Response to Response to Mission-Led Business Review: Call for Evidence

Instructions for responding to 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:

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[redacted]

1. What do you know about the number and profile of MLBs operating in the UK?

I have no evidence about the number of Mission Led Businesses (MLB); such evidence would be almost impossible to compile accurately as the phrase has no defined meaning and because the degree to which 'mission' complements 'making a profit' as a business purpose probably varies between 0 and 100% in different companies. What priority does a company have to give its non-pecuniary mission for it to be 'mission-led'? A company's non-financial mission may (and probably does) change both in quality and priority as the company matures; and there will always be a financial element to the mission - even if it is simply to remain in business.

A few years ago I conducted research (funded by Joseph Rowntree Foundation) on the way in which SMEs engaged with the local community; about 60 per cent thought that it was legitimate to expect businesses to engage with their communities (i.e. to undertake some degree of social obligation or mission) and only 20 per cent said that business had no obligation to engage with the community (http://sector4focus.co.uk/the-social-sme/). It is interesting to note that when BITC asked these same questions a decade earlier, in 2004, they reached exactly the same conclusion: that most SMEs believed that they could or should be more engaged than they actually were. When I asked why they did not engage more they said it was lack of leadership and advocacy, good practice examples and resources. I would add to this the lack of popular advocacy of a business case and low expectations of charities seeking community partners.

This does not mean that 60% of SMEs are 'mission-led' - they are not. But there is a grey area between being led by a mission and acknowledging social responsibilities towards the community and the environment. The profile of MLBs in terms of publicising their social mission is not high enough.

2. What do you know about the impact of being a MLB on business performance and social impact?

There is considerable evidence that socially responsible companies can command brand loyalty and boost sales through an 'ethical' or 'fair trade' label or a link with a charity (see my book, Welcome to GoodCo). However, the practice of double standards (a 'green-washed' appearance masking less than ethical behaviour) can be very damaging. But there are also various pieces of evidence to suggest that responsible businesses are more commercially successful than others:

- ethical investment funds produce higher long term returns than others
- the number of investors complying with the UN Principles of Responsible Investment has been growing steadily since its inception in the early years of the millennium - growth which was unaffected by the 'crash'
- FTSE companies with active CSR policies consistently show a greater TSR (Total Shareholder Return) than others; those companies showed more resilience to and faster recovery from the post-crash recession
- companies with a significant element (more than 3%) of employee shareholding (sometimes regarded as an indication of being 'in touch' with communities) show a TSR considerably higher than the FTSE index as a whole
- many newer companies with a specific non-financial mission - those that were created to further the green economy stand out - exhibit greater resilience; new social enterprises have a lower failure rate than new mainstream SMEs.

It is difficult to assess social impact as businesses do not routinely measure it and (under the 2006 Companies Act) only a few companies have an obligation to report on it. It has been observed that there is a link between the level of community engagement (mission) and employee engagement and many companies do measure employee engagement routinely. However, there are other factors affecting employee engagement, so measuring it can only be a proxy for measuring social impact. It has been reported that employees who acknowledge a 'purpose' to coming to work over and above earning a wage or creating a service or product are more loyal, productive and reliable than others and act as better informal ambassadors for their companies. That 'purpose' need not be associated with the product or service directly but can equate to the company fulfilling an active and positive role in the community.

3. What are the ways that quantitative data on MLBs could be better captured over time?

Why do we need to capture quantitative data on MLBs? 'MLB' is very much a self-selecting label: even the title 'social enterprise' has a grey area around it… and any definition will need to define what 'led' means. Some companies objectively recognised as mission-led do not recognise the definition and some which may claim to be mission-led may not objectively be so…

A case in point would be Natura, the Brazilian cosmetic and toiletries company. It is a for-profit company owned 60% by its founder and 40% by general shareholders and its direct employees are in a profit-sharing scheme. But its mission is defined as 'well being well' (*Bem estar bem*) and as the world's largest Benefit Corporation it has an employee engagement and environmental record, not east in sourcing products sustainably from the environmentally sensitive Amazon basin, that would match the best. But is it led by profit (which it probably was when it started in 1969), backed up by a fine USP, or is it now genuinely mission-led?

In Britain uptake of the Social Value Act could be regarded as quantitative data. According to Social Enterprise UK one third of local authorities now 'routinely consider social value in their procurement or commissioning' (http://www.socialenterprise.org.uk/uploads/files/2016/05/procuringforgood1.pdf) which clearly puts an obligation on some businesses - actual and potential suppliers to those councils - to develop or exhibit a degree of social mission over and above any required by contract. It is doubtful that many of these companies, with the exception of social enterprises, would regard themselves as led by their missions.

4. Why would a business set up as or become an MLB?

To deliver goals associated with a non-financial mission about which they are sufficiently passionate to make a public commitment.

Although there is evidence that MLBs can be more successful than mainstream, profit-motivated but otherwise comparable businesses, I'd hope that the possibility of making bigger profits did not become a motive for choosing a MLB path; the passion and conviction generated by the qualitative mission is the basis of what makes an MLB successful. However, a business that adopts a social mission in order to generate an appropriate marketing angle should be encouraged - but only if that campaign is meaningful, sincere and sustained.

5. How do you see MLBs developing over the next decade?

I will answer this in terms of social enterprises, B Corps, the Social Value Act and other ways.

