



Helping purpose-driven business thrive

Report summary

June 2021

Focus of the report: The report seeks to answer the question: “What new reforms and other changes will help support and incentivise businesses and entrepreneurs to play their full part in helping the UK recover from Covid-19 in a way that supports people, especially the most disadvantaged, and the planet to flourish?”

The vision driving the reforms: The recommendations are designed to be ambitious yet achievable, and work towards a vision for the future of business that was co-created with business leaders. This vision has now been signed by over 70 senior figures ranging from CEOs of major corporations to heads of think tanks to major investment groups.

Vision statement: www.re-generate.org/the-future-of-business

The research Working Group: The report was overseen by an expert research [Working Group](#), with senior representatives from government, business, investment, and entrepreneurial communities, and is the result of interviews with over 70 people.

Full report: www.re-generate.org/helping-purpose-driven-business-thrive

If you would like to know more information please don't hesitate to contact ReGenerate at info@re-generate.org

Introduction

The UK is still reeling from the consequences of a pandemic that is unprecedented in recent times, whilst simultaneously needing to reach net zero by 2050 and level up the country. We are at a moment in history where the challenges faced are significant, but fortunately so too are the available resources to tackle them. Much of this resource is held in the innovative power of businesses. They are keen to play a bigger role in helping tackle the social and environmental challenges the world faces, in part because doing so is increasingly evidenced to be a more successful, resilient and sustainable way of doing business.

Society needs business at its best. While there is much that can and must be done directly by governments and wider civil society, businesses have a unique contribution to make. When businesses' ability to innovate and scale is combined with a drive for positive impact they have the potential to transform society and the planet.

Business leaders want to do more. UK business leaders are now as likely to think the reason why businesses should exist is to be purpose-driven as they do to maximise shareholder value.¹ The business community is increasingly orienting itself towards a purpose-driven approach where they exist to benefit society, and see generating profits and growth as a crucial part of that, but not the only goal. This is underpinned by demand from investors, customers, employees and the wider public.

"Business already plays vital roles in our society, including as employers, investors and advisers, creating jobs and driving economic growth. However, the role of businesses can, and should, go beyond this traditional view. Firms such as those run by our Commissioners increasingly see themselves as supporting the delivery of shared societal goals in ways that go beyond their core business activity."

- The Covid Recovery Commission (including leaders of companies such as Tesco, Vodafone, McKinsey, Admiral, Heathrow Airport, AstraZeneca, Shell, Hitachi, Babcock and Blenheim Chalcot)²

Yet companies are often being held back from being purpose-driven. While it is possible for companies to operate in this manner, it is often not made easy for them. For instance, it is too difficult for companies to report their impact to stakeholders, to incorporate in a manner that fully protects their purpose, or to find support to operate in a purpose-driven way, especially outside of London.

It's time to act. The UK holds the Presidency of the G7 and is hosting COP26. This provides a great opportunity to lead by example and inspire world-wide collaboration and action.

Our report sets out a three-point action plan to make the UK a home for compassionate capitalism, and in doing so unlock the power and willingness of purpose-driven business:

- **Provide global leadership on impact measurement** to make it easier for companies to report and stakeholders to understand a company's social and environmental impact.
- **Create a clear, obvious legal framework** for purpose-driven companies.
- **Turbo-charge support for companies** that intend to profitably tackle challenges, such as recovering from Covid-19, reaching net zero and leveling up the UK.

This note summarises the case for purpose-driven business and the reforms required to help them thrive. More detail can be found in the full report.

What is a purpose-driven business?

A purpose-driven business is one that, instead of existing to maximise profits, exists to benefit society. It sees profit as a vital outcome of its business activity but not its sole reason for existing. In pursuing its purpose, it consciously balances the needs of stakeholders, including shareholders but not at the automatic expense of others.

It is worth noting that businesses focused on maximising profits can, and often do, operate responsibly and deliver some benefits to society, for example through creating jobs, paying taxes, and running 'corporate social responsibility' initiatives. The key difference between purpose-driven and profit-maximising businesses is that because a purpose-driven company is focused on and orientated around benefitting society through its core business activities, they are often more likely to have a positive social and environmental impact.

What is the case for purpose-driven business?

