

## **Social Enterprise UK – Response to Mission-Led Business Review: Call for Evidence**

### **PART 1: PROFILE, DRIVERS AND POTENTIAL OF MISSION-LED BUSINESSES**

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

Social Enterprise UK (SEUK) was established in 2002 as the national body for social enterprise in the UK. A social enterprise is a business that trades for a social or environmental purpose and reinvests its profits in that mission. Social enterprises are businesses driven by social or environmental objectives, whose surpluses are reinvested for that purpose in the business or in the community. They operate across a wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade and at all scales, from small businesses to large international companies. They take a range of organisational forms from co-operatives and mutuals, to employee owned structures, Community Interest Companies, and charitable models. SEUK's members come from across the social enterprise movement, from local grassroots organisations to multi-million pound businesses that operate across the UK.

SEUK is a membership organisation. We conduct research; develop policy; campaign; build networks; support individual social enterprises; share knowledge and understanding; support private business to become more socially enterprising; and raise awareness of social enterprise and what it can achieve.

But we are committed not only to our social enterprise members and the social enterprise movement more widely but also to helping all businesses take on greater social responsibility. We work with businesses of all kinds to help them develop more socially and environmentally responsible supply chains and we believe firmly that we need all businesses to step up to deliver the Sustainable Development Goals. SEUK founded the Social Economy Alliance with partners whose interest goes beyond social enterprise and we campaign together for a wider economy run with greater regard to social and environmental impact. In developing this response to the Call for Evidence, we have shared our experience and expertise and learned from partners at Locality, the School for Social Entrepreneurs, UnLtd, NCVO, Charity Finance Group, Baxendale and others.

So at Social Enterprise UK, we fully endorse the Minister for Civil Society's ambition that every business could be a mission-led business. We believe that strengthening the social responsibility of mainstream businesses must be a critical ambition for all of us. Creating the necessary conditions for mission-led businesses to grow, and encouraging public listed companies to repurpose to become mission-led is an exciting prospect and one which we wholeheartedly support.

So we welcome the Government's approach in undertaking a robust, considered review to better understand this agenda and to properly consider the evidence. That Government is asking serious questions about the social purpose of business is to be welcomed and applauded.

However, with regard to question 1, we are not aware of any data source which gives clear evidence of the number and profile of mission-led businesses in the UK. We believe the Government's creation of this new term and its expectation that this term corresponds to a discrete group of businesses in the UK is mistaken and founded on a misunderstanding.

For instance, the Government argues that that “Mission-led businesses are mostly a new phenomenon” and the Minister for Civil Society describes how “Across the country there is a new breed of brilliant entrepreneurs who want to make a profit with their business, but also apply their enterprise and flair to make social impact a core purpose of their business endeavour”. We don’t agree. The idea of mission-led business is not really so new. From 1800, Robert Owen developed the social and welfare programmes at New Lanark mill. In 1844 the Rochdale Pioneers set up shop with community benefit at its heart. In 1879, George Cadbury built Bournville with the aim of advancing not only the prosperity of the business but also the conditions and social benefits for its workforce. In the 1910s, Henry Ford said that “A business that makes nothing but money is a poor business.” The list goes on.

Across the UK are thousands of sole traders, SMEs, family-led businesses, employee-owned businesses, co-operatives, social enterprises and private businesses which may or may not distribute profits, which identify an intention to have a positive social impact as a central purpose of their business; and make a long-term or binding commitment to deliver on that intention; and report on this impact to their stakeholders.

For instance, there are around 7,000 co-operatives in the UK, with a combined turnover of £34.1 billion, millions of SMEs, and over one in two businesses are family owned. Worker co-operatives and consumer co-operatives are fully profit distributing entities without legal or regulatory restrictions on the extent of profit distribution, while equitable sharing of profits among members is core to their mission. Thousands of employee owned businesses across the UK also share a commitment to a more equitable wealth-distribution model and long-term, more democratic stewardship.

This is the backbone of our economy. Many of these businesses will share the characteristics of mission-led business set out in the Call for Evidence.

