

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.

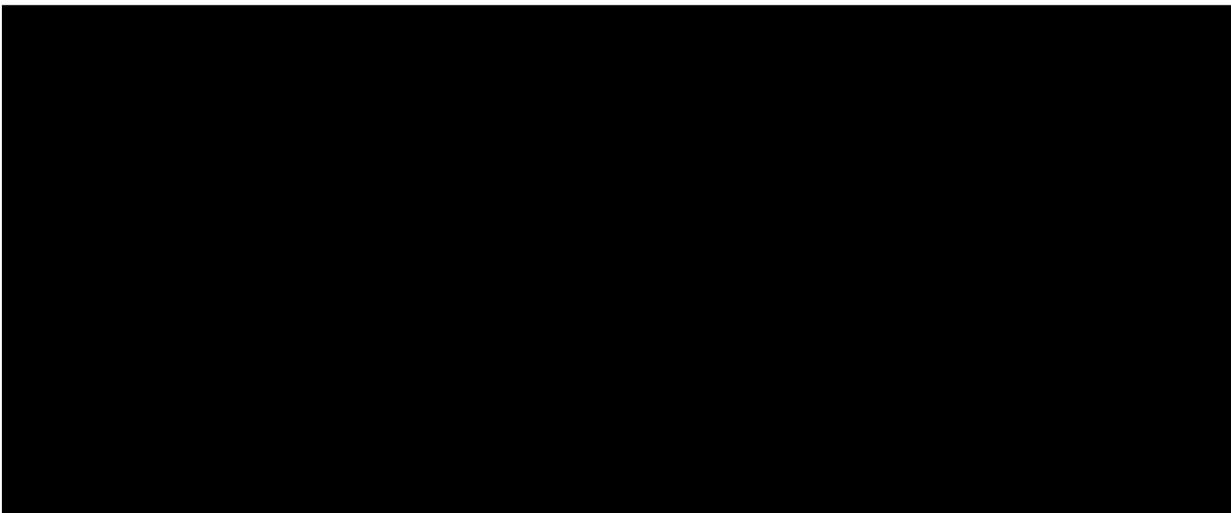
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

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.

A point of definition: on page 4 of the guidelines, it would help if the term "responsible business" was described in some detail; for example, is this term designed to include PLC's with a strong commitment to a non-commercial mission?

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

Cheng et al (2014, Strategic Management Journal) find that older, academic evidence points to a negative impact of CSR on financial performance, but more recent evidence indicates a positive relationship: CSR was seen as an extra cost in the older literature, with benefits of CSR accruing mainly to managers and not so much to shareholders. Several authors criticize this older literature, arguing for example that it displays omitted variable bias (Ullman, 1985) and measurement error (Waddock and Graves, 1997).

The following points from the recent literature showing a positive impact of CSR on financial performance are taken from Cheng et al (2014):

- CSR improves stakeholder engagement and reduces short-term opportunistic behaviour (Bernabou and Tirole, 2010), which in turn reduces contracting costs (Jones 1995)
- CSR activity goes hand in hand with CSR disclosure, and with general data disclosure and transparency for investors (El Ghoul et al, 2011), leading to lower capital constraints (Hubbard, 1998).
- CSR helps to attract and retain higher quality employees (Greening and Turban 2000)
- CSR helps to market products better (Fombrun 1996)
- CSR mitigates the likelihood of negative regulatory, legislative and fiscal action (Freeman 1984, Hillman and Keim 2001)
- CSR attracts investments from socially responsible investors (Kapstein 2001)
- Firms with high CSR display lower idiosyncratic risk (Lee and Faff 2009) and less financial distress (Goss 2009)