Being purpose-driven is increasingly evidenced to be a better way of doing business: A growing evidence base shows that purpose-driven businesses are often more commercially successful than their more profit-focused counterparts, as people want to invest in, work for and buy from them.³ With this sentiment being strongest in younger generations, it is likely a trend that will grow in strength in the coming years.⁴

Purpose-driven businesses have a significant role to play in tackling social and environmental issues: While government and wider civil society will play leading roles in tackling the challenges the UK faces, it is unlikely they will be successful without business playing its full role as well. Helping businesses operate in a purpose-driven way will focus the power of business on tackling these issues. For example:

- Businesses are crucial in **finding innovative solutions to climate change**, such as decarbonising the energy and transport networks, improving the energy efficiency of homes and buildings and capturing excess carbon.
- Businesses are vital in **creating jobs in places and for people that are often excluded** from the opportunity that work brings, including adoption of inclusive approaches to recruitment and leadership.
- Businesses are needed to **implement policies to support employee mental health and wellbeing**, some specifically set out to create helpful products and services that tackle issues of poor mental and physical health.

Being a good place for purpose-driven business is vital for any country's business-friendly credentials: As momentum behind purpose-driven business grows, it is increasingly important for any country's business credentials that they are a welcoming home for purpose-driven companies and investors. There are a growing number of countries that have created new legal forms that support purpose-driven business, such as the US, France and Canada, and there are global changes that are not only encouraging but requiring responsible business practices that are increasingly required of UK businesses anyway.^{5,6,7,8}

To maintain the UK's position as Europe's leading start-up hub,⁹ enable a Green Industrial Revolution, including hitting the target of creating a further 2 million green jobs by 2030,¹⁰ the UK needs to become a great home for purpose-driven businesses who are set up purposefully and profitably to help make these goals a reality.

A selection of the evidence supporting this case is provided in figure 1, followed by a summary of the reforms needed to help purpose-driven business thrive in the UK, at figure 2.

Figure 1: Summary of evidence supporting purpose-driven business

Business leaders and investors **INCREASINGLY FAVOUR** purpose-driven models

BUSINESS LEADERS want to run purpose-driven businesses

Business leaders are now equally likely to think that the purpose of business is to find profitable solutions to the problems that our world faces, as think it is to maximise returns for shareholders.^A

3 in 5 leaders said their businesses had taken, or were considering taking, steps to become more purposeful^B

77% of leaders of SMEs already consider their business to be purpose led.^C

More than ten times as many venture firms with an impact lens engaged with Big Society Capital for funding in 2020, relative to 2018.^D

INVESTORS want to invest responsibly

Investors representing \$86.3 trillion of assets had signed the UN Principles for Responsible Investment by March 2019, up from \$6.5 trillion in 2006.^E

ESG funds are forecast to outnumber conventional funds by 2025, including more than a threefold jump in assets.^F

Growing interest in ESG issues, accelerated by the pandemic, and regulation will likely continue to drive demand for sustainable funds in Europe. We expect 2021 to be the year when ESG truly enters the mainstream.^G

A third of global assets under management are now subscribed to the net zero pledge, with those who signed up including Schroders, Fidelity International, AXA Investment Managers, Blackrock, Invesco, UBS Asset Management and LGIM.^H

This favour is underpinned by **SUPERIOR PERFORMANCE** of purpose-driven businesses

DIRECT EVIDENCE

Firms of Endearment: Found that US-based 'Firms of Endearment' outperformed the S&P 500 Index by a factor of 14.3 over the period 1998 to 2013. International 'Firms of Endearment' outperformed the S&P 500 index by a factor of 10 across the same period.^I

The Business Case for Purpose: Found that a firm's level of commitment to purpose influences a businesses growth and broader success. Businesses where purpose was clearly articulated and understood were far more likely to achieve more than 10% growth between 2012 and 2015, than businesses where purpose was not well understood or communicated.^J

Corporate Purpose and Financial Performance: Found that organisations with a clear purpose and high management clarity delivered greater stock performance of up to 7.6% above those that did not. They found that it was mid-level employees with strong beliefs in the purpose of their firm that drove the relationship between purpose and performance.^K

INDIRECT EVIDENCE

Firms that focus on stakeholder issues material to their business beat the market. Firms scoring high on stakeholder issues material to their firm using the SASB materiality map, but low on immaterial issues, beat the market by 4.05% between 1992 and 2013.^L

Businesses with good ESG performance deliver stronger financial performance. ESG stocks typically outperformed the market in the wake of Covid-19. HSBC analysed 613 shares of global public companies up to 23rd March 2020. They found that climate focused stocks outperformed others by 7.6% from December, and by 3% since February.^M

Businesses that are highly ethical outperform the market. The 128 honourees of Ethisphere's 2019 World's Most Ethical Companies had a collective 14.4% five-year premium against the large cap index between 2014 and 2019. These companies often go above and beyond in helping lead their industry to more responsible places through.^N