Yet these businesses all occupy various positions on a spectrum of financial and mission-led. They seek, every day through their work to balance these imperatives. Often, this commitment rests with the resolve – or the whim – of one or two owners. SEUK believes that while it is possible to identify social enterprises through their ownership, governance and limits on profit distribution or co-operatives for their adherence to the longstanding international co-operative principles, identifying mission-led businesses is practically impossible.

Binding commitments and rules around profit distribution allow observers or policymakers to group a cohort of businesses together for policy purposes – those who are disallowed from paying out profits at all, for instance. Similarly, it is possible, although sometimes difficult, to distinguish those businesses with a primary social purpose, where social mission is locked in and identified as of primary significance. But to identify those which have “a positive social impact as a central purpose” is practically impossible. Any definition of “mission-led businesses” along these lines will be nigh impossible to draw.

How can the Government establish the balance between financial and social inside the mind of the sole shareholder of Ecotricity? How can the Government establish how central the social purpose of the Westmorland family is to their motorway service station business? Would Tesco not identify an intention to feed and clothe people in the UK as a central purpose of their business?



UnLtd describe how the personal convictions and social conscience of entrepreneurs have a big part to play. Research into the motivations of 2,500 entrepreneurs across 13 countries in 2011 and 2012 suggests that the majority are driven by a mixture of financial and non-financial motivations. While the most significant of these non-financial motivations are still self-seeking, there was a clear blend into broader social and economic values and motivations. For a sizable minority, these broader social motivations are especially significant.

SEUK recognise this spectrum of business motivations and welcomes the increasing social commitment of many business owners. But there is little to be gained by seeking to create from the top down a new and artificial range along this spectrum, which will prove practically unworkable. This makes addressing the number, scope and profile of these organisations impossible.

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

The good news is that environmentally and socially responsible business behaviour can be great for business in the long-term. Evidence shows that more sustainable firms outstrip traditional firms in terms of both stock market and accounting performance. An MIT poll of more than 3,000 corporate leaders reported that sustainability adds to companies' profitability, especially those who take it seriously in their structures, operations and business models. A more responsible approach can deliver reputational benefits, greater customer loyalty, brand recognition, more effective staff retention and recruitment, and lower costs.

Of course, the truth is that sometimes the social commitment can be an advantage and sometimes a disadvantage commercially. Community-owned shops harness the loyalty of their owner-shareholders while business which employ staff with particular challenges may need more support. There are of course advantages and disadvantages in the short and long term.

But with regard to social enterprises in particular, the data suggests that overall, these enterprises appear to be outperforming other business, on average. Co-operatives and social enterprises are growing faster than 'conventional' business. In the UK, the co-operative sector grew by more than 25% between 2008 and 2011, social enterprises are outstripping SMEs for growth, business confidence and innovation and a range of evidence suggests that both social enterprises and co-operatives appear to be more resilient in tough economic circumstances.

Other research concludes that a social 'mission lock' is correlated with high growth, more successful capital raising, and higher net income. But there is a lack of evidence on the extent of the trade-offs between commercial and social imperatives and the added commercial value that social mission can bring. We need more robust evidence

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

The best place for policymakers to start is with the Small Business Survey (SBS). Inconsistent approaches and varied interpretations from this survey over the past decade have compromised the credibility of the data relating to social enterprises. Successive governments have suggested that the number of social enterprises has grown from around 12,000 to 50,000 to 70,000 to around 200,000 and now 741,000 in the 2014 market trends report.

This is frankly not credible, at a time when the rest of the world is looking to learn from our methodologies – SEUK is currently undertaking a project with the British Council to estimate the number and nature of social enterprises in India, Pakistan, Bangladesh, Ghana, Ethiopia, Kenya and the Philippines, learning from the UK methodology.

There is no great need to start new research. Refining the approach to understanding and reporting social enterprise and social purpose in the SBS is key and would be the most cost-effective and credible for the Government. We can draw on and improve the evidence base that already exists.

