomes meaningless without standards against which to be held to account;**
- **Target should be to double the growth of impact created by ML businesses, not growth of profit alone;**
- **Recommend to explore the use of a mission lock company status to shift mindset of mainstream businesses**
- **MLBs are vital for successful social value based procurement**

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Q1: *What do you know about the number and profile of mission-led businesses operating in the UK? Please share evidence*

93	Certified UK B Corporations
15	Industries
Total Revenue	£0.6bn p.a.
Total # staff	c 4,200 employees
Social Sector representation	4 CICs and 2 CLGs

Please see our [website](#) for a map of their distribution across the country

Globally the B Corp movement has total revenues in excess of **\$28bn**, which is greater than the economy of Iceland and Estonia.

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Q1 cont'd: *What do you know about the number and profile of mission-led businesses operating in the UK?*
Please share evidence

B Corp pipeline

1210 organisations logged on to B

Impact Assessment (BIA) tool

Active accounts **444 (i.e. over 20% completed BIA)**

Total known

Revenue of the **159 of these have given revenue data**

active pipeline as **totaling £21bn**
of July 4th

NB: this is a mere indication of the appetite of businesses to explore how to create more social and environmental impact through their activities. Not all will proceed or commit, and certainly not all would at this moment reach the threshold standard required to be a B Corp.



Q2: What do you know about the impact of being a mission-led business on business performance and social impact? Please share evidence.

The overwhelming evidence supports the case that that mission led businesses are not only more successful in the long term financially but also create social and environmental impact. NB : the terms sustainability, CSR, impact or mission led are not always used consistently, - see response to Q3..

- The pursuit of a clearly defined visionary corporate purpose, which sets out how the company will better people's lives, could increase the value of British Firms to the tune of £130bn per year, according to the latest research from the [Big Innovation Centre report on the Purposeful Company](#).
- Those companies that have a well communicated purpose have up to 17% better financial performance according to [IMD/Burson Marsteller Study, 2010/2011](#).
- There are a plethora of [reports](#) showing that employee engagement, - which comes through a variety of mission led practices - reduces staff turnover, improves productivity and encourages innovation leading to improved profitability and greater impact to the firm and its stakeholders.
- the reverse also seems to be evidenced : the active decision to ignore sustainability factors may in fact be a breach of fiduciary duty, leading to poor governance and poorer performance. This is demonstrated when assessing the impact of Environmental Social and Governance (ESG) considerations (on the financial performance of investments ([Hermes](#), [Generation Investment Management Foundation](#), [HBS](#)))



Q3: *In your view, what are the ways that quantitative data on mission-led businesses could be better captured over time?*

- Clarify the meaning and parameters of what Mission-Led Businesses seek to achieve.
- Identify indicators for these parameters.
- Set internal targets and action plans to reach them.
- Monitor regularly and appropriately; give time for progress.
- Reassess and revise, capture learning
- Spread best practice in what works and what can be captured.
- Ask the people delivering on these parameters and those receiving products and services about what works, what's quantifiable and what is lost.
- Report against these indicators at Board level, alongside financial reporting.
- Create annual external facing reports on these targets and indicators.
- Share the vision with staff – to engage them in capturing the information sought
- Inspire staff, change culture, allow for failure – reporting needs to lead to learning not blaming.

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Q4: Why would a business set-up as or become a mission-led business? Please share evidence.

- In order to meet the urgent needs of the society and economy, the whole of business is likely to undergo radical transformation in size, ownership, delivery models, and product and services in next decade; the move to mission led business models is part of that shift business as usual is no longer an option and more and more young leaders are grasping and reacting to this.
- To distinguish themselves from those companies that are good at marketing.
- To engage a different and complete set of stakeholders, investors, employees, customers.
- To fulfil a greater sense of purpose than mere profit and probably have a much more enjoyable and interesting career ; also more challenging.
- To expand the opportunities for partnerships and collaboration beyond mere profit considerations.
- To make a commitment to a vision beyond profit and to be held to account to it.
- To mark the track and provide the case for creating positive impact whilst making profit by using standards and to benchmarks against which to be judged.
- Because it makes good business sense as shown in answers to q2.



Q5: How do you see mission-led businesses developing over the next decade? Please share evidence.

- Greater focus on definitions, standards and evidence of reporting on the mission that is articulated.
- Greater demand from stakeholders to shape and influence the business for broader good.
- Shareholders will demand more evidence of the impact of taking mission in to the core of their business on the bottom line; shareholders are more than happy with impact if it can be combined with profit, but over the next decade traditional shareholders' expectations will become more realistic.
- Greater end-shareholder activism to ensure the intermediaries' agenda does not dominate investment decisions over preferences of end beneficiaries (e.g. pension holders).
- MLB will have a greater role to play in public procurement services and will provide some serious alternative to large public sector providers we have in UK today.
- Greater distribution of the proceeds of wealth amongst the stakeholders – not just employee ownership, but at community and future generation level too.
- Over the next 20 years, it is possible to imagine that the equal weighting of people planet and profit from business becomes the default mechanism.
- This might lead to / be accompanied by a break up of traditional large scale corporates into much smaller autonomous units in which innovation for society and environment are central.
- Mission led businesses will largely continue to be smaller, nimble, innovative, mainly privately owned, well connected businesses – using people with technology effectively to reach further.



Q6 *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?*

- **At a structural level:** companies can take on a performance lock and map achievements against a given set of standards (eg using B Impact Assessment – whether or not a company chooses to pursue certification as a B Corp, the BIA is a tool free for any organisation to use).
- Take on a mission lock to hold itself to account to deliver on pursuing its mission (see B Lab UK proposal for the establishment of a Benefit Company status).
- **At an operational level** – companies can engage with stakeholders much more whether clients or customers. It is good for business too!
- Embed this in to the culture of the organisation - if necessary, remove or diminish in significance those elements from the business that detract from this (eg poor pay ratios, top heavy hierarchies, overdominant financial reporting focus etc).
- Find new partners and collaborators who are mission aligned to seek out new opportunities.
- Engage the staff in all possible ways – not just through pay but through culture and opportunity.



Q7 Do you think these steps could be better communicated to entrepreneurs and businesses? If so, how?

Yes, definitely, by

- Bringing this agenda into the education system – at secondary school, university, masters level and certainly at business schools (B Lab UK have been approached by several of the key business schools by academics to engage with tomorrow’s entrepreneurs on ‘new business theories’).
- Communicating effectively that this is a challenge and opportunity for ALL businesses, not just social enterprises and charities – the social sector can not be expected to achieve everything alone.
- Linking more with trade and business institutions, UKTI, BIS, and with support programmes and incubators (eg Innovate UK, Start Up Britain*, European Social Fund initiatives) which could help promote the concepts of mission led businesses.
- Providing legal guidance and advice to entrepreneurs on options on how to embed mission into your organisation – legal surgeries, legal templates etc would help.