Businesses that are great places to work create superior long-term value. The stock returns of the 100 Best Companies to Work For in America beat their peers by 2.3-2.8% per year between 1984-2011.^O

Superior performance is driven by **POWERFUL MARKET FORCES** that are growing

GENERAL PUBLIC

The majority agree that capitalism is the best 'way to manage society', but that it 'needs to be fixed', representing a 7% increase between 2017 and 2020.^P

88% think that business should play more of a role in issues related to social responsibility, such as paying their fair share of tax, reaching net zero carbon emissions, and tackling social issues such as homelessness and crime.^Q

85% of the public want their investments to do more than merely prioritise financial returns.^R

CUSTOMERS

53% of the public favour brands doing good in the world.^S

60% of millennials plan to buy more products and services from large businesses that have taken care of their workforces and positively affected society during the pandemic.^T

Consumers who think a brand has a strong purpose are four times more likely to purchase from, champion and trust the company, and six times more likely to protect it in the event of a misstep or public criticism.^U

49% of customers said that they would be inclined to pay higher-than-average prices for products with high-quality/safety standards, which consumers often associate with strong sustainability practices.^V

EMPLOYEES

82% of employees think it is important to have a purpose, and 72% believe purpose should receive more weight than profit.^W

89% of employees thought that a shared purpose will help employee satisfaction. 84% believed shared purpose will lead to more successful transformation efforts.^X

In a 2019 survey commissioned by B Lab UK, 71% of its community members reported that their recent recruits had joined their business because of their standing as certified B Corporations.^Y

Sources:

- A. [Survey highlights appetite for new definition of corporate purpose among UK businesses, The British Academy, Oct 2020](#)
- B. [Survey highlights appetite for new definition of corporate purpose among UK businesses, The British Academy, Oct 2020](#)
- C. [SMEs and Purpose: Ditching or doubling down?, ABA, 2020](#)
- D. [Venture capital's increasing interest in impact investing, ESG Clarity, April 2021](#)
- E. [Grow the Pie, Alex Edmons, 2020](#)
- F. [ESG funds forecast to outnumber conventional funds by 2025, Financial Times, 2020](#)
- G. [Sustainable Funds' Record-Breaking Year, Morningstar, February 2021](#)
- H. [Fund managers representing \\$23trn in assets join net zero initiative, Professional Advisor, March 2021](#)
- I. [Firms of Endearment, Wolfe, Sisodia and Sheth, 2014](#)
- J. [The Business Case for Purpose, Harvard Business Review and EY Beacon Institute, 2015](#)
- K. [Corporate Purpose and Financial Performance, Gartenberg, Prat and Serafeim, 2018](#)
- L. [Corporate Sustainability: First Evidence on Materiality, Khan, Mozaffar N et al., March 2015](#)
- M. [ESG stocks did best in COVID-19 slump, HSBC, March 2020](#)

- N. [The world's most ethical companies, 2019](#)
- O. [Does the stock market fully value intangibles? Employee satisfaction and equity prices?, Edmans, A., 2010](#)
- P. [Opinion Poll, B-Lab and ReGenerate, June 2020](#)
- Q. [Public perceptions on the role of business before and after Covid-19, Centre for Progressive Policy, March 2020](#)
- R. [Public perceptions on the role of business before and after Covid-19, Centre for Progressive Policy, March 2020](#)
- S. [Opinion Poll, B-Lab and ReGenerate, June 2020](#)
- T. [The Deloitte Global Millennial Survey 2020, Deloitte, 2020](#)
- U. [Unveiling The 2020 Zero Strength of Purpose Study, Zero Group, June 2020](#)
- V. [Sustainable shoppers, Nielson, 2018](#)
- W. [Purpose: shifting from why to how, McKinsey, 2020](#)
- X. [The Business Case for Purpose, Harvard Business Review and EY Beacon Institute, 2015](#)
- Y. [This data was provided to us by B Lab UK](#)