The SBS can also be particularly useful in identifying issues which are specific to a sub-set of businesses. Access to finance may be an issue for all small businesses, but is it a problem for a specific subset, for instance?

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

As per our response to answer one, we are unable to answer this question on the basis that the term mission-led business is problematic, as currently defined. Nevertheless, it is clear that more evidence is required.

It is valuable to have a variety of organisational structures available for entrepreneurs, with the flexibility to select the most appropriate form(s) for their particular context. It is important to recognise that even when specific legal structures are introduced for social entrepreneurs, there will still be valid reasons for some social entrepreneurs to choose other structures. Although this leads to a complicated environment from a data collection and policy point of view, this flexibility is important for the development of a vibrant social economy. We, and partners such as UnLtd, believe that this review can be useful – if BIS embrace this agenda - in prompting Government to improve the full range of organisational structures that are used by all entrepreneurs.

It is important to note that, for instance, a CLS may be chosen over regulated social sector forms, particularly the Community Interest Company (CIC), as a result of perceptions rather than the intrinsic nature of the CIC. Across the economy, and specifically in many of the market sectors in which social entrepreneurs operate, the CIC is relatively unknown, or misunderstood. Many advisers - lawyers included - are not familiar with the CIC, and do not feel able to recommend it to their clients. Despite the reforms to the CIC CLS in the last two years, there remains a perception among some entrepreneurs, investors and other stakeholders that it is not appropriate for social ventures who wish to take on substantial investment capital or for 'serious' businesses. The asset lock is commonly misunderstood. Awareness of changes to the rules on par value is limited. The dividend cap is sometimes misunderstood. The CIC Regulator does not have enough resources to address any of these issues.

Whatever else is recommended as a result of this Review, we suggest that Government and the CIC Regulator pay serious attention to addressing these perceptions, in order to improve understanding and better use of the CIC, where appropriate.



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

We don't know. It is a very uncertain time in the UK and perhaps harder to predict the future than ever.

We are concerned, however, that there is a risk that a Government-backed "mission-led business" agenda is perceived as a threat to or criticism of regulated social sector organisational forms, rather than as an alternative within a plural economy, which seeks to encourage more businesses to commit to a positive social impact. So we think the recommendations of this Review should include measures that mitigate this risk. For example, the Review should recognise the importance of improving understanding and increasing take up of the CIC, and avoid any implication that mission-led businesses are inherently more desirable than other organisational forms. The Review should also state clearly that its intention is not to divert existing social investment capital away from regulated social sector organisations to a new set of businesses which although mission-led, would not currently be eligible for it (see below).

**PART 2: CHALLENGES FACED BY MISSION-LED BUSINESSES**

**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?**

Other respondents to this Review may have more experience than SEUK when it comes to amendments to articles, using golden shares, etc.

At SEUK, we have significant experience of the CIC model and many CIC members. There are now over 11,000 CICs in the UK. We believe that the CIC model may be more suitable for entrepreneurs wishing to make a commitment to deliver on their intention to have a positive social impact than many realise, including even the Government. Since the CIC rules around the dividend cap and the par value of shares have been changed, the CIC is much more attractive to some entrepreneurs and investors than it was previously. But this is not yet widely understood. The Review should consider the possibilities which the CIC limited by shares, in particular, offers, and consider how well this is understood more widely. The G8 Social Impact Investment Taskforce recommended that governments provide appropriate legal forms or provisions for entrepreneurs and investors who wish to secure social mission into the future. The CIC does this already.

It is worth emphasising that, as the G8 Impact Investment Taskforce pointed out, intent is only one part of the picture. Duties for directors and reporting are also critical. We encourage this Review to consider the connections between these three elements. In practice, being able to commit a business to a social purpose or impact will be meaningless unless doing so creates obligations for its directors and governance, and unless there is a mechanism to measure and report on its work.