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

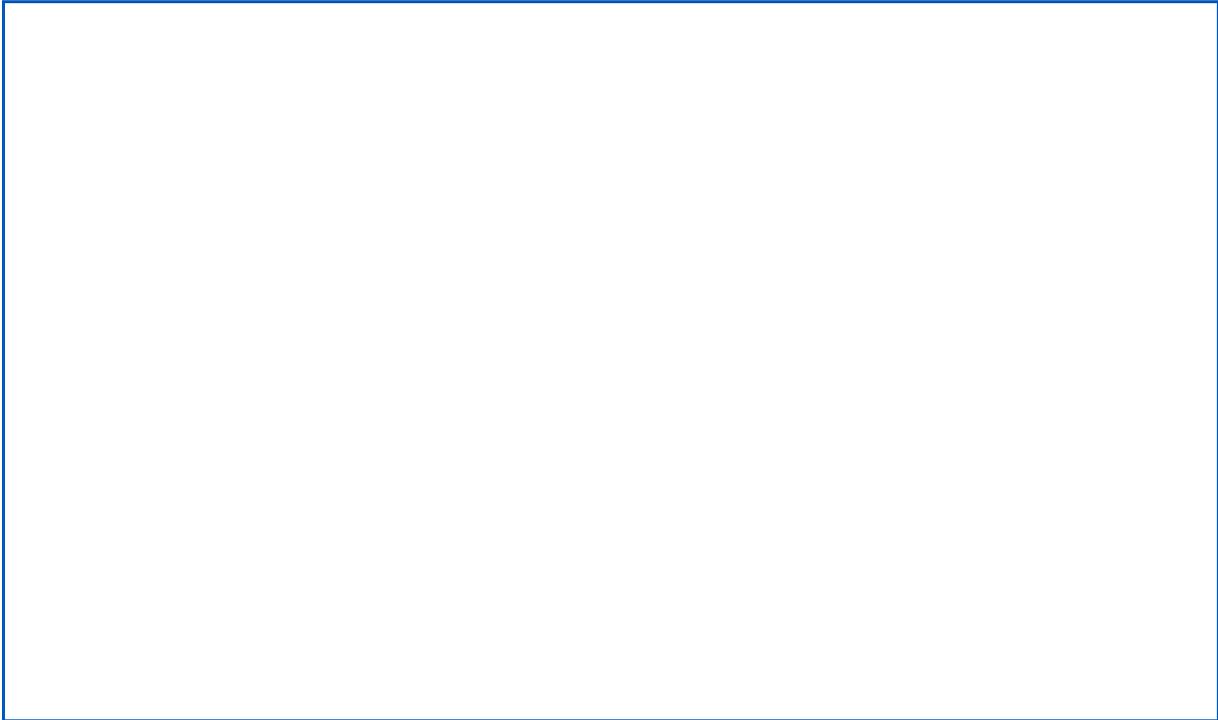
Question 4: Why would a business set-up as or become a mission-led business? Please share evidence.

Benefits from choosing to be a mission led business include:

1. Being sustainable in the holistic sense - a more satisfying life across stakeholders
2. Trust and reputation
3. Legacy
4. Fulfilling the guiding purpose/principles of the founder/s that the business was set up for.

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

A large, empty rectangular box with a thin blue border, intended for the respondent to provide evidence and their perspective on mission-led businesses over the next decade.

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?

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?

An increase in the risk that this 'mission drift' might happen may occur when an organisation comes under pressure from external factors such as a recession.

Another possible risk is when an organisation is so successful that it attracts a buyer, and the risk will be heightened if the management team wishes to retire and cannot replace itself internally. An example would be the takeover by Unilever of Ben & Jerry's. Another would be the take over of The Body Shop by L'Oreal.

Two relevant models of seeking to avoid mission drift are Just Culture in the international passenger aviation industry supply chain and HACCP in the international food industry. Both models require commercial organisations to customise and embed a generic system consisting of principles and practical methods for accountability as part of the over-riding mission in their organisations. For Just Culture this is public safety and for HACCP it is food safety for consumers.

For example, in Just Culture all employees can report safety concerns to a main board director with sole responsibility for public safety. All companies are required to have this system in place even if this means that to make a suitable appointment requires hiring someone who works for a competitor. This requirement is non negotiable.

Both examples show that a mission led business is entirely compatible with the freedom to pursue profit for owner/managers and shareholders and with innovation.

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.

Public Limited Companies might need incentives and enablers to make it easier for them to make the transition towards mission-led businesses at both a national and international level.

New ventures which depend on venture capital will also face obstacles given the anecdotal evidence that the culture in the Venture Capital industry is to invest in people who are primarily focused on personal enrichment over and above everything else.

We need a modification to the prevailing business culture towards one that accepts that it is possible to pursue personal wealth and a social 'mission' rather than having an 'either/or' attitude.

Question 10: In your view, what are the barriers to a large corporate (including a public company) to becoming a mission-led business or owning a mission-led business within its group structure?

There are many stakeholders in the investment industry that remain focused on maximising profit and shareholder value over and above everything else. These include the major audit firms and investment fund managers. There needs to be a campaign to make it culturally acceptable to pursue a mission alongside profit/shareholder value even if this means lower results in the short term.

This campaign can be done in conjunction with the relevant professional bodies, some of whom like the ICAEW are already working in this direction.