Q8 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 might occur and could be prevented from some of the following actions:

- Clarity amongst directors of what the company's mission was – tie this down in writing, in the articles of the company and report against it.
- Investors, acquirers or new partners or other external parties creating opposing pressures – e.g. for short term returns: therefore, ensure investors are mission aligned, help entrepreneurs in selection of investors that are suitable for the vision of the business.
- Ensuring that Board representation truly represents the full range of stakeholder interests,
- Survival pressures (often caused by poor invoicing practices, or slow payments, or contract juggling) also puts pressure on pursuing mission. Again, this is shaped by forming good partnerships and collaborations with your nearest contractors.
- Greater endorsement on the value to society and to the economy that can be created through mission led businesses would help to raise the commitment amongst mainstream businesses – (priced at. £130bn in lost value quoted in Purposeful Company Report).

For these reasons we think the points raised in q7 are important and we recommend exploring the introduction of a mission lock legal status which would reduce risk of mission drift.

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Q9 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.

- Currently it is not possible for a mainstream non –asset locked UK registered company to create a mission lock under statute. Certified B Corps in the UK use a proxy which is an alteration of the Companies Act Art 172A.
- B Lab UK propose an exploration of bringing this altered article into statute. This would carry more weight, be more reassuring for company lawyers and would create momentum around the mission led business concept. It would also be a clearer indicator of those organisations that have made the commitment rather than those which are good marketers of mission. We propose holding a consultation with BIS and key trade advisory bodies to explore this option more fully. (See separate paper).
- The lack of education mentioned in q 7 amongst mainstream businesses of the concept of a mission lock means that there are barriers to information that could easily be overcome.
- The evidence base of the impact on the triple bottom line is still loose because of the vagueness of terms used; B Lab UK welcomes research that investigates more fully how we can embed meaning into commonly held terms and to provide evidence of the business case amongst large and small, new and mature businesses for mission focus.

Q10 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?

- Lack of clarity over what the term means or requires, or who would respect it, and what would have to change from business as usual,
 - Business case poorly made to date. Most companies think it will be negative to the bottom line.
 - Emphasis in capital markets and therefore in large business is wrongly focused on financial growth; perceived difficulty in bringing together the two parts of the business which address profitability and long term stakeholder value (and therefore sustainability) when in fact they are symbiotic.
 - Perceived conflicting pressures between short term market pressure to provide dividends v longer term value creation for all (See Larry Fink, CEO of Blackrock's [letter](#) on the dangers of this).
 - Lack of legal structure with which to make a commitment to being Mission led (see B Lab UK proposal).
 - Engagement of shareholders for public companies hugely complex and done through a series of intermediaries who “act in others’ interests”; in reality this vacuum arises as it is hard to get stakeholder buy-in.
 - Dis-connect in the market between large corporates and stakeholders (but shining examples do exist within traditional sector – but more examples come from disruptors and we need many more beacons).
 - Lack of requirement to report against any non financial activities – no incentive to do so.
 - Inability to turn around large organisations quickly to meet new social and environmental challenges.
- B Lab UK submission to MLB review
- Leadership voids occur especially in times of nervousness and rapid change as we are facing in the UK now.

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Q11 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.

Yes, MLBs do have a different culture, but one which we see would be advantageous for all businesses to adopt. This culture of exploration and the value of sharing is good for business, for their stakeholders and for the planet. MLBs are providing wonderful examples for others to follow, such as:

- Internet sales market place Etsy: now a public company, held a staff hackathon to discuss how all employees could engage in making the business as mission led as possible - see next slide and notes for details
- COOK Foods have aligned their mission with their investors, their staff, their suppliers and their community in all aspects of their production, distribution and sales (see slide and notes)
- Hydrogen car leaser Riversimple has a unique governance structure with a Stewardship Board and a Operating Board. Stewardship Board, which represents the interests of each of the 6 stakeholder groups employees, commercial partners, investors, customers, community, and the environment. Each of these stakeholder groups is represented on the Stewards Board by a custodian to ensure there is genuine positive impact created by Riversimple's activities on their stakeholders.
- UK B Corp Forsters agency pays 45p per mile for all staff using bicycles for business meetings

WHY B?





WHY B?

We are part of a community of more than 3000 companies across 69 industries with one unifying goal: achieving success in business. We meet rigorous standards of performance, accountability, and transparency, and we bring the power of business to advance poverty relief, climate change, and



Q12 ***What challenges do mission-led businesses face when engaging with potential customers, employees and investors about their social impact?***

- Reporting requirements from different investors is problematic (see q 15 response).
- Impact and the long term profitability need to be seen and presented holistically not as separate components especially to investors.
- Hard to distinguish between a company that is genuinely creating value for the broader society and environment from one which is good at marketing – (metrics needed here)*.
- Need to make good use of the specific certification schemes which represent your culture and values best but which also have customer recognition more broadly.
- Employees need the mechanisms to contribute to the direction of a business: see q 11 for good examples. Values led businesses tend to attract staff, be nimble, be more innovative and risk taking.
- Ultimately there needs to be a commitment, inspired and generated from the leaders but taken up by all staff to a joint vision about what the company is there to do, who it serves and why (q 11 culture and values)

** Metrics help but single user standards, such as Marks & Spencer which has run for Plan A Sustainability programme for 10 years may have drawbacks. In spite of a comprehensive reporting and cost savings brought by the plan, still over 80% of their customers are unaware of the Plan A agenda or any of its commitments and intentions.*

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Q13: *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 Lab UK entirely endorses the use of certification schemes which are robust, authentic, under continual revision, independently verified, open to challenge, designed with experts, and which carry an aspirational approach (rather than a destination mind-set). B Corps is one of the few certification processes to look at the whole company and to set a threshold standard of performance. The performance assessment is focused on how you are able to create impact by engaging with all the key stakeholders – employees, customers, suppliers, community, and directors.

Blueprint for Better Business is less of a certification system and more of tool based on a comprehensive philosophy for leaders within larger companies to adopt to deal with internal challenges. We welcome this approach too. We also support the R100 consultative approach to standard setting, and have begun work in cross-checking B Corp standards with the BITC CR Index.

Independent certifications can signal legitimacy, build brand loyalty, create benchmarks and improve business performance. They are part of the broader vision to use business as a force for good.