There is ample evidence that the world of social enterprise will grow, especially where delivery of a social service (either in collaboration with a public service or parallel to it) or an environmental goal is concerned. Amongst social enterprises only a minority have assumed CIC status to date and I don't expect this proportion to change, though the number of CICs will grow. The labelling of social enterprises as 'not for profit' is incorrect: they allow surplus revenue ('profit') to be fully utilised or recycled in support of their mission rather than being removed from the company as dividend.

B Corps status was recently relaunched in UK, having been established in USA some 10 years ago. There are still fewer than 100 B Corps in this country but this massively understates the number of 'for-profit' companies which have a degree of social mission. There is an element of 'cult' status to the B Corp movement but it has a valuable role to play and I suspect that over a decade this community will become a thriving 'B2B' operation, a sort of 'business for good' club. On the other hand, I don't expect to see a massive increase in their numbers. (In the USA there exists a complementary legal status of Benefit Corporation but there is no need to develop this legal form in UK as there is no legal obligation here to prioritise the needs of shareholders).

In mainstream business I suspect that the operation of MLBs will grow (even without regulatory or legislative change) but there will be no rush to adopt the MLB label. It will grow because:

- Examples of good practice in mission-led business practices will grow in number and status (such as the Unilever 10-year sustainability programme) leading to a desire to learn and copy
- Opportunities to deliver either formerly public services or services complementary to public services will grow but commissioners will (should) be more discerning when awarding contracts, emphasising that providers of such services should exhibit values and missions compatible with the long term delivery of such services
- The commercial benefits of being associated with a charity or a good cause will continue to attract companies (despite some recent examples of where this may not have worked to best effect, such as E.On/Age UK)
- In a world of social media and ever closer public scrutiny, the damage to a company's reputation caused by corporate behaviour that is not socially, environmentally or financially responsible will force changes in behaviour which may then be interpreted as being mission-led
- SEUK reports that one third of local authorities now utilise the Social Value Act to some extent in moderating and promoting responsible behaviour and community engagement.

Currently the Social Value Act is being actively implemented only in a minority of councils and in different ways. Only in places like Manchester and Birmingham can it now be said that if a business wishes to do business with the Council it will need to demonstrate a social mission over and above the detailed confines of the tender which they are seeking to win and implement. A recent SEUK report (op.cit.) made four sensible recommendations that would have the effect of encouraging more councils to opt in to using the legislation and make it easier for them to implement it and I support that call.

But why stop there? Some companies already make social value-type demands of businesses in their supply chains and whilst some of these are backed by legislation (action against modern slavery and corruption, for example) others are designed to support brand values - such as no testing of ingredients on animals - yet others are simply exercising a social conscience on behalf of the commissioning company. An example of this would be Boots' support of the BITC 'Ban the Box' campaign, whereby a condition of being a supplier to the corporate is that a business does not arbitrarily discriminate against ex-offenders in its employment practices.

The Social Value Act, as it sits on the statute book, represents an option, in many respects, for local authorities and their private sector suppliers to follow. Social enterprises, which come ready-equipped with a social mission, are well placed to exploit opportunities provided by the Act but its purpose was never intended to exclude the mainstream private sector. Rather, it provides an example which any commissioner of services from a third party could follow and companies should be encouraged to adopt social value principles voluntarily in their own commissioning and supply chains. To complement this, there should be no legislative barrier to any company adopting these principles and practices.

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?

Where to start?

- Adopt a mission, purpose and values which can include and involve the company and its stakeholders and by which the company can be judged
- Ensure that the above can be justified by a business case (or at least will not be deleterious to the interests of the company)

- Explore how to engage the workforce better with the mission of the company: convince them that they are there not just to deliver excellent products and services but to be create a responsible corporate citizen, too, a company for which they are proud to work
- The above may involve becoming a Living Wage Employer and giving greater opportunities for the workforce to influence the management of the company
- Have a meticulous sourcing and procurement policy in the supply chain, especially when sourcing from countries and environments which are vulnerable or at risk
- Adopt the principles of the Social Value Act voluntarily (even if the Act does not apply directly to a particular business)
- Work with local community organisations within the immediate neighbourhood of the company's base(s) to establish which of their needs the company could help them meet and how
- Engage the workforce in creating an agenda of how the company could behave more positively towards the environment and community
- Whilst acknowledging the need to 'make the books balance' in the short term, nevertheless adopt longer term perspectives and goals alongside this
- Where necessary, persuade shareholders of the business case to justify the strategy.

Tomorrow's Company (http://tomorrowscompany.com) has published a number of reports on aspects of mission, purpose and values in business.

7. Do you think these steps could be better communicated to entrepreneurs and businesses?

Yes!

Many small entrepreneurs arise spontaneously, which means that discussion of the social purposes of business in either school curricula or business schools may not reach them in their formative years. However, it should be included in both. Business support networks and organisations need to be aware (convinced?) of the business case for including social impact within business purposes.

8. The loss of focus on social and environmental aims has been identified as a potential problem for MLBs ('mission drift'). When do you think this is most likely to happen? What could be done to prevent this?

Many charities have learned how to protect their missions against the crosswinds of pressures from donors, commissioners and governments - though some have not, and some have thereby suffered damage, not least to their reputations. Businesses, however, are under no such pressure; in fact, the ability to adapt to changing market conditions is seen as a positive virtue. In that sense, 'mission drift' is not such a problem for the private sector as it is for the third. It is important for businesses led by a social mission to preserve their mission's values, to stay in control of their mission, rather than preserve every single activity in aspic. The way a start-up company demonstrates its mission will be different from that adopted by the same company ten years later as it achieves scale; though the arguments in favour of a social mission also dictate that as a company's business ambitions rise its social impact should, too.