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

Communication by policymaker matters. We are fortunate in the UK that the national Government, several government departments, the national membership body for social enterprise and the



European institutions share a more or less common definition of social enterprise, sharing the following characteristics:

- aiming to generate their income through trade - by selling goods and services, rather than through grants and donations
- reinvesting the majority of the profits they make in their social mission
- having a defined social and/or environmental mission
- being independent of the state

Each characteristic on its own is not enough to define social enterprise but together, they help define a movement of businesses trading for a social purpose.

Of course not everyone agrees, definitions vary across the world and some argue that social enterprise is a verb rather than a noun, placing less emphasis on ownership and where profits go.

But for over ten years now, there has been some consensus on the meaning of the term social enterprise amongst policymakers, representative bodies and government institutions. Most importantly, however, thousands of social enterprises across the country and many more across the world maintain a deep attachment to these principles and are proud to define themselves as social enterprise on these terms.

In this context, we are concerned about the risk of significant confusion undermining the usefulness of this review. The Cabinet Office is defining “mission-led business” in a way which excludes those businesses which place some limits in profit distribution. This excludes social enterprises as commonly understood. This will only serve to confuse the general public. Logically, to the general public a social enterprise is of course a mission-led business – an enterprise which is social is a business which is led by its mission. Defining “mission-led businesses” to not include many mission-led businesses is surely a mistake. While there are other problems with the term, this is why the term “profit with purpose” was adopted by some in order to clarify the distinction between social enterprises who reinvest profits and those which don’t. “Mission-led business” does not even seek to make this distinction. It is not clear why the explicit exclusion of charities and social and community enterprises from the definition of ‘mission-led businesses’ is helpful to anyone.

Furthermore, we think this confusion risks undermining the credibility of the Review. The imposition of a new term “mission-led business” from the top-down may alienate observers and compromise the successful reception of the Review. We learned from the Government’s adoption of the term ‘mutual’ to refer to public sector workers spinning out to create new business with a significant degree of employee control - ignoring the longer history of the term ‘mutual’ – and how this has led to confusion and a loss of credibility around the Government’s mutuals programme among some experts and observers.

**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?**

SEUK is concerned that without due care and attention and taking steps to mitigate risks, this whole critically important agenda may be perceived to be purpose-washing private business. There is a risk that unless the Government reads carefully, the current interest in purposeful business across the



UK and beyond may lead to abuse and discrediting of the concept of business with a social purpose, social enterprise and social investment.

**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.**

We have evidence of the converse – that new entrepreneurs or established businesses can easily convert to the CIC form but are not aware of this option; the flexibilities offered by the CIC model; and its characteristics, especially the CIC limited by shares.

**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?**

Executives and directors in public companies may feel unable to commit fully to mission, or may disagree with such approaches altogether. Corporate culture may at times pay lip service to mission. Public companies with disparate and disinterested shareholders and complex governance may also lack a clear agent able to make a decision as fundamental as becoming mission-led.

**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.**

Further evidence is required.

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

Further evidence is required. Social Enterprise UK has been delighted to work with the Cabinet Office on our Buy Social campaign and together we have developed a clearer understanding of steps which can be taken to raise customer awareness of the social impact of their spending power.

**Q13. What do you think is the role of certification systems (e.g. B Corps) or of frameworks (e.g. Blueprint for Better Business) in helping mission-led businesses engage with external stakeholders?**

Further evidence is required. It is very early days for B Corps in the UK and there are other frameworks also available, including the Economy for the Common Good, popular in other countries across Europe.

**Q14. What are best practice examples of social impact measurement and how are they being applied by mission-led businesses?**

All businesses can think more carefully about the social impact they have. Any form of business can have a positive social impact, whatever their ownership structure and whatever their primary

purpose. SEUK does not support one particular methodology in social impact measurement. We do support the development of consistent principles in the field.

Effective and efficient markets rely on high quality information. This means ‘whole value’ accounting, not just more open data and information but businesses taking responsibility to provide comparable and auditable reporting. Accounting for value is an idea that is gaining traction and is being embraced by mainstream businesses, attracted by the idea of delivering greater social benefits through their core business and supporting a more social economy. Almost two-thirds of voters have called for businesses to explain how they make and spend their money to the public.