At Good Works, we believe that seeking to maximize profits above everything else is immoral, and that instead companies ought to consciously pursue the common good of all the stakeholders. The latter objective is consistent with making profits, and may even coincide with profit maximization in the long run. The shift from a profit-maximizing culture to a mission-led culture within a firm is radical and it is very hard for it to happen painlessly. Enlightened management needs to be brought in, or existing management needs to undergo a conversion of sorts, so that the firm will see its mission as being to contribute to the flourishing of society.

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.

Yes. An example would be the difference in culture/attitude to whistle-blowing between the aviation industry and the banking industry. In the latter, whistle-blowing results in pariah status no matter how grievous the harm to the public good which is revealed. In the aviation industry, on the other hand, whistle-blowing has been integrated into the governance of the commercial firms that make up the supply chain. This includes a 'no blame culture' which encourages employees to be open about mistakes. The only exception is gross misconduct. The difference in culture between these industries is very marked indeed.

The aviation industry also ensures transparency of line management reporting so that there is no lack of accountability which could prevent a mistake or weakness from being corrected sooner rather than later.

In contrast the head of the FCA in Spring 2015 reported that when they go into banks in the City of London to investigate misdemeanors, banks often find it difficult to actually identify which employee/manager is responsible for the relevant activities and areas of responsibility.

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

Investors may not be prepared to accept that the mission may hinder profitability in the short term.

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?

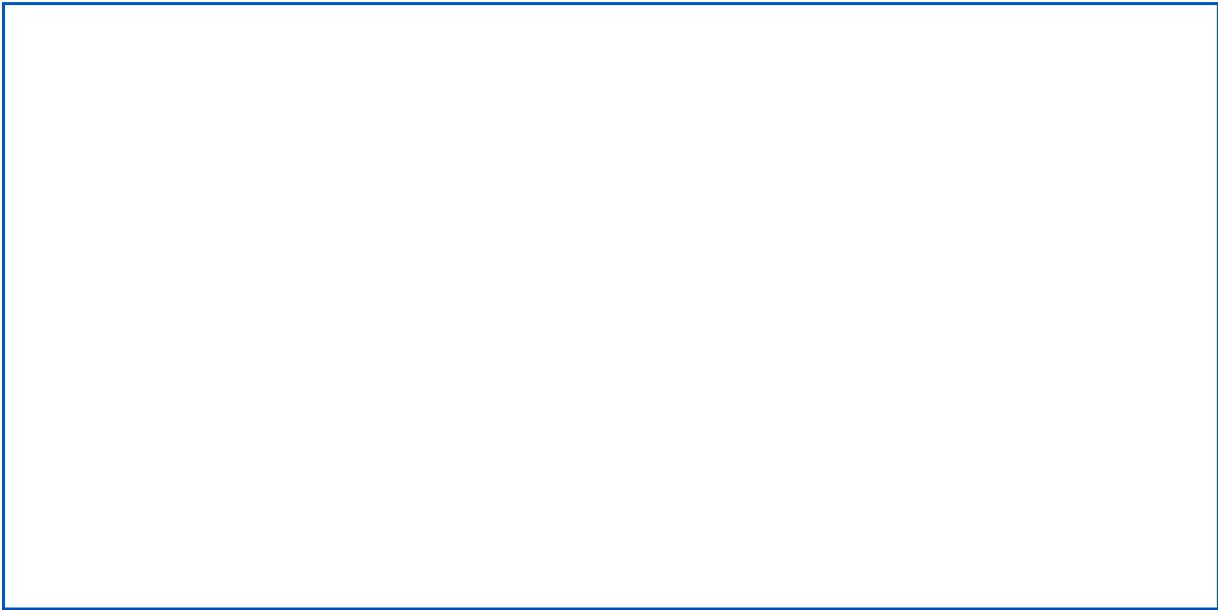
Certification systems in themselves are not a good thing or a bad thing. But to ensure they are a good thing they need to include some of these features:

1. They need to empower employees to put the mission ahead of their own line manager. (In HACCP this is achieved with the threat of a criminal record for endangering public health. Employees are more motivated by the need to avoid going to prison than by the directives of their line manager.)
2. They need to be designed so as to enable the organisation concerned to customise the system in such a way that the certification system can become part of its culture rather than just a badge in reception. An example of a certification system showing a gap between its level of visibility in the reception rooms of organisations and its reputation for credibility among employees and professionals is arguably 'Investors in People'.
3. They need to be integrated with the normal commercial priorities including the pursuit of profit. Just Culture appears to do this well.

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?



Thank you for your response.