9. Have you identified barriers to new entrepreneurs or well established businesses who want to easily convert their intent to make social impact into a long-term or binding commitment? Please provide details in particular those that may be caused by regulation

There are no insurmountable barriers to developing mission-led SMEs. Although my research shows that time and cost - always major issues for the owner/manager - are perceived as barriers to community engagement by SMEs these are false barriers. Those that have passed through the barrier say that, in retrospect, it is the way one thinks about community engagement which is critical, rather than the time spent thinking about it. And, handled carefully, the costs of such initiatives can be seen as an investment which pays for itself in due course through the business gains from better engaged (and thus more productive) employees, enhanced brand reputation, access to innovation and collaborative working.

The true barriers to MLB in the SME community are attitudinal, caused by lack of information, advocacy and leadership on the issue.

10. What are the barriers to a large corporate becoming a MLB or owning a MLB within its group structure?

There are no insurmountable barriers to developing mission-led corporates, as Unilever has shown. For example, a few years ago Unilever replaced quarterly financial reporting to its shareholders with an annual return. The impact of this was to reduce the influence of short term investors (hedge funds) over the company resulting in a more stable share price. This, in turn, allowed investment and other business decisions to be made for the longer term, a position which is conducive to better environmental policy implementation and the downgrading of the pursuit of shareholder value as the be all and end all of business purpose.

Whilst Unilever was making this decision government ministers were actively considering changing the law to allow companies to abandon quarterly reporting. Yet Unilever had clearly demonstrated that no such change in the law was necessary to achieve this outcome. Again, the real barrier to the development of corporate MLBs is one of leadership both within the business community and within government.

Another attitudinal barrier is risk aversion, which is ironic - as some behaviours associated with being a MLB can actually reduce risk.

11. Do you think MLBs have or should have a different culture / values system to traditional business? Please provide examples.

By definition a MLB will have a different culture from its traditional counterpart. The tools it uses - investment, employment, technology, innovation, production, marketing and the rest - will be the same. Yet because it is led by its mission (rather than led by the need to maximise profits) its culture will balance collaboration with competition, promote inclusion and not subservience, recreate the culture of the family rather than that of the parade ground and take a longer term view of the business environment rather than maximise short term returns at all costs.

12. What challenges do MLBs face when engaging with potential customers, employers and investors about social impact?

I think it is a myth that concern in business is regarded as a sign of weakness, as popular depiction of corporate life might have one believe. People who care for their families, neighbours and communities need not switch those values off between nine and five; however, business people too often behave like Hans Anderson's Emperor, with few daring to suggest that the new clothes of machismo don't actually need to be there…

If becoming an MLB involves a complete culture change then issues of credibility will have to be tackled, partly because of the 'oil tanker' analogy (it takes a long time to turn round and to do so too fast may sink the ship) and partly because any Damascene conversion is only as good as its marketing!

13. What do you think of the role of certification systems or frameworks in helping MLBs engage with external stakeholders?

Business would prefer a framework to a certification system: frameworks allow ‘wriggle room’, acknowledge indefinite evolutionary change and discourages a pass/fail mentality. Certification also carries the risk of a ‘minimum compliance’ approach (to change so as to comply with regulations but no more).

Although fair trade is a widely recognised system of certification it took many years to become established. Once it took off it was clear that it had shortcomings including, ironically, failure to recognise behaviour that was more advanced than fair trade criteria required - whilst changing the criteria makes it difficult to make longitudinal comparisons. Certification systems like FSC (ethical timber) are now thought to be weaker than they should be. Successes like the Ethical Tea Partnership originated within a specific industry and may have little cross-over potential.

B Corps offer a comprehensive approach to certification but the length and complexity of the process, combined with the fact that certification needs to be reaffirmed every two years, is seen as a disincentive, especially for larger companies (http://bcorporation.uk/b-corps-in-the-uk). Responsible 100 is an alternative emerging system which is much simpler and perhaps better acknowledges business priorities (http://responsible100.com).

The foremost UK framework is Blueprint for Better Business which proposes five principles for business to adopt. It has some high profile mainstream supporters (Grant Thornton, Boots, BT, Unilever) and few detractors (http://www.blueprintforbusiness.org). Worldwide programmes like the Global Compact have suffered from constant revision and have lost some supporters as a result although recently they have commendably decided to align the programme with the Sustainable Development Goals (https://www.unglobalcompact.org). Programmes aimed at narrower audience bases, like the FTSE 4 Good family (http://www.ftse.com/products/indices/FTSE4Good), clearly don’t have universal application and whilst the Sustainable Development Goals (https://sustainabledevelopment.un.org/?menu=1300) aren’t associated with a specific framework or certification system they do lend themselves to approaches like Blueprint.

Trading for Good is neither a framework nor a certification system but is a tool that encourages small businesses to engage with communities and to talk about it (http://www.tradingforgood.co.uk). It is therefore not onerous and because it has no pass/fail criteria there is no downside if a business simply updates their profile regularly.

14. What are best practice examples of social impact measurement and how are they being applied by MLBs?

A number of tools are available to business for measuring their social impact. However, none are widely used or well established - which is not surprising, given that so few companies are obliged to report on their social impact, according to current legislation. Charities, which have had to focus more on social impact measuring and reporting in recent years than in the past, have not evolved any widespread common approach and this is not surprising, either! Small and large organisations have different priorities and no one has yet created a common measure because of the intellectual difficulty in comparing an hour’s volunteering with a gift in kind, an increase in capacity with a carbon saving. There is even a dispute as to whether an hour of employee volunteering should be costed at a commercial rate, at cost or at a standard rate such as the National Living Wage. The London Benchmarking Group has worked commendably to achieve common reporting standards amongst its 100+ commercial members (http://www.lbg-online.net) and these clearly have wider potential application.

Smaller companies could measure their social impact using free tools like Measuring the Good (http://volunteeringmatters.org.uk/employee-volunteering/measuring-the-good-project/).

15. Have you identified specific barriers to the growth of MLBs? Please provide details in particular those that may be caused by regulation

I do not believe that there are any barriers to growth to corporate MLBs which do not exist for other corporates.

16. What do existing MLBs need in terms of support and what do you think can be done to incentivise the creation of more MLBs over the next decade? Who is best placed to do this?

Other than perhaps extending the ambit of the 2006 Companies Act on reporting of social impact I do not see the need for legislative change to support MLBs. Indeed, poor legislation can encourage both an attitude of minimum compliance and resentment of 'red tape'.

What has been lacking from Government over many years has been a positive adoption of the business case for 'responsible' or mission-led business. It has adopted a vaguely pro-CSR position, where CSR is seen as an 'optional extra' to business life, coupled with a general encouragement for business to engage more but without a clear idea of with whom and for what purpose. Indeed, a specific Coalition government campaign associated with the Big Society was 'Every Business Commits', though it was never clear what businesses were supposed to commit to! It has to be said that the business case for community engagement has never been at the forefront of 30 years of campaigning by Business in the Community, either; they appear to have assumed that it was just a good thing to do.

What MLBs need is encouragement, exhortation, facilitation and the right 'mood music'. This is not consistent with a 'predator' view of big companies and it is not helped by international businesses behaving in ways which are, whilst legal, close to unethical in the public mind (taxation and executive pay levels are cases in point).

If and when the Government does introduce its promised right for employees of larger companies to ask for up to 3 days of annual volunteering leave it is important that this is not a wasted opportunity. If it is used on fundraising, low-skilled activity or team building exercises then it will have been wasted; if it can be focused on raising the capacity of charities, exchanging knowledge and skills between companies and community organisations and delivering a measurable social impact then it will be a step in the right direction and support the goals of mission-led businesses.

APPENDIX 1

What can 'Mission-Led Business' learn from the world of CSR?

Tom Levitt

In 1955 the phrase 'Corporate Social Responsibility' first appeared in academic literature and the mid 1970s saw the first despairing claim that the acronym 'CSR' had lost its meaning and authenticity.

It's true, as the CEO of Dollar UK wrote for the CBI's 'Great Business Debate' blog in June 2016 http://www.greatbusinessdebate.co.uk/case_study/to-have-a-true-csr-impact-you-must-involve-the-whole-company/ that 'some cynics still insist that CSR is at best an act of empty corporate philanthropy, and at worst a smokescreen used to hide a multitude of corporate sins'. Mr Howard says that Dollar 'see CSR as a central function that underpins the ethos of the whole company' — but surely that should be much more than just encouraging employees to undertake 'bake sales and sponsored runs' and allowing them half a day per year of paid volunteering time, as he does? It's also about being a responsible trader. Dollar is a finance company whose major subsidiary, Money Shop, was last year ordered to return to low income customers £15M which it had not been entitled to take from them (http://www.bbc.co.uk/news/business-34639178). That's not responsible lending or responsible business. But I know a 'smokescreen' when I see one.

Whilst the idea of mission-led business may be relatively new, the concept of designing a business around a social purpose in a way that complements, rather than undermines, conventional ideas of business success is not. The Quaker giants of the 19th century did it and Unilever is doing it now. Society needs the power of responsible business to complement the public and third sectors in their work. But whilst a host of social enterprises, B Corps and others are being created the real challenge is to learn from 60 years of CSR in mainstream business and distil what is good about it; in order to inform the process of retrofitting mainstream business with broad social and environmental missions.

A company's mission can be wide ranging, encompassing both strict business terms such as 'to provide supportive, non-exploitative personal loans at affordable prices' (Dollar UK please note); to the eradication of collateral damage, like 'to operate in a carbon-neutral way'. Such a company will come to have 'responsibility' running through it like Blackpool Rock in respect of engagement with its employees, customers, environment, neighbours, supply chain and the law. The benefit that accrues from this is 'purpose'.

When a company has mission and purpose it can create value in qualitative as well as monetary terms. A sense of purpose from engagement with the company mission is known to be linked to greater employee productivity, loyalty and length of service; to reduced sickness time lost and greater informal ambassadorial activity; and to enhancing the company's reputation.