Social Enterprise UK believe that all businesses could think not only about positive impact but also negative and net impact. There are significant difficulties with quantifying social impact and social enterprises and others who are considering their impact need to go beyond a narrow definition of one ‘positive social impact.’ Whilst organisations might have a self-stated intention to deliver a social impact, this does not mean that the net impact of their organisational activities achieves a social impact. A range of other factors, including the impact which their activities have, for example, on the environment, and the communities within which they operate, need to be taken into account.

For example, how profits are distributed can be a significant factor in the social impact of a business and its ability to deliver on its mission. We believe that, in an economy increasingly characterised by the polarisation of wealth, we cannot ignore the distribution of profits from enterprise and wealth creation, whatever the direct social impact of a business. Even a business which creates a revolutionary new health or environmental technology, for instance, may distribute profits in a way which leads to greater inequality. So a business may save lives or even save the planet while also making it a more unequal place, if the greatest part of the surplus created through its activity is flowing to High Net Worth private investors. We are not arguing against financial return accruing to wealthy investors but arguing that - with inequality one the most significant threats facing the planet - those who are led by their missions must also think about how the profits they generate are used to support or reduce economic inequality.

Government can help in this field. The Treasury, for instance, the National Audit Office and Office for National Statistics could do more to put greater emphasis on accounting for social value, supporting the development of tools and so on.

**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.**

Further evidence is required.

This questions specifically asks about investment. The Minister for the Civil Society has also made a direct and explicit link between the Government’s interest in so-called Mission-led Businesses and social investment.

SEUK is concerned that there is a risk here for the Cabinet Office that the Review is undermined as it appears to be driven by the Government’s social investment agenda. It appears that the Government’s interest in “mission-led businesses” is driven by the challenge in developing a vibrant social investment market. SEUK is concerned that the Government is intending to broaden what is understood by social investment to include investment in “mission-led businesses” beyond social sector organisations.

Whilst we must acknowledge that social investment is a market with currently too few takers, there are alternatives, such as improving the product, building the capacity of start-ups to increase demand from investment-ready social enterprises and supporting the development of revenue markets in which social enterprises trade.

We desperately need more socially and environmentally responsible businesses in order to ensure equitable and sustainable life on earth, not because Ministers, a team in the Cabinet Office or Big Society Capital are finding it more difficult than they envisaged to support access to finance for the social sector.

There is also no demand for this widening of the field. As B Lab UK have said, as these mission-led businesses have no limits on profit distribution, there is no evidence that they have particular problems accessing capital markets. It is therefore “neither necessary nor helpful for social investment that has been earmarked for the social sector organisations to be diverted towards the mission led, for-profit businesses.” UnLtd – another organisation which like B Lab UK have an interest in businesses beyond SEUK’s membership - make the same point, suggesting “There is also a risk that the development of mission-led business (as defined by the Review) is perceived as a threat to or criticism of regulated social sector organisational forms, rather than as an alternative within a plural economy, which seeks to encourage more businesses to commit to a positive social impact. The recommendations of this Review should include measures that mitigate this risk. For example, the Review should recognise the importance of improving understanding and increasing take up of the CIC, and avoid any implication that mission-led businesses are inherently more desirable than other organisational forms. The Review should also state clearly that its intention is not to divert existing social investment capital away from regulated social sector organisations to a different set of businesses which although mission-led, would not currently be eligible for it.” SEUK agrees.

Part of this concern is related to leadership being taken by the Cabinet Office. If the Department of Business was leading this review, or indeed was even involved at all, this would be a more positive indication of the Government’s commitment to enabling business to be more social. The Office for Civil Society has held responsibility in recent years for directing hundreds of millions of pounds, through their spending review settlement, via the Big Lottery, Big Society Capital and more to civil society organisations. The Government and panel members’ should be aware of the fierce resistance from representatives of the social sector, the media and the public at large if this review is seen to pave the way for directing these resources away from charities and towards privately owned businesses. There is significant reputational and thus policy risk, in the potential that stakeholders may suspect that money earmarked in the Spending Review for charities, that Lottery money to be directed for good causes, and unclaimed assets seen as the people’s money may be directed towards privately owned businesses without a primary social purpose. This would also dilute the general public’s growing confidence in the real development of social investment propositions.