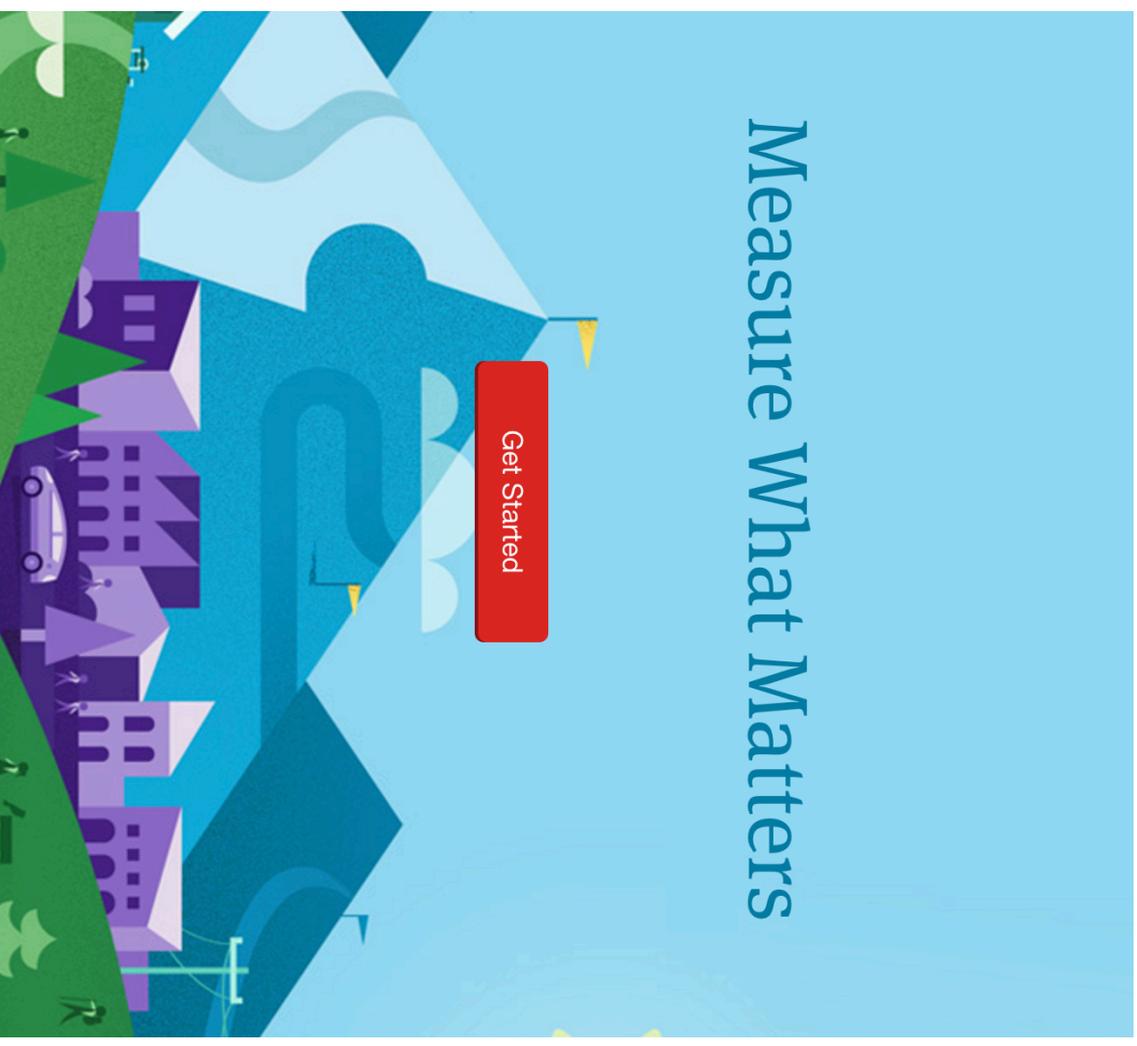
Q15: B Lab UK Measure What Matters programme

B Lab UK is developing a programme to help organisations start to

Measure what Matters across the five key areas of the BIA:

- Employees
- Customers
- Environment
- Governance structures
- Suppliers

We see it as vital that all organisations start to measure what matters, not just those certifying as B Corps (i.e. Best in Class).





Q15 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.

Growth of MLBs should be measured by growth of impact as well as financial growth. B Corps fed back:

- Accessing finance is difficult for all SMEs, whether mission led, asset –locked, or neither.
- Lack of inclusion on procurement rosters that favour social enterprise and charities even though mission led businesses could help with securing prime contracts (as often bigger) and bringing social sector organisations in to this (e.g. B Corps Ingeus, Seetec).
- Partly because there is no legal mechanism to embed mission, there a total lack of awareness or expertise of MLB in the business support services, in professional advisory services, and in most asset management services.
- Lack of leadership for committing to a change in our economic structure in spite of all the signals that this is now an imperative not an option. This includes long term concepts of investment and returns, a new approach to the use of capital, a commitment to reinvest in businesses (rather than maintain surpluses of £103bn on UK businesses' deposit accounts ([Tomorrow's Company report](#)))
- There are trade offs in the short term between P & L and mission and these need to be recognised.
- Social impact reporting for a service delivery organisation can be a conundrum: impact investors think “not enough impact”, commercial investors think “not enough profit”. This is particularly acute if the company is undercapitalised as is working hard to maintain its client base.
- Siloed approach in Government to building an economy that creates a lasting and durable prosperity for all. Social sector needs support to generate impact from the majority of the economy.

CURRENT: homogeneity in mainstream corporate form

Current situation: Many asset locked corporate forms exist, but there is little choice of legal form in traditional businesses to reflect mission.

SOCIAL ECONOMY



Asset and mission locked

TRADITIONAL ECONOMY



Non asset-locked, traditional for profit

PROPOSED: Identify purpose led companies via statute

Proposal : to put into statute a for-profit corporate form with mission lock – opens up variation for traditional businesses, whilst maintaining a commitment to mission

SOCIAL ECONOMY



Asset and mission locked

TRADITIONAL ECONOMY



Non asset-locked, traditional for profit

Mission locked via statute



Q16 *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?*

- Create champions for the interests of future generations, such as Wales Government has to ensure all procurement decisions give consideration to the impact of a contract on future generations.
- Exploration of a legal status that identifies a commitment to mission (see B Lab UK separate paper on this proposal).
- Much greater awareness, information and access to advice on running or establishing a mission led business from professional advisory services. Bring together advice, support, incubators and leadership training, inspiration and guidance. Map out life cycle of MBLs and their needs.
- Clarity of definition of a MLB and of the business case to support it; communicate to the financial sector a living picture of alternative business sector which delivers broader, longer lasting returns.
- Greater endorsement of leaders of mission led businesses, alongside the unicorns and FTSE CEOs.
- Use of legal templates, decent book keeping support, strategic reporting support across all dimensions of MLBs.
- Inclusion of MLBs into procurement clauses – this is a massive missed opportunity and would be an incentive for more to align themselves with mission.
- BIS is best placed to get behind many of these initiatives and then see these rolled out through the trade support programmes.
- Overall, communicate with a greater sense of urgency, that business as usual is no longer an option and to give more weight and support to those organisations tackling new values based business models.

Maseco Private Wealth



MASECO Private Wealth's aim is to give peace of mind to globally minded US families by providing expert guidance on how to simplify their cross-border wealth management needs. MASECO serves and cares for Americans living at home or abroad through the planning and implementation of rational, practical and tax efficient wealth management strategies.

What makes us a better company?