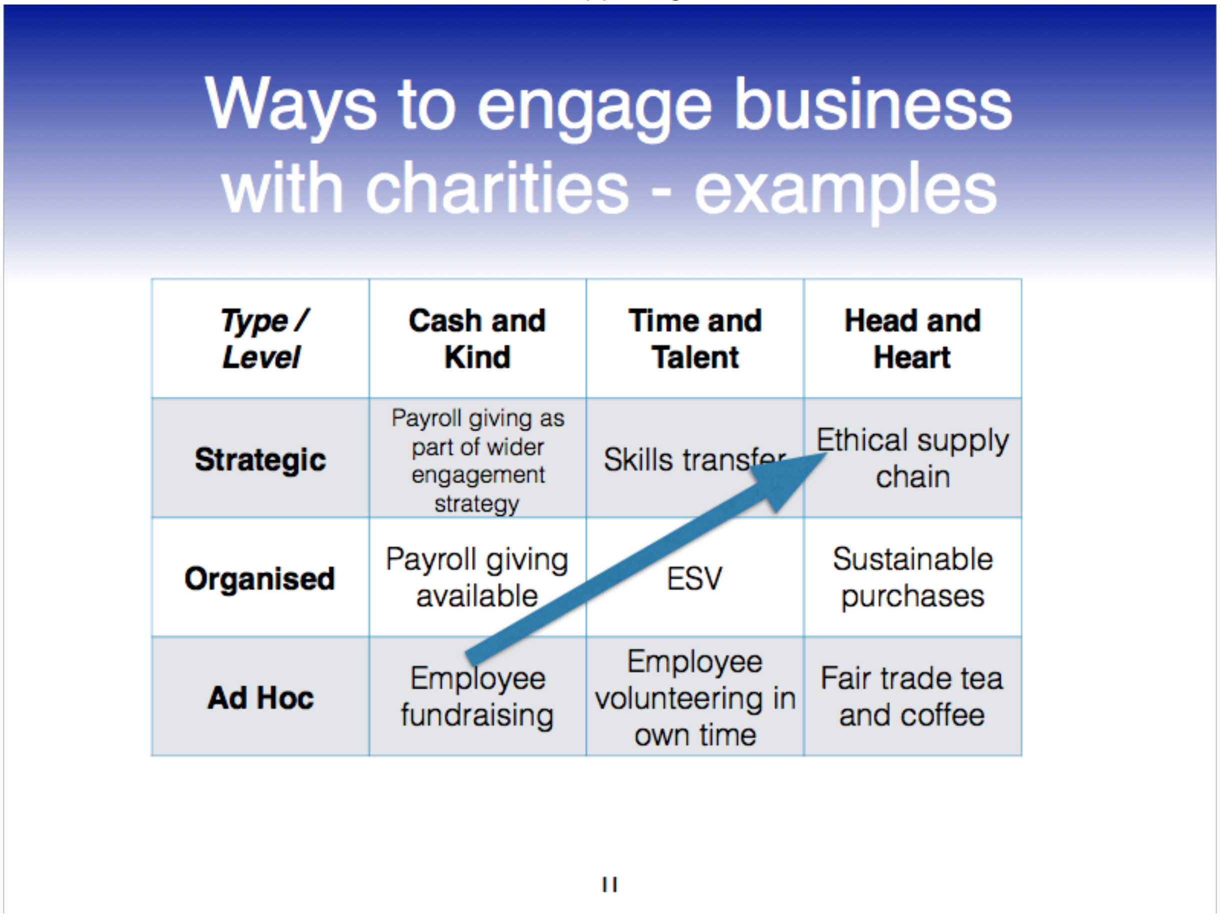
The person with conscience should not 'give up' on business being a force for good, led by its mission. It has to become such, for we will struggle to survive if it isn't. But the business person should not decline a broader degree of responsibility either: there is a very good, even conventional case which argues that being a business for good makes good business, whilst there is little long term reason to stick with the superficial and optional conventions of rudderless CSR activity alone.

APPENDIX 2

An Engagement Matrix: The CSR to Mission Continuum

Tom Levitt

As part of our discussion on Mission Led Businesses for the Cabinet Office, at Legal & General on 1 July, I spoke of a matrix of CSR activity. 'Traditional CSR' is towards the left and bottom of the matrix and 'mission-led business' towards the upper right.



This chart shows that CSR activity is divided into three qualitative categories and takes place at three different tiers of organisation; the chart is populated with examples of CSR activities though many others exist. (You could argue for more than three levels but three makes my point).

Traditional CSR activity tends to start on the shop floor (bottom left on the chart), with ad hoc fundraising such as Red Nose Day activity, recruiting sponsors for a charity walk or a cake bake. In its simplest form this activity may not involve management at all, unless permission is needed. Successful activity may lead to a broadening of engagement, perhaps into employees organising some voluntary activity between them in their own time, or a slight deepening. That would be perhaps when the employer matches the first number of pounds employees raise voluntarily or, as in the example given, makes payroll giving available. At this stage payroll giving would be independent of any other community engagement strategy.

The three boxes at top left, centre and bottom right all represent a further deepening of the company's commitment to community engagement, so the CSR activity becomes more meaningful. For example, payroll giving might be actively promoted by management as part of a broader communications and engagement strategy, perhaps favouring a charity with which it shares a common mission or interest (such as construction with Shelter). In the category of Time & Talent employees are given paid time off to volunteer with 'good causes', typically up to three days per year, with various levels of organisation and promotion in operation. And Head & Heart comes into play with, at its most basic, a message of care and inclusion through the procurement of fair trade tea, coffee and sugar in the workplace.

At a yet more sophisticated level we see employers nominating key employees to carry out specific good work in the community using their professional skills. This has the effect of both creating capacity in the recipient charity and broadening the skills experience of the employee and the activity is clearly integrated into the mainstream of company operation. Cynics may argue that volunteering in paid time is not volunteering at all: but think of it as the company volunteering its time and skills to the good cause, not the individual.

Often such exercises can have the additional benefit of helping employees develop soft, interpersonal skills where that would be helpful in their work. 'Sustainable purchases' would mean that not only were tea and coffee bought with reducing negative impact in mind but cleaning materials and raw materials too, with a view to minimising pollution and environmental damage and maximising sustainability.