In this context, we would argue for greater shared resource across Cabinet Office and the Department for Business and joint ministerial responsibility. Perversely, one significant barrier to the growth of mission-led business is the reticence of more well-known politicians and the Department for Business to support this agenda. Indeed, they often actively suggest they are not interested at all:

- The Department for Business has made it very clear to SEUK on previous occasions that it is not interested in working to support enterprises to be more social, absolving itself of any formal responsibility for this agenda as a result of the existence of the Office for Civil Society.



- The Chancellor George Osborne said in a recent Autumn Statement that “If we burden [British businesses] with endless social and environmental goals – however worthy in their own right – then not only will we not achieve those goals, but the businesses will fail, jobs will be lost, and our country will be poorer.”
- This is not party political. Ed Miliband, similarly, as Leader of the Labour Party and Chuka Umanna as Shadow Business Secretary were reluctant to promote the potential social and environmental role of business for risk of being seen as anti-business.

Meanwhile the World Bank, the Sustainable Development Goals, the Pope and countless other governments and international institutions emphasise the need for business to be more socially and environmentally sustainable. While the Cabinet Office has been keen to further the cause of social investment, mainstream UK politicians and other critical departments are decades behind the rest of the world in recognising the need and potential of business to deliver a sustainable future for us all.

**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?**

Further evidence is required. Without this evidence, there is no compelling case for any new policy changes, such as legal structures or regulatory intervention aimed specifically at so-called Mission-led Business.

As a first step, the Government could review the regulatory, tax and spending programmes it has taken to overcome barriers and support the growth of various other kinds of business, including charities, social enterprises, ‘mutuals’, co-operatives and employee-owned businesses. The Cabinet Office and the Department for Business, with the support of the Treasury should review these policies and evaluate the extent to which they have supported these enterprises and how they might be improved. If this Review prompts a revisiting, learning and renewing of these policies, then so much the better.

Beyond these particular forms, the Government could look at how to encourage all businesses to act with greater social and environmental responsibility. The Department for Business and the Treasury should realise their power to support and incentivise the creation of environmental and social value alongside financial value.

Our economy is driven by business. While we need government to protect us and charities, citizens and communities to help us, it is most often business that feeds us, clothes us, delivers heat and light, creates jobs, pays wages, pays taxes and keeps the wheels of the economy turning. The relationship between business and society is interdependent. But businesses have come under fire for their employment practices, rewarding failure, their supply chains, their impact on communities and some even for tax avoidance - free-riding on public investment and infrastructure. Short-termism is rife with business leaders and shareholders incentivised to think only in terms of months, weeks or even days. The environmental side-effects of economic activity have never been greater. Over three-quarters of voters say that most large companies won't be open and honest about their behaviour unless they are forced.

Meanwhile, the scale of Government subsidies to keep the private sector ticking over cost the taxpayer tens of billions of pounds. The energy industry needs £5 billion per year to tick over, rail £6 billion and farming £3 billion. Regional subsidies are worth over £3 billion and subsidies for



employing young people another billion, with billions more for going green, billions to support access to finance and more again from the European Union, at least for now. This subsidy too often comes without conditions requiring wider support for society or protection for the environment.

We believe public trust in business can be rebuilt. This is an opportunity for business to reclaim its place as the key driver of a successful society and a positive force. To do this, we need to recognise that businesses are simply groups of people. Many big businesses have become dominated by the short-term and narrow interests of small groups of people – the investors. And many of these have little or no personal connection with, or understanding of the businesses in which they invest. We can rebalance this equation by reconnecting businesses with the people who work for them, buy from them, supply them and live near them in order to create wider value across the country.