B Impact Report

Certified since: December 2013

Summary:	Company Score	Median Score*
Environment	6	7
Workers	32	18
Customers	20	N/A
Community	16	17
Governance	15	6
Overall B Score	88	55

80 out of 200 is eligible for certification

*Of all businesses that have completed the **B Impact Assessment**

Median scores will not add up to overall

Generation Investment Management

generation_____

Generation Investment Management LLP is dedicated to long-term investing, integrated sustainability research, and client alignment; the firm's vision is to embed sustainability into mainstream capital markets.

What makes us a better company?

B Impact Report

Certified since: September 2015

Summary:	Company Score	Median Score*
Environment	13	7
Workers	39	18
Customers	16	N/A
Community	24	17
Governance	17	6
Overall B Score	110	55

80 out of 200 is eligible for certification
*Of all businesses that have completed the B Impact Assessment
Median scores will not add up to overall

Cook Trading Ltd



In 1997, Cook Trading set out to make remarkable meals for the freezer using exactly the same ingredients you would at home, so everything looks and tastes homemade. Today, nothing has changed (except that they're a bit better at it).

What makes us a better company?

B Impact Report

Certified since: November 2013

Summary:	Company Score	Median Score*
Environment	13	7
Workers	27	18
Customers	N/A	N/A
Community	29	17
Governance	14	6
Overall B Score	83	55

80 out of 200 is eligible for certification

*Of all businesses that have completed the [B Impact Assessment](#)

Median scores will not add up to overall

Seetec



Customers are at the heart of Seetec's delivery to ensure that their needs are met. These needs are often multi-faceted and require innovative and integrated solutions drawing upon different service areas of the company. Seetec takes a collaborative approach by working with many different partners and supply chains, employers and commissioners. In doing this Seetec inspires individuals to aspire to something better.

What makes us a better company?

B Impact Report

Certified since: June 2016

Summary:	Company Score	Median Score*
Environment	7	7
Workers	25	18
Customers	59	N/A
Community	21	17
Governance	9	6
Overall B Score	121	55

80 out of 200 is eligible for certification
*Of all businesses that have completed the **B Impact Assessment**
Median scores will not add up to overall

ClimateCare



ClimateCare is a Profit for Purpose Company that believes that climate change, poverty and sustainable development cannot be tackled in isolation. And that we cannot rely solely on aid. Governments and business must work together to deliver the speed and scale of change required to secure a sustainable future.

What makes us a better company?

B Impact Report

Certified since: July 2015

Summary:	Company Score	Median Score*
Environment	22	7
Workers	31	18
Customers	54	N/A
Community	23	17
Governance	12	6
Overall B Score	141	55

80 out of 200 is eligible for certification

*Of all businesses that have completed the [B Impact Assessment](#)

Median scores will not add up to overall

B Lab UK strategy paper proposing new path for business – A Benefit Company form

1. SUMMARY

B Lab UK welcomes the Mission Led Business Review's intention "to focus on the development, the potential and the needs of mission-led businesses in the UK and understand both private and public opportunities to accelerate their growth and increase their economic and social impact".

In this paper, B Lab UK sets out:

2. The urgent case for change of mainstream business practice
3. The Social Economy context
4. A proposal for a full exploration for the potential of clarifying in statute how a company may wish to lock in its commitment to the broader stakeholders' interests
5. A rationale for this proposal
6. Precedence globally
7. Further consultation with certified and prospective B Corps
8. Proposed next steps
9. Annexes comprising: a draft text for Benefit Company status; advantages and concerns considered, diagrams on current and proposed corporate landscape

2. URGENT CALL FOR CHANGE THROUGH MISSION – LED BUSINESSES

B Lab UK's response to the current global uncertainty is that now more than ever, there is a need to ensure that the wealth that businesses generate is shared to contribute to a lasting and durable prosperity for all, not just for shareholders. All profit making businesses wishing to remain competitive will, over time, need to acknowledge the contribution that their employees, suppliers, customers, communities make to the business by sharing the proceeds with them fairly. Businesses which replace the primacy of the shareholder with the balance of the stakeholders create lasting positive impact that increases with every pound of profit generated.

All enterprise has a social impact and mainstream business should follow the example of the social sector in focusing on its impact. To date, the social and environmental impact of the traditional business sector has not been measured or valued, and the policy focus has been to mitigate the worst of negative impacts created by business¹.

We see a real opportunity, created out of necessity, to engage the 3.2 million mainstream, traditional, non – asset locked UK companies in generating lasting positive social and environmental impact for the sake of our communities, our environment and for our future. *(See charts in Annex 3).*

In fact this is becoming a reality, as increasing numbers of businesses are seeking to adopt a mission-led approach. But the prevailing business environment is such that there needs to be support at a systemic level to replace the focus on shareholder value with a broader approach that creates a shared and durable prosperity for all.

3. THE SOCIAL ECONOMY CONTEXT

¹ In fact, a [UN report](#) from 2015 determines that when the negative impacts are fully taken in to account, almost no industry is profitable but the future is paying particularly heavily for the oil, meat, tobacco, mining and electronics industries

Charities and social enterprises (“the social economy”) create substantial social value – indeed, social economy’s primary purpose is addressing social problems. In this sense it has a system of ‘beneficiary primacy’ which mirrors the ‘shareholder primacy’ in the conventional business sector. But the social sector should not be expected to go it alone in being committed to creating positive impact, nor should it be expected to deal unaided with the negative impact of poor business practices. Additionally, the sector is constrained by its use of the asset lock, which is designed to protect the primacy of the beneficiary. This focus on beneficiaries (as opposed to shareholders) means that the social sector is rarely able to offer “risk adjusted” returns to investors.

The result is a ‘market failure’ which has required and received policy led intervention especially to help match the supply of social investment capital with the demand for it. For this reason, policy makers have rightly taken measures including the launch of Big Society Capital, and the introduction of social investment tax relief (SITR).

Our focus is on creating an alternative legal status for 3.2m traditional, for profit, non-asset locked Companies Limited by Shares in the mainstream economy. These are not part of the social sector, nor are they a social sector intervention. As such, this minimises confusion with the potential Community Interest Companies (CIC). However, this proposal would draw on the experience of CICs etc and will also benefit from having a substantially supported communications and implementation strategy.

As these target organisations are not-asset locked, they do not have the same problems as their social sector counterparts in accessing the capital markets. It is therefore not necessary for social investment that has been earmarked for asset locked social sector organisations to be diverted towards the mission led, for-profit businesses².

It is worth noting that in just 10 years since launch, the certified B Corporation community of mission-led businesses has grown strongly. The combined turnover of the B Corp community globally is now over \$28bn, with companies operating in over 130 industries in 50 countries. The community of mission led businesses that is the B Corp movement comprises, includes B to B, B to C, and B to G (Government) companies; small early stage companies through to mature established companies, and B-investors as well as B-investees. There is also increasing engagement from public companies and multinationals³. This illustrates the latent potential for a mission-led business sector amongst the UK’s 3.2m ‘shareholder operated’ companies which are currently not identifiable by statute.