The top right hand corner is the pinnacle: all of this social and environmental activity is included in the company's mainstream operations, and the values and mission of the company are reflected not only in its shop floor and boardroom but also in HR, procurement, transport and supply chain policies. For example, Boots has recently adopted the 'Drop the Box' approach to ensure that people with criminal records are not arbitrarily removed from consideration for recruitment - and they insist that companies in their supply chain do likewise. Adoption of Social Value Act criteria across a broad spectrum of activity would be in this box, too.

Finally, the activity that starts in the bottom left of the matrix cannot happen unless a 'spark' ignites the idea within the workforce. But the real value to the company comes in the move up the arrow, towards the top right - and this migration cannot happen in a sustainable way without the active and involved leadership of the company's leaders, informed and guided in turn by their company mission.

This process only works when the company has both a workforce ready to engage and an leadership that is informed and enlightened.

There's more about this in Chapter 6 of my book 'Welcome to GoodCo'.

APPEXDIX 3

The Case for the Company Citizen

Tom Levitt

Society needs ‘company citizens’ to be better engaged in our communities: fortunately, it’s in business’ interests to pursue the same agenda. However ‘better’ shouldn’t mean ‘more of the same’: rather business needs to rethink its role in society, at local and national levels.

There are moral, political and business cases for this change and pioneers from whom aspiring businesses can learn. There’s also a global framework for such activity - the United Nations’ Sustainable Development Goals - and ample evidence in localities across the world that engagement works in the interests of the companies, beneficiaries and nations.

The moral case

The moral case is that those who exercise power should do so responsibly, not simply to mitigate any negative impact of their activity on society or the environment but in a socially positive way. This collaborative spirit drove the formation of the United Nations, bringing together the world’s economic and political powers - 20 nations in 1939, over 50 by 1945 and 193 today. An early associate, from 1946, was the International Labor Organisation - whose mission to promote a human dimension to business practices dates from 1919.

That the UN is the principal voice of moral authority on a global scale is beyond question even if its impact may have underwhelmed on occasion. In 2000 it established 8 global Millennium Development Goals, based on ideas of community, fairness, dignity and basic rights, and surprising no one.

The MDGs set 15-year targets but their successor programme, the Sustainable Development Goals, are subtly different in that they challenge not just governments and communities but also businesses to ‘walk the walk’. By adding Goals on energy use, clean environments and the better management of (industrial) raw materials business has been irretrievably implicated in their implementation.

That moral charge on business, to accept some responsibility for achieving these UN goals, based on universal values, is supported by a stark statistic: 60 of the world’s 100 largest economies are no longer countries but businesses. How different is the 21st century from the mid-20th!

Whatever the countries of the world decide to do together, through UN conventions, COP21 or other agreements, they will not achieve their goals unless business is on board. Where once it was enough for business to co-exist with global society, not standing in its way, today the SDGs, the embodiment of decency, sustainability and fairness, absolutely rely on the active involvement of the corporate sector. This is a challenge that global company citizen pioneers like Unilever have taken up with relish.

People regard paying fair levels of tax as a moral duty and they do not understand why, on their modest incomes, they’re contributing more tax than some major multinationals which pay none, despite trading here. Nor do they accept that even top business leaders need to be paid so much more than the most accountable person in the country, the Prime Minister: shareholder revolts on top pay packages are becoming commonplace. For the first time in half a century business spending on dividends is growing at the expense of employee pay and people are naturally suspicious that companies who arbitrarily headquarter themselves offshore are ‘up to no good’. That the cost of a business’ ‘licence to operate’ is partly measured in moral terms has never been more true.

There’s an old saying ‘if you’re not with us, you’re against us’. As we explore the (small ‘p’) politics and the practicality of the case for greater business engagement with society, that case for engagement will be seen to apply as much in local communities - if not more - as on the global stage.

The political case

Britain is one of the world's most generous countries. Charitable giving, volunteering and corporate philanthropy are all at a high, if static, level. Over the last 60 years a growing and increasingly professional voluntary sector, in particular, has shared with government and public sector the responsibility for delivering services which meet people's basic and other needs. Recently a number of trends have challenged the dynamics of cross-sector relationships: 'outsourcing' of services has proved controversial; commissioning practices may have perverted charity missions and encouraged dependency on government funding; poor privatisation practice has allowed questionable profits to be made whilst reducing the accountability (and sometimes the quality) of such services.

On the other hand, there's no doubt that cross sector partnerships *can* increase the qualitative value of services and that business efficiency *can* make them more effective (and even cost effective). Although these positive virtues are not guaranteed, cross sector working is here to stay. Indeed, we have seen businesses and charities voluntarily come together to work collaboratively without the need for fine print in a government contract.

A decision to outsource to a 'for profit', or an inaccurately labelled 'not for profit', company is a question not of economics but of values. Southern Cross was a private equity-owned company which grew to be Britain's largest private provider of care home beds before its spectacular collapse in 2011, when it lost 98 per cent of its share value. The oft-quoted example is a case in point. How, it is asked, can a company whose mission is the maximisation of short term profit be trusted with the care of frail and vulnerable people? That is not to say that a 'for-profit' company with a different ethos and more nuanced values cannot be trusted with such a duty; is that really so different from a body with overtly social values which employs business tools to attain them?

This blurring of historic sector boundaries is permanent. So, it appears, are government austerity and its consequences, public spending cuts, the dependency of the third sector on government funds and the flatlining of charity income in the face of growing demand on their services. So are rising levels of inequality and the 'poverty premium', the phenomenon whereby elements of the cost of living are actually higher for the poor than for the rich. Official figures show more people in working poverty than ever before, despite legislation on low pay, and they're employed disproportionately in the private sector.

It's no surprise, therefore, that the poorest communities are often becoming, literally, more hopeless. Those least able to afford it have borne the brunt of spending cuts. This is a political reality in which it's not for business to take sides, as all politicians are committed to helping the country achieve stability in a sustainable way, according to their vision of what is fair and possible, following that global financial crash. Aren't they?

But neither can business stand idly by. The economic case for being involved in the relief of poverty is that poor people are poor consumers, a challenge central to the 'shared value' philosophy of Michael Porter. So too are sick people, and those who are isolated - geographically, digitally and socially. Those who lack dignity often lack capacity. Employees who are sick, stressed and unfulfilled are suboptimal performers - factors which will be influenced by the world outside the workplace. There's also a business case for engaging with the community, to which we will return, but the political case is summed up by the concept of the 'Company Citizen'.

A Company Citizen, like any other, cares for the welfare of fellow citizens; works with them to address common issues in the community; is generous with their time, skills and other resources. The Company Citizen is actively engaged, not in Party politics but in lobbying for what is right and helping mitigate what is wrong.

And yet in the most deprived areas there are fewer employers, even SMEs, compared to slightly more affluent areas. Ironically, research shows that those communities have fewer successful voluntary sector organisations too: they lack the social capital necessary to cope with poverty and social exclusion, withstand ongoing economic shock, even to organise at a basic level. Where business is absent, how can the Company Citizen help?

Community organisations are the key. Ask them what they most need and they will probably say money, but it's not true. They need skills: skills to plan their operations, to strategise, to lobby, to even provide for themselves through sharing. These are essentially business skills that can be given away by a company at no cost, in the course of an ongoing and committed relationship with a community. Get these skills right and whilst the money won't necessarily look after itself at least it will go further. Better still, skills transfer is a two way street and workers will become better employees, better people, through their involvement.

According to a 2016 report by Social Enterprise UK, one third of local authorities have chosen to implement the 2012 Social Value Act. This says that in commissioning the supply of services over a certain value a council *may* insist that bidders demonstrate positive values towards the community and the environment: reducing carbon footprint, increasing apprenticeship levels, encouraging employee volunteering and more. In Manchester and Birmingham the councils apply these values to <u>all</u> of their tendering for goods and services and can demonstrate benefits for the community as a result. In those cities a business that wants to trade with the council has to be a Company Citizen.

The business case

The business case for philanthropy *per se* is minimal. Philanthropy is too often regarded as donor-focused and paying little heed to the long term impact of the funded project. Many businesses give big sums from corporate coffers to charity as a matter of course, boast about it then forget it: currently £6 billion per year. This not insignificant sum is, of course, welcome but could be utilised better, as more sophisticated corporate donors are discovering. Philanthropy can undoubtedly enhance reputations but this falls apart when a company acts in ways which undermine the values associated with their philanthropic gestures. This is called 'greenwashing'.

Many community engagement activities are more sustainable than simply writing cheques:

- employer supported volunteering can transfer, boost and extend employee skills
- a business with value-led purposes better engages its employees
- a values-led, ethical and sustainable supply chain creates a broader community and enhances reputation
- employee-generated ideas can reduce carbon footprint and promote innovation and effectiveness.

An engaged employee is more productive and loyal than others; stays in post longer, reducing recruitment costs; and is a better informal ambassador. A company with CSR or ESG values integrated into its mainstream activity recruits a higher calibre of graduates, especially amongst millennials; and let's not forget the marketing benefits of the best charity partnerships, too, like Boots with Macmillan Cancer Care.

SME start-ups with a social primary purpose, so-called social enterprises, have a lower failure rate than others. On a global scale investments in 'ethical' or 'responsible' causes produce higher long term returns than do mainstream FTSE indices.

A conventional business case in a new environment.

Conclusion

In the 18th century Adam Smith argued that a business could only sell what someone would buy and in the 1930s Milton Friedman argued that making a profit was the primary purpose of business. Essentially, both are correct: without a return on investment any business will fail and a company trying to sell a product that no-one wants is also doomed. But these are inward-looking values which don't completely reflect today's complex business world which, while not perfect, is in a state of flux.

That's because over recent generations an appreciation has emerged of the external responsibilities that business has to all of its stakeholders - employees, customers, suppliers - and not just to its owners. Citizens accept that paying tax is both a moral obligation we all have to help those worse off than ourselves and the price tag of that 'licence to operate', so tax avoidance and evasion are increasingly frowned upon. Clearly not all companies agree; but contributing fairly through taxation is surely a hallmark of citizenship.

Most companies accept the stakeholder argument and would not dream of bending regulations to suit their own gains or, even worse, risk being discovered doing so - but the 'external duty' of company citizenship is not yet universally adopted.

Still fewer are the companies that adopt a philosophically global approach to citizenship. One of the two responsibilities enshrined in this duty is from history: it's to the future. In the era of family-owned firms companies were driven by the desire to hand a thriving business over to the owner's children. That generational perspective has been lost and short term thinking has come to dominate business practice: witness the shrinking time spans of share ownership and CEO tenure, the growth of impatient venture capital, the use of quarterly reporting and aspects of the bonus culture.

Let's return to the positions of business and charity relative to each other. Britain has 5 million companies, 99% of which employ fewer than 250 workers and 3 million employ no one at all (witness the veritable army of self employed). The average company has an annual turnover of £500,000 whilst the biggest are mind-bogglingly large: a single supermarket superstore can turn over a million pounds each day, the same as the charity, Oxfam.

Of 180,000 registered charities in Britain only 14 have a bigger turnover than Oxfam. 80% turn over less than £100,000 per year and half have an income of under £10,000. So big are the biggest charities that charities' combined turnover is £70Bn and average income is £400,000.

The American company Salesforce employs an 'integrated philanthropy' model, giving to charities roughly 1% of their turnover and time. If every company did the same this could generate £25Bn of value in Britain for charities (some of which is, of course, already available).

If we assume that each charity is not 1% but 75% effective, interpreting 75% of turnover as social impact - which may be generous - we find that they create £53Bn-worth of impact. In other words, 100% of charity effort at 75% efficiency delivers only *twice* the social impact that 1% of business effort could, if it was pointed in their direction.

Salesforce targets charities which are supported by either the company or its employees, to create new capacity. Now, if all of that 1% of business turnover, across Britain, representing the creativity, impact and passion of businesses were focused on increasing the impact, efficiency and effectiveness of charities and the good that they can do…

Our poorest communities are in crisis. They feel ignored, excluded, exploited. They lack the social capital that a vibrant voluntary sector creates - which is why the otherwise worthy concept of David Cameron's Big Society was always doomed to fail where it really mattered. Business can make the difference, partnering with others in the voluntary and public sectors, but only if it adopts the garb and practices of Company Citizenship. In doing so they will find they become better places to work, better at what they do - and better citizens.

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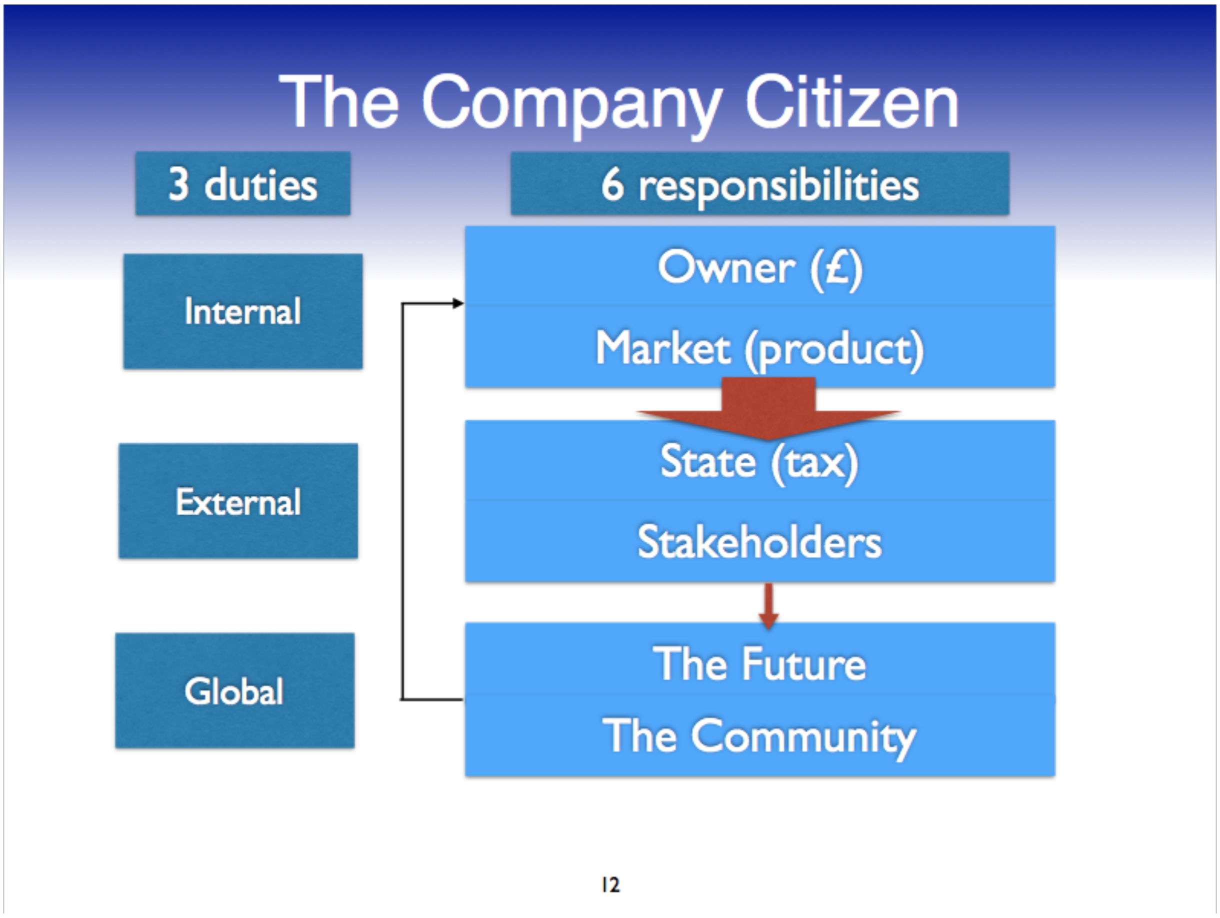
The Company Citizen
3 duties
6 responsibilities
Internal
External
Global
Owner (£)
Market (product)
State (tax)
Stakeholders
The Future
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