Figure 2: Summary of problems and recommended solutions

<p>1. MAKING THE LEGAL FRAMEWORK FIT FOR PURPOSE</p> <p>THE PROBLEM: Incorporation options for purpose-driven businesses are convoluted, unclear and not entirely suitable. This contributes to business leaders' difficulties protecting their company's purpose and the resulting social and environmental impacts, and gaining the commercial benefits of being better identified as a purpose-driven business by customers, investors and government. Beyond making it an obvious and easy choice to incorporate in a purpose-driven way, a growing number of business leaders are suggesting all businesses should be mandated to align shareholder and wider stakeholder needs.</p>			
<p>A. Provide a clear and accessible legal form for purpose-driven companies</p> <ol style="list-style-type: none"> 1. Introduce purpose-driven model articles of association 2. Update and refine section 172(2) of the Companies Act 2006 to create a clear and accessible corporate form for purpose-driven companies 		<p>B. Review baseline incorporation legislation to ensure it is fit for purpose</p>	
<p>GOVERNMENT could introduce model articles that are fully consistent with a company being purpose-driven to provide new and existing companies with an easily accessible way of locking their purpose into their legal foundations.</p> <p>GOVERNMENT could refine the Companies Act 2006, supporting guidance and the companies house incorporation interface to provide a clear and accessible incorporation option for purpose-driven businesses.</p>		<p>GOVERNMENT could review whether a change to section 172(1) of the Companies Act 2006 is needed to require directors to align the interests of their shareholders with those of wider society and the environment. Businesses and investors could support the government by helping them understand how their sectors would likely respond to any reforms.</p>	
<p>2. MAKING IT EASY TO UNDERSTAND COMPANIES' IMPACT</p> <p>THE PROBLEM: The information that customers and investors rely on to support purpose-driven businesses is not sufficiently complete, comparable, robust or accessible. This causes businesses to miss out on market preference, alongside incurring cost and complexity when trying to 'do the right thing' by measuring their impact. Underlying causes are: the proliferation of WHAT impact standards companies and their stakeholders should use; gaps in WHO should report make it hard to understand progress and compare between companies; technology to assist HOW companies collect, report and analyse impact data is not widely and cheaply available; and it is hard to know WHERE impact data can be found.</p>			
<p>C. WHAT: Accelerate the convergence of impact standards through government leadership on the international stage</p>	<p>D. WHO: Increase the number of companies required to report their impact</p>	<p>E. HOW: Provide better tooling and skills development for companies to report and understand their impact</p>	<p>F. WHERE: Support the creation of a more centralised and open information architecture for impact metrics</p>
<p>GOVERNMENT could use its position as host of the G7 and COP26, and as a member of the G20, to support current momentum in the global accountancy governance structures and the impact measurement space. Part of this should include creating a clear policy goal to make the UK a centre of excellence for impact reporting, leveraging the headquartered organisations and infrastructure that position the UK well to do so. There is a particular opportunity to engage with efforts to address immaturity in social metrics.</p>	<p>GOVERNMENT to map and improve understanding of what companies are currently required to report on what impact, both directly and indirectly, across legislation, regulation and investor requirements. As part of the current BEIS audit and corporate governance reforms, create a vision and roadmap for which companies will be required to report on their impact in the future, with a clear policy direction to require a wider pool of companies to begin reporting on their impact over time.</p>	<p>Collaboration across sectors to stimulate a technological boom in the impact measurement space: SOFTWARE PROVIDERS could make impact measurement tools as accessible as possible to businesses, and challenge and convene developers; INVESTORS could fund and support the integration of impact reporting into business intelligence tools; GOVERNMENT could provide grants for developing impact measurement tools; and BUSINESSES could share learning and know-how with each other.</p>	<p>GOVERNMENT could co-fund data centralisation initiatives with other G7/G20 countries to make impact data freely available and easy to access worldwide. Innovate UK grants could be used to promote development of specialist databases aimed at filling a clear gap in social metrics. DATABASE PROVIDERS could expedite development by following a common set of design principles, and using open architecture.</p>
<p>3. SUPPORTING AND IDENTIFYING PURPOSE-DRIVEN BUSINESSES</p> <p>THE PROBLEM: The wealth of specialist know-how on running purpose-driven companies does not always reach businesses, particularly those outside of London. In parallel, demand for this support is rapidly accelerating as more businesses seek to operate in a purpose-driven way. Alongside this, businesses can miss out on preference by consumers because reliable information is not easily accessible at the point they are making decisions on where to shop and what to buy.</p>			
<p>G. Make the wealth of know-how on running purpose-driven businesses accessible to all</p>		<p>H. Support the public to identify purpose-driven companies more easily</p>	
<p>The PURPOSE ECOSYSTEM could ensure specialist support for purpose-driven businesses is visible and accessible to all business leaders, including those based outside of London and those without access to accelerators. GOVERNMENT could accelerate this by ensuring the widest possible access through their approach to grant funding.</p>		<p>The PURPOSE ECOSYSTEM could map the certifications and tools that help consumers identify the extent to which a business is purpose-driven, and to find synergies and opportunities to collaborate across them.</p>	

Support from business leaