

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.

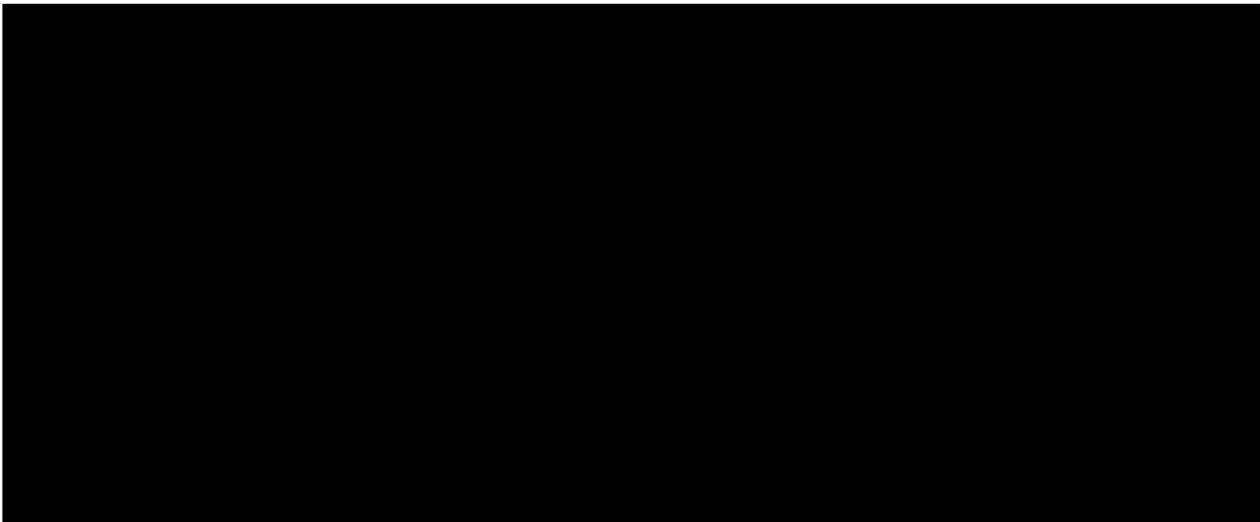
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

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.

As a law firm we advise a number of different mission-led businesses, and BWB itself is also a mission-led business. This perspective principally informs our response to this Call for Evidence. In our capacity as advisers, we advise across a range of different legal forms, including community interest companies and other forms and we have seen a development over the last 5-10 years of an increase and acceleration of social entrepreneurs seeking to use the company limited by shares legal form instead of other social sector regulated legal forms. Most of the companies we advise are private limited companies and not listed companies. We helped to establish the Social Stock Exchange, with whom we have a close relationship as a result of Stephen Lloyd's former position on the Board, Luke Fletcher's role as Company Secretary and Viral Kataria's role as Secretary of the Admissions Panel. Therefore, we have been involved in developing the criteria for listed businesses to demonstrate commitment to social impact for a number of years.

In terms of geographic focus, as a London based law firm, our experience is predominantly of businesses with some connection to London.

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

We have found certifying as a B Corp to be an excellent way of:

- engaging employees (in all interviews, prospective employees mention B Corps);
- focusing minds of business leaders;
- differentiating from our competitors;
- creating cultural cohesion and a clear identity;
- cementing in people's minds why they work at BWB and what BWB is set out to achieve.

We have found that becoming a B Corp has been warmly welcomed by our clients.

It has also enabled us to have a number of different public conversations that we would otherwise not have been able to have. For example, at our Away Day all employees discussed ideas to increase our social impact. It is difficult to see how these conversations would have been initiated otherwise.

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

Data could be collected through the Annual Return Process at Companies House. The Annual Return could include a question of "Do you have a constitutional commitment to have a material positive impact on society and environment?" or "do you have purposes other than benefiting your members?" (or comparable question). If the answer is yes, please describe where this commitment is included and what form it takes. In addition, the CC04 form could include a similar tick box question.

Thought would need to be given as to the precise question to be included in the Annual Return/Form CCO4 but the concept could be along these lines.

This would create a relatively comprehensive data set which could then be investigated and analysed. In the event that a Benefit Company form is created (see further details at our answer to Questions 7 and 16), this would have the added benefit of creating a relatively uniform data set.

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

The main reasons why a business should set up or become mission-led should be to better reflect the actual aims of the business and to create a clearer lens through which board of directors are able to make clearer decisions and to align different stakeholders.

An express purpose puts beyond doubt that the business intends to create impact. It doesn't, of itself, impede the ability of the business to raise capital and increases the ability of the business to raise appropriate, impact aligned, capital.

A company limited by shares with a mission related commitment is not subject to external regulation or the restrictions or uncertainties that this involves.

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

Over the next decade, we expect that there will be an enormous amount of activity, which will become more formal, and result in more variety across the legal landscape, including more large corporates adopting a mission-led approach.

We expect to see innovation in the range of legal forms and status available both in the UK and worldwide. Consumers are increasingly likely to expect businesses not only to deliver profit for shareholders but also to do so in a highly responsible and sustainable way. We also expect to see a continual increase in impact investing.

As advisors, we are increasingly advising entrepreneurs on how to articulate and embed a social mission.

It tends to be easier for start-ups to embed mission because the mission is likely to be highly linked to founder motivations. It appears to get more difficult for businesses to articulate and embed a mission as it grows and more stakeholders are involved.

We see this movement as something which has potential to result in a paradigm shift across industries and sectors although obviously these businesses with the most negative externalities will find it more difficult to adopt a mission-led approach than those with fewer negative externalities.

Whilst it is important that there are clear starting points for entrepreneurs, it is important that we do not proceed with a "one size fits all" approach and risk over-simplifying the issues.

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	BATES WELLS BRAITHWAITE ("BWB")
Contact details for business	0207 551 7777
Brief description of business (please keep under 5 lines)	BWB is a full service London City law firm and professional services consultancy, combining a legal practice with impact, advisory and compliance advisory services widely recognised as the leading charity and social enterprise law
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	We are proud to be the first UK law firm to achieve B Corp certification. We certified as a B Corp in August 2015 because we felt that the certification reflected and articulated our values and ethos and provides a clear way for us to evidence our commitment to doing business in the best possible way for our people, community and environment.
Stage of business development (i.e. start-up, growing, mature, repurposed)	Growing/mature, we have over 200 staff and 33 partners.
Industry sector	Legal, Impact and Advisory and Compliance Adv
Geographic focus	Predominantly within UK but we partner with Parl
Evidence of financial growth	[Peter Bennett - Please could you add a line or two about this?]
Evidence of social impact	[Peter Bennett - Please could you add a line or two about this? It may be that since certifying as a B Corp we don't yet have enough data on this.]
Any other details (e.g. legal form)	BWB is an alternative business structure and a limited liability partnership. The LLP Deed has been amended to include the B Corp legal requirements (ie amongst other requirements, a purpose to have a material positive impact on

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?

The most important step to get right is the statement of purpose. The purpose clarifies the relationship between the interests of shareholders and the interests of other stakeholders.

The second most important aspect is clarifying the implications of purpose for directors (their duties). It should be clear that the shareholders support the purpose of the company and in some cases, entrepreneurs may consider that it may be appropriate to take some further action to lock in the mission beyond the requirements that typically apply to changing the objects/purpose set out in the articles of association (75% shareholders' consent). Ideally entrepreneurs are given the opportunity to take steps relatively earlier in the growth cycle. There is a general paucity of practical guidance and tools which are publicly available and excessive reliance on legal advice.

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

It is imperative that government looks at the process by which companies are incorporated and the options available to ensure as many businesses as possible are given the opportunity to become mission-led.

This is likely to involve the creation of model articles of association for entrepreneurs and, on this note we would recommend the creation of a Benefit Company status in law (in support of the submission by B Lab (UK)) as this is likely to be a highly effective starting point for entrepreneurs, and will still permit flexibility for entrepreneurs to specify specific purposes and if they choose, lock in mission. This should not be seen as a "one size fits all" approach. It would be interesting to see what recommendations the Behavioural Insights Unit might have with respect to ways in which entrepreneurs and established business could be nudged into adopting a mission-led approach.

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?

Typically mission drift either happens when a business has a change of ownership or leadership. This is widely documented and should be part of the general succession planning process for a mission-led business.

It has been noted that businesses tend towards "isomorphism" (a tendency to adopt legal forms, structures and practices similar to their peers and competitors) and so there can be a drift away from being mission-led to being more conventional if the shareholder primacy model is seen as a way in which competitors operate and this influences behaviours at different levels of the business.

Question 9: Have you identified barriers to new entrepreneurs or established businesses who want to easily convert their intent to make social impact into a long-term or binding commitment?

If yes, please provide details of these barriers, in particular identifying those that may be caused by regulation.

The main barriers are:

- a lack of knowledge;
- a lack of awareness;
- a lack of advisors familiar with advising on these issues;
- a lack of examples and role models; and
- a lack of information on the ways a business can adopt a mission-led approach.

The total absence at Companies House, and amongst most start-up accelerators, of this dimension of business activity is also a huge barrier to take up.

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?

For large corporates, the issue is having a highly distributed shareholder base because the majority of the shareholders are likely to expect businesses to be run primarily in their interests.

Where highly fragmented, short-term held shareholdings exist, it is hard to discern the aims of shareholders.

There is a lack of examples and uncertainty as to what a change to adopt a mission-led approach means in practice. There is a lack of data about what in practice this will mean for shareholder returns over the long term. It is likely to be easier for large corporates to identify parts of a business which are likely, by dint of consumer expectations and by virtue of nature of products being sold, to be expected to adopt a mission-led approach.

It is difficult for a conglomerate with multiple goods and services and operating across multiple jurisdictions and legal systems to adopt a single mission.

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.

It is likely to be easier for a mission-led business to emphasise the importance and significance of culture and values than a traditional business which is compelled to evidence how it is serving its shareholders.

The aspiration of these businesses may not be that different, but a key benefit of being mission-led is that directors have duties to protect certain values and stakeholder interests which may not sit easily or neatly with businesses focused on short-term shareholder interests.

In a sense there is an increased reputational risk for mission-led businesses in that what is normal behaviour for an ordinary business may be seen as sub-standard for a mission-led business.

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

Mission-led businesses face a branding/marketing challenge in making their approach clear to the public. One way of overcoming this challenge is by submitting to external certifications or frameworks which are branded and have some consumer recognition.

There is also a challenge in communicating to those customers and clients who may not place value on the values of a business or may not understand the social impact that it is having.

In many cases, it is probably not possible for customers to differentiate between good marketing and genuine mission-led businesses. There is a consumer protection angle in making sure claims are valid and substantiated and this has implications for advertising standards.

We have found as a business that we can attract the best candidates in the market and pay them less than our competitors because we are a business that is not focused solely on profit. We are confident that we would find it more difficult to attract that level of candidate if our business was not impact orientated.

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?

Blueprint for Better Business perhaps focuses more on internal stakeholders and tries to work within existing available legal structures. It offers a tailored and contextual approach but it doesn't solve structural problems where there are stakeholders with different interests.

B Corps is a more systematized product which requires a change to constitutional documents and an established multi-stakeholder impact assessment methodology, which should lead to a high degree of mission alignment between shareholders and other stakeholders. The B Corp model is a branded product which allows external customers to see that a business is a B Corp and mission-led, whereas Blueprint for Better Business is less externally facing or branded.

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

Social impact should be measured by a recognised standard for defining, reporting and accessing social impact that is:

- (a) comprehensive because it assesses the effects of the business on wider stakeholders' interests;
- (b) developed by an entity that is independent of the mission-led business and by an entity that has necessary expertise to assess overall social and environmental performance; and
- (c) transparent because the criteria and weightings and the process for making revisions to the standard is all publicly available information.

Social impact measurement should be proportionate to the size of the business.

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.

At the moment, law and regulation does not allow investment advisors to enquire about clients' social impact goals. If they were obliged to do so, this would be likely to lead to different investment allocation over time.

The main barriers are:

- a lack of knowledge;
- a lack of awareness;
- a lack of advisors familiar with advising on these issues;
- a lack of examples and role models;
- a lack of information on the ways a business can adopt a mission-led approach.

The total absence at Companies House, and amongst many accelerators, of this dimension of business activity is also a huge barrier to take up.

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?

The biggest contribution government could make to achieving a paradigm shift in the nature of the take up and growth of mission-led businesses would be creation of a new Benefit Company status. This is likely to lead to thousands more mission-led businesses being formed. It would change the nature of advisory services, as professional advisers would need to know about and understand this option. It would mean entrepreneurs would at least question why they are not adopting this model.

Creation of a new Benefit Company status would involve a relatively easy, low cost amendment to s172 of the Companies Act 2006. It would clarify the existing law and create a simple solution for a company wanting to pursue and commit to a social purpose. It would not necessitate additional regulation or regulatory costs. It is also an optional legal status so no one would be required to adopt this status but it provides an easy route in for those looking to do so. It would also create a much broader awareness of the Benefit Company and mission led business within the business world and avoid the time and costs of creating a benefit company from a company limited by shares model. Importantly, it is likely to create a positive legacy for the current Government.

Given that we live in a time of austerity, we would not advocate tax incentive at this time.

Government should support the creation of practical guidance, tools and advice, which could be created by industry leaders. This could include tools that make it easy for businesses to take steps

Thank you for your response.