4. PROPOSAL – TO EXPLORE THE POTENTIAL OF CREATING A BENEFIT COMPANY STATUS IN THE UK

B Lab UK proposes a full exploration for the potential of placing in statute a company status, which we suggest be called a Benefit Company. This would lock in the mission to the broader stakeholders’ interests and would not change the adopting company’s corporate form as a Company Limited by Shares.

² The creation of for-profit funds or funds of funds for purpose led organisations would however be welcomed especially where the capital is used to finance purpose led businesses in meeting under-served markets

³ B Lab has established a Multinational Public Markets Advisory Council to examine the barriers specific to multinational public companies in locking in their mission through the legal requirement and in meeting the performance standards required to certify as a B Corp.

The definition of a Benefit Company is a for-profit company limited by shares that has a clearly stated mission [purpose] to have a material positive impact on society and the environment in addition to benefiting its shareholders or members. This corporate form differs from a traditional company because it would have:

- Director Obligation: An express obligation for directors to have regard to the impact of their decisions not only on shareholders but on society and the environment;
- Broader shareholder returns: enabling shareholders to receive financial and non-financial benefits from creating positive social and environmental impact, as well as financial returns;
- Management / Reporting requirements: to encourage greater transparency by publishing annual benefit reports of its social and environmental performance using a comprehensive, credible, independent, and transparent third-party standard.

DISTINCTION BETWEEN BENEFIT COMPANY AND B CORP STATUS

A Benefit Company would be a legislative status available to companies limited by shares, whereas being a Certified B Corp is a certification issued by a private organisation (B Lab) and has no legislative framework⁴. B Corp certification and Benefit Company status are independent of each other but both work to the same end goal – namely to drive change by creating a dynamic movement of leaders who are committed to use business as a force for good.

EASY LOW COST, ADAPTATION OF EXISTING LAW, FOR OPTIONAL TAKE UP

We see this proposal as an amendment to the Companies Act, rather than a separate new legal form, and benefits from:

1. Reinforcing the existing permissive law: as it stands, companies can already change their constitutions to pursue impact, but this proposal would encourage a more systemic approach to change the business environment;
2. Clarifying the existing law: this would create a simple turnkey solution for a company wanting to pursue and lock in its commitment to impact;
3. Needing no regulation – as proposed, this would be simple, cheap and easy to introduce into the law;
4. Being optional – critically, no company would be obliged to choose this legal form;
5. Reinforcing the mainstream – the change would give a much greater impetus to mainstream businesses pursuing impact and would not affect social sector organisations.

OVER TIME, RAISE THE ACCEPTED STANDARDS

⁴ However, there is a legal requirement to lock in the mission, and the text used in the UK is based on the proposed legal wording in Annex 1 of the Benefit Company

Our long term vision is that *all* companies will give regard to and report on how they have considered the interests of the broader stakeholders, not just shareholders. In the nearer term, we see potential momentum by creating a large movement of companies, and tracking the effect on the financial returns, as well as on the social and environmental returns, will build the evidence for the 'stakeholder' business case. Whilst we see there is a plethora of laws relating to different aspects of responsible business⁵, there is nothing yet in statute which embraces a commitment from a company and its shareholders and directors to act in the interests of its broader stakeholder community.

5. RATIONALE FOR THE PROPOSAL TO EXPLORE A BENEFIT COMPANY FORM

The existing permissive regime is not enough on its own to create the systemic change needed to stimulate a new generation of companies⁶ to become mission led businesses. We identify the following barriers to large scale take up of profit with purpose businesses⁷ which we think the proposal of introducing a Benefit Company form can address:

- *The evidence base to show that mission led businesses are more profitable in the long term and provide returns to all stakeholders, is still weak. Proxies such as ESG metrics are used instead (and support the case well);* creating a sub-sector of businesses who have committed to this approach will help provide the much needed data and create greater understanding through analysis of the comparative performance levels;
- *The lack of transparency on the non-financial performance of companies means that much of the value of mission led businesses is hidden from view of investors, customers and other stakeholders;* the reporting requirements of Benefit Companies help to reduce this problem and bring transparency;
- *There is no clear, standardised way of distinguishing a company that is committed to creating a positive impact from one that is good at marketing itself as purpose led⁸;* enabling a company to adopt a legal status which commits it to pursue positive social and environmental impact, tackles the problem of identifying good marketing from real commitment; it also helps identify suitable companies for the impact-focused investor (whether sophisticated or not);
- *Perceived fiduciary duties of investors that may see investing for social and environmental returns necessitates a trade-off over investing for financial return;* the introduction of the Benefit Company status will help provide more examples of how these returns can pull in the same direction when given time; this will start to normalise the investor perspective;

⁵ See <http://www.bitc.org.uk/blog/post/legislation-responsible-business-good-responsible-companies>

⁶ There could be at least three types of companies referred to in a new generation including: 1) traditional companies which convert to be mission-led 2) traditional companies who already were mission-led but were not identified as such and 3) new and early stage companies who embrace this from their initial set up.

⁷ We refer to profit with purpose here instead of Mission Led to show that we are focused on the mainstream markets and how to encourage those organisations to take up the challenge to lock in their mission/

⁸ The B Corp status and other certification schemes identify the best in class at achieving its objectives, but without such certification it is hard to distinguish those companies that are committed to broader stakeholders but have not reached or passed a recognised performance standard.

- *Concern that by taking in to account the interests of multiple stakeholders equally (as is assumed in mission led businesses), there develops a lack of clarity over business objectives;* the introduction of the Benefit Company status will help to overcome this as Benefit Companies articulate their broader strategy and report on their performance against it;
- *The pressure by financial institutions and investors on businesses to provide short term dividend pay-outs or share purchases restricts their ability to take longer term value - creating decisions;* however, leading mainstream investors⁹ are raising alarm bells at the risk of destroying value through a short term approach; the creation of a segment of mainstream businesses which are focused on providing long term competitive and shared value will help to change this behaviour AND generate the much needed returns for the patient investor;
- *Given the above, it is very difficult to give an approximation of the size, scale, revenue and total value to the economy provided by mission led businesses in the UK and is even harder to create appropriate policy interventions if it is not clear who they are aimed at;* the use of the Benefit Company status overcomes identification and tracking problems which are vital for any effective policy interventions.

We list in Annex 3 advantages against potential concerns of this proposal for further information.

6. PRECEDENCE

The table below summarises other global initiatives around creating a legal form to lock in a company's mission to address broader stakeholder interests.

⁹ [Larry Fink's letter](#) to 500 CEOs of large companies pleads for them to train their investors to take a longer term approach to returns.

Country with Benefit Company / corporation initiative underway	Status – in operation / under consideration / approved	Was it necessary to have this law in order to provide any legal way of locking in the mission?
Italy	Approved	Yes
UK	B Lab UK proposing to UK Government to explore creating Benefit Company legal status	No, because UK Companies Act provides scope to incorporate these considerations, <i>but</i> this would make it more robust and would clarify the existing law which, some lawyers and academics contend, does not permit directors to respect the interests of stakeholders at the expense of shareholders.
US	Approved in 32 US jurisdictions: work ongoing in 8	Yes, in around half the states a statute is required and in the others it is preferable for reasons of enforceability.
Australia	Legislation introduced. Will move forward after their election.	Yes
Argentina	Cross – ministry proposal created draft legislation sitting with President currently	
Chile	Draft legislation	
Hong Kong	Investigating legal statutes	We believe that additional language would not be enforceable so a statute will be required.
Taiwan	Investigating legal statutes	TBD
Japan	Investigating legal statutes	TBD
Canada	Working with a group in the ministry to advance legislation	No

7. CONSULTATION WITH KEY ORGANISATIONS

B Lab UK would seek to consult with the leaders of the 92 B Corps in the UK community who are committed to creating systemic change, for their in-depth views on this proposal. We have not had the chance to consult fully with our fast growing community and recognise that, as a nascent community, we have much to learn from the experiences of others. We would also look to consult with those organisations within the UK B Corp pipeline, who are in the process of pursuing certification, as a cohort of organisations with an interest in identifying as mission-led (and we have reached out to them all to join the regional Round Table discussions that Cabinet Office is holding).

Various reports¹⁰ from thought leaders have been published recently which highlight the urgent need to change the way companies use capital, account for their performance, allocate assets, treat their stakeholders and strip value out of businesses, in response to pressure from short termism. We see this proposal of a Benefit Company status as a powerful mechanism for tackling the problems in corporate law which shape business behaviour.

8. RECOMMENDED PROCESS

- Cabinet Office considers this proposal and raises it for discussion at the regional round tables, captures and relays feedback;
- Cabinet Office explores this proposal with BIS to seek their engagement;
- B Lab UK gathers feedback from its certified B Corp community, its prospects and provides this to CO and BIS;
- Consider a learning visit to the US (or US lawyers brought over to UK) to explore how best to exploit the launch of Benefit Company legislation by harnessing government, business and professional agencies to maximum effect. The UK is well placed to take a global leadership position by capitalising on the learnings from 32 US states and other countries;
- Hold a meeting with Cabinet Office and BIS to summarise feedback by end of Q1 2017 to take stock of the proposal's trajectory.



¹⁰ [Tomorrow's Company: UK Corporates, What's wrong, what's Next?](#) ; [The Big Innovation Centre – the Purposeful company](#) and from an investor perspective, [Generation Foundation: Allocating Capital for Long term Returns](#),

ANNEX 1

Draft Benefit Company Legislation

Guidance

Introduction

This is a draft proposal to introduce a new "**Benefit Company**" status for companies limited by shares. It is intended to outline what the proposal could look like under UK law but it is not intended to be the final text. In the event that the Government supports and decides to implement the proposal, the Government is likely to establish a process by which the text is refined and finalised.

Background

The proposed amendment to the Companies Act 2006 (the "**Amendments**") by the inclusion of a new section 172A (as set out in the Annex) is to introduce Benefit Company status for companies limited by shares.

Benefit Corporation legislation has been enacted in 32 states in the United States. In addition, in December 2015, the Italian Parliament authorized a new type of for-profit corporate entity called Società Benefit. Similar proposals are in development in Argentina, Australia and elsewhere. The proposed Amendments draw upon Benefit Corporation legislation that has been implemented in both the US and Italy and proposed legislation in Australia, with appropriate amendments for English law.

Overview of the Legislation

The proposed Amendments are intended to establish a statutory framework to facilitate the introduction of the Benefit Company in the UK. The Benefit Company regime includes:

- (a) the eligibility requirements for a Benefit Company;
- (b) a requirement for all benefit companies to have an express social and environmental purpose;
- (c) a requirement for directors to have regard to a range of stakeholder interests when discharging their duties (this reflects the position under s172(1) of the Companies Act 2006) ;
- (d) a process for enforcing compliance by a Benefit Company with the general public benefit purpose and any specific public benefit purposes; and
- (e) an annual benefit reporting process for a Benefit Company.

What is a Benefit Company?

A Benefit Company is a for profit company limited by shares that has a purpose to have a material positive impact on society and the environment in addition to benefiting its shareholders or members.

A Benefit Company's directors operate the business with the same authority as in a traditional company but are required to have regard to the impact of their decisions not only on shareholders but also on society and the environment.

In a traditional company, shareholders judge the company's financial performance; with a Benefit Company, shareholders judge performance based on the company's social, environmental, and financial performance.

Transparency provisions require Benefit Companies to publish annual benefit reports of their social and environmental performance using a comprehensive, credible, independent, and transparent third-party standard.

Distinction between a company that is a B Corp and a Benefit Company?

Certified B Corps formally launched in the UK in September 2015 and there are now more than 90 Certified B Corps in the UK. A Benefit Company is a legislative status available to companies limited by shares whereas being a Certified B Corp is a certification issued by a private organisation (B Lab (UK)) and has no legislative framework.

B Corp certification and Benefit Company status are independent of each other.

Why is there a need to create a "Benefit Company" status?

There are a number of compelling reasons for creating a new "Benefit Company" status and these are summarised below:

- it provides a for-profit model that allows a genuine commitment to society and the environment, without resorting to bespoke structures that are costly, confusing and uncertain and it provides a clear way for the entrepreneur to signal to customers, workers, community, investors and other stakeholders that the company is "mission-led" and has social and environmental impact as a central purpose;
- it helps stakeholders to identify which businesses are "mission-led";
- it creates a promotional and encouraging legal framework, rather than one which is simply permissive;
- it complements the CIC model and encourages a pro-social economy but is fundamentally different to the CIC model because of the absence of the asset and profit locks;
- it raises awareness in the market about this type of company and the important role it is playing in the economy and it enables collection of data

about this type of company as well as specific data around social and environmental impact (as identified in the annual report);

- it is a recognisable legal form with certain statutory obligations (such as obligations to report on impact, pursue impact and consider stakeholder interests) which should encourage higher levels of trust in mission-led businesses by consumers, employees and investors;
- it ensures that the UK is not falling behind developments in corporate law in other jurisdictions and encourages other jurisdictions to follow suit and create wider global systemic change; and
- it will make it easier for public commissioners and private contractors to identify businesses they may wish to prioritise.

Appendix

Companies Act 2006

New Section 172A

S172A Benefit Company

Definitions:

For the purposes of this section:

"Benefit company" means a company described in section [172(A)(1)];

"Benefit enforcement proceedings" means any claim or action or proceeding for:

- (1) failure of a benefit company to pursue or create general public benefit or a specific public benefit purpose set forth in its articles; or
- (2) failure to comply with any obligation, duty or standard of conduct under this section.

"General public benefit" means a material positive impact on society and the environment, taken as a whole, assessed against a third party standard, from the business and operations of the company.

"Specific public benefit" means the conferring of a particular benefit on society or the environment but does not include general public benefit.