Businesses can be better corporate citizens, paying their fair share of the tax burden, creating more jobs, practicing fairer employment and causing less damage to the world around us. In short, businesses can be more social. Indeed, this behaviour will make them more popular and more successful, delivering greater environmental, social and economic value. Voters in the UK agree - almost three quarters say companies should be involved in solving social and environmental problems and agree with Richard Branson's view that "All businesses should become a force for good, and not just focus on short-term profit."

Government can use taxation, spending, regulation and softer behavioural levers to influence the private sector. Which levers are most appropriate will depend on the context, the markets in which businesses operate and how well they are functioning, the size and scale of businesses and their ownership models. Often, softer nudges may be quite ineffective, and some fiscal levers are hard to pull in a globalised economy and in an era of such sophisticated and widespread tax avoidance techniques. The burden of existing tax, regulation and spending can also be adjusted to ensure it goes further in incentivising more responsible corporate behaviour.

Government can go further to create the market conditions and business environment which incentivises a more progressive approach to ownership. Multi-stakeholder models can better enable customers, community, staff, partners and suppliers, as well as investors, to participate more fully in the governance and management of the business, driving its success. These models can extend economic power, rebuild trust in business and help rebalance the economy.

BIS and the Treasury could:

- Legislate for greater and more proportionate transparency, disclosure and accountability of business activities across the private sector, including creation of environmental and social value. An extremely broad coalition, including the Institute of Directors, the TUC, and Friends of the Earth mourned the 2005 passing of the Operating and Financial Review (OFR), in which all stock market-listed companies were required to produce a yearly review of their business operations and future risks, including social and environmental factors. Its reinstatement would be widely welcomed. On the other hand, mandatory quarterly reporting obligations should be scrapped.
- Review existing legislation to ensure it does not unintentionally restrict the positive environmental and social impact of business activity, or is interpreted as doing so. Procurement law, for instance and the concept of fiduciary duty have been interpreted to restrict the degree to which government and businesses can take social and environmental factors into account. Government regulation should not be anti-social. This should be



accompanied by a comprehensive review of legislation and regulation pertaining to different company forms, to identify and remove barriers to the development of diverse multi-stakeholder models. Clearer, better practical guidance can be provided about how to lock in social mission under existing rules, such as through golden shares, template governing documents or the CIC model.

- Use tax system to incentivise more socially and environmentally responsible business models and operations. Lessons can be learned from the use of lower rates of corporation tax, exemption from NI contributions for some workers and a lower VAT rate for social co-ops in Italy.
- Introduce a new duty on businesses to commit to certain social and environmental standards when they merge with or acquire other businesses to – as the Business Innovation and Skills Committee concluded "ensure that takeovers of UK businesses benefit, rather than damage, our economy."
- Extend the Community Right to Buy to businesses of community interest as well as assets, enabling communities, staff and customers time to develop a bid to buy it, or part of it. This may require a process for communities to nominate businesses to be on a register of 'businesses of community value'. If something on this register is offered for sale communities then have up to six months to organise, raise finance and to prepare a bid.
- Harness the tens of billions of pounds of government subsidies for business to maximise the environmental and social impact of the private sector, demanding greater transparency and responsibility from recipients. All programmes should be open to all types of business ownership, including co-operatives and social enterprises. Programmes could be more focused on those productive sectors of the economy which deliver social, environmental and economic value. Similarly, all government programmes for business, including awareness raising and trade missions should highlight social and co-operative enterprises.
- Create incentives for at least 30% of listed companies' Board members to be women. The Voluntary Code of Conduct for executive recruitment firms should be enforced or financial penalties introduced for those not signing up.
- The principles applied by Government to financial service sector bonuses to ensure directors' remuneration relates to incentives to sustainable long-term business performance should be strengthened and applied to other sectors, including deferring payments, paying in shares or securities rather than cash and disclosure of detailed information about the pay of those earning above £1 million.
- Further strengthen and extend the Government's support for the Buy Social programme.