"Third Party Standard" means a standard for defining, reporting and assessing the social and environmental performance of a benefit company that:

- (a) assesses the effects of the business affairs of the company upon the matters listed in [sub-section 172A(5)b-e];
- (b) is developed by an entity that:
 - a. is not a related entity of the benefit company;
 - b. has access to necessary expertise to assess the overall social and environmental performance of a business;
 - c. uses a balanced multi-stakeholder approach to develop the standard, including a reasonable public comment period; and
 - d. makes the following information publicly available:

- i. the criteria considered when measuring the overall social and environmental performance of a business;
 - ii. the relative weightings, if any, of those criteria;
 - iii. the identity of the directors and members of the entity that developed and controls revisions to the third party standard;
 - iv. the process by which revisions to the third party standard are made; and
 - v. the revenue and sources of funding for the entity, with sufficient detail to disclose any relationships that could reasonably be considered to present a potential conflict of interest;
- (c) does not have more than one-third of the directors and members of the governing body of the entity as directors, members or employees of any of the following:
- i. an association of businesses operating in a specific industry the performance of whose members is assessed against the standard;
 - ii. businesses from a specific industry or an association of businesses in that industry; or
 - iii. a business whose performance is assessed against the standard.

Insertion of new s172A to the Companies Act 2006

[ELIGIBILITY CRITERIA]

(1) A company is a benefit company if:

a. It is a:

- i. private company limited by shares; or
- ii. public company limited by shares;

b. It has articles of association;

c. Its articles of association contain a statement that the company is a benefit company; and

d. It is not registered as a charity.

(2) If a company is a benefit company upon incorporation or becomes a benefit company by amending its articles of association to include the statement set

forth in [sub-section (1)c above], it must notify Companies House that it is a benefit company.

[REQUIREMENT TO HAVE AN EXPRESS SOCIAL PURPOSE]

- (3) The purposes of a benefit company are;
- a. to promote the success of the company for the benefit of its members as a whole; and
 - b. to create general public benefit; and
 - c. to the extent specified by the benefit company, to create one or more specific public benefits.
- (4) An act of a benefit company is not invalid or ultra vires merely because it is contrary to or beyond the general public benefit purpose or a specific public benefit purpose in its articles of association.

[DIRECTORS TO HAVE REGARD TO STAKEHOLDER INTERESTS]

- (5) A director of a benefit company must act in the way he or she considers, in good faith, most likely to promote the success of the company in achieving the purposes set forth in [sub-section (3) above] and in doing so shall have regard (amongst other matters) to the following matters (together, the "**Stakeholder Interests**"):
- a. the likely consequences of any decision in the long term,
 - b. the interests of the benefit company's employees,
 - c. the need to foster the benefit company's business relationships with suppliers, customers and others,
 - d. the impact of the benefit company's operations on the community and the environment,
 - e. the desirability of the benefit company maintaining a reputation for high standards of business conduct, and
 - f. the need to act fairly as between members of the benefit company.
- (6) The duty of a director of a benefit company is to act in the way he or she considers, in good faith, most likely to promote the success of the benefit company and in doing so, such director shall not be required to regard the benefit of any particular Stakeholder Interest or group of Stakeholder Interests as more important than any other.

[LIMITATION OF LIABILITY]

- (7) Nothing in this section express or implied, is intended to or shall create or grant any right or any cause of action to, by or for any person (other than the benefit company) against any director of a benefit company for the failure of a benefit company to pursue or create general public benefit or any specific public benefit.

[BENEFIT ENFORCEMENT PROCEEDINGS]

- (8) [**General rule**] Except in a benefit enforcement proceeding, no person may bring an action or assert a claim against a benefit company or its directors with respect to:
- a. failure to pursue or create its general public benefit purpose or a specific public benefit purpose set forth in its articles of association; or
 - b. failure to comply with any obligation, duty or standard of conduct under this section.
- (9) [**Limitation of liability of company**] – A benefit company shall not be liable for monetary damages under this section for any failure of the benefit company to pursue or create general public benefit or a specific public benefit.
- (10) [**Who may bring proceedings**] A benefit enforcement proceeding may be commenced or maintained only:
- a. [directly by the benefit company];
 - b. [derivatively by the directors]; or
 - c. derivatively in accordance with s260 of this Act by a member or group of members with at least 5% of the votes that may be cast at a general meeting of the benefit company outstanding at the time of the act or omission complained of.

[ANNUAL REPORTING REQUIREMENT]

- (11) A benefit company must deliver an annual benefit report to each shareholder and to Companies House at the same time that it files its accounts under section 442 of this Act, provided that a benefit company is not required to deliver an annual benefit report until the end of the second full financial year or second full calendar year (as applicable) after the company's incorporation.
- (12) A benefit company must also post its annual benefit report on the public portion of its internet website, provided that the compensation paid to directors and financial or other proprietary information included in the benefit reports may be redacted from any benefit reports posted on the internet.
- (13) If a benefit company does not have an internet website, the benefit company shall provide a copy of its most recent benefit report, without charge, to any person that requests a copy, provided that the compensation paid to directors and financial or other proprietary information included in the benefit reports may be redacted from any such benefit report.
- (14) The annual benefit report must contain a description of:
- i. the ways in which the benefit company pursued its general public benefit purpose during the year and the extent to which general public benefit was created;

- ii. the ways in which the benefit company pursued any specific public benefit in its articles during the year and the extent to which a specific public benefit was created; and
 - iii. details of any matter or circumstance that has significantly affected the creation by the benefit company of general public benefit and each specific public benefit in its articles (if any); and
 - iv. refer to likely developments in the benefit company's operations in future financial years and the expected impact of those developments on the general public benefit purpose and each specific public benefit purpose in its constitution; and
- b. an assessment of the overall social and environmental performance of the benefit company against a third party standard which:
- i. has been applied consistently with any application of that standard in a prior annual benefit report; or
 - ii. is accompanied by an explanation of the reasons for any inconsistency in the application of that standard when compared with the immediately prior annual benefit report.

(15) The Department for Business, Innovation and Skills may by order, set out further provisions for the;

- a. incorporation of a benefit company at Companies House;
- b. the filing requirements of a benefit company at Companies House;
- c. amendments to the content of the annual benefit report or timing for delivery; and
- d. the nature of any other disclosure requirements.

(16) [A benefit company may terminate its status as a benefit company and cease to be subject to this section by amending its articles of association to delete the statement that the company is a benefit company.]

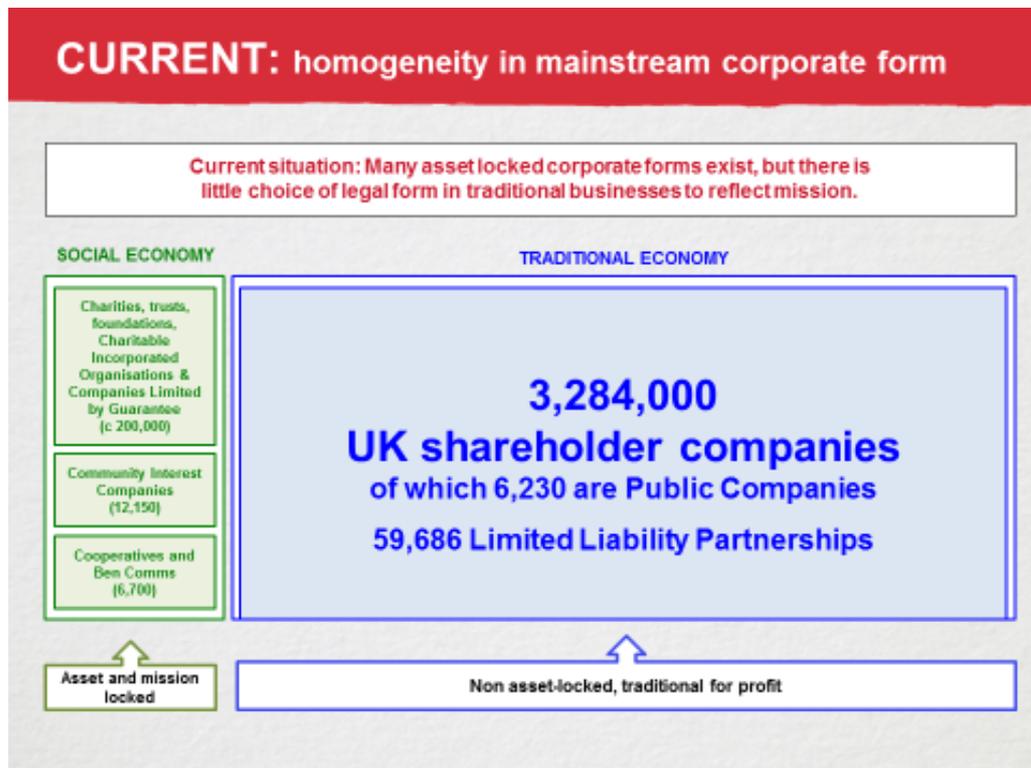
Annex 2: ADVANTAGES AND DISADVANTAGES OF THIS PROPOSAL

The following table highlights key advantages and possible concerns that could be seen to arise from the proposal to create a Benefit Company form. These points are reflective of conversations amongst B Lab UK board and the UK Policy Council.

Issue	Advantages	Addressing concerns	Recommendation
<p>Is it a good thing to create a new benefit company status through statute?</p>	<ul style="list-style-type: none"> • Friction free process for companies to follow • Clarity for boards – what it means, what the implications are • Something to communicate – something tangible • Taps into a global movement to create and articulate a new vision for business through a new kind of company • Removes temptation for CSR greenwashing • Provides cohort of businesses exemplifying a needed approach to business • Lifts the standards – eventually changes the accepted base level of performance • Opens up new interest in mission led business from institutions intermediaries and professional advisors • Procurers and commissioners easily able to identify contractors who are operating in line with the Social 	<ul style="list-style-type: none"> • It is not necessary in a permissive context like the UK, but this optional status creates a promotional and encouraging legal framework for mainstream companies to adopt whilst still maintaining its well recognised CLS form; • Perception of salami slicing if seen from social sector position, but mainstream sector is homogenous and would benefit from some distinction • Confusion with CICs and other social economy forms; but the different concepts can be articulated clearly; for a small subset of organisations there will be some organisations for whom either is an option • Perception that it may increase red tape, but this proposal is a light touch to embed in statute what is currently used voluntarily by some mission focused organisations • Risk that it creates push-back from the 'social sector' but this is really about supporting not 	<p>YES –that BIS explores this</p>

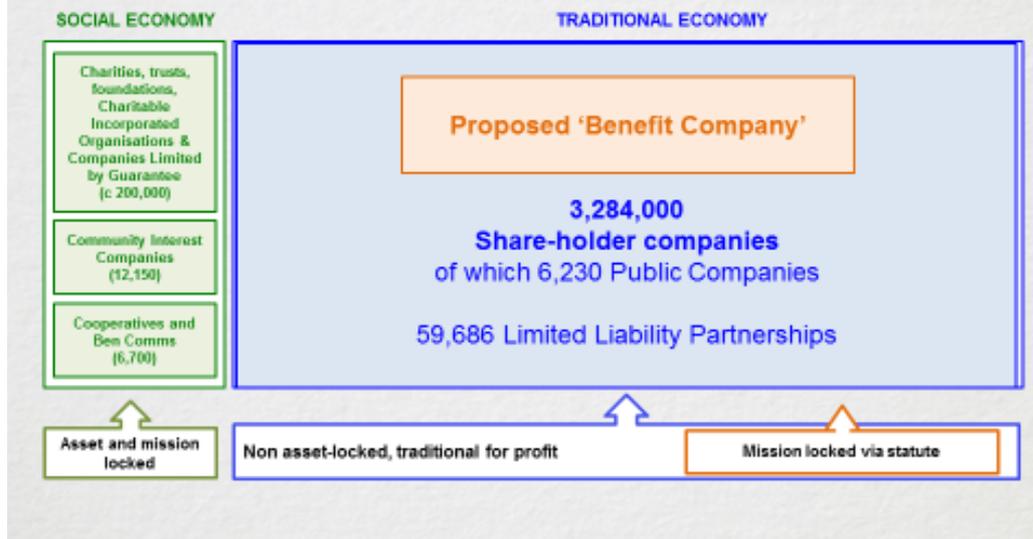
	Value Act; they are most likely to bring in social sector organisations into their supply chain to deliver contracts.	<p>competing with the social sector</p> <ul style="list-style-type: none"> Needs clear communication and strategy for businesses to adopt this and there is much experience globally to guide how this is best done to engage agencies, professional advisors and support services 	
Should the third party performance standard be defined in statute?	<ul style="list-style-type: none"> Makes it meaningful and standardised 	<ul style="list-style-type: none"> Who determines qualifying standards? Some standards better for certain types of businesses than others 	NO – self reporting only
Should it be called 'Benefit Company' or something else?	<ul style="list-style-type: none"> Creates a global language which promotes understanding and reduces friction especially for investors and suppliers Term used broadly across the globe Already wide recognition globally to help take up. 	<ul style="list-style-type: none"> Perception of American import but in fact this is being adopted in many other countries as shown in report Concerns that branding may be confusing, for B Corp particularly, this requires clear articulation of the performance test threshold which B Corps meet and which Benefit Companies are likely to aspire towards. 	Benefit Company

Annex 3: Current and proposed mainstream corporate landscape



PROPOSED: Identify purpose led companies via statute

Proposal : to put into statute a for-profit corporate form with mission lock – opens up variation for traditional businesses, whilst maintaining a commitment to mission



Data taken from <https://www.gov.uk/government/statistics/incorporated-companies-in-the-uk-monthly-and-weekly-to-may-2016> and Charity Commission data, CIC regulator and G8 Taskforce data on mission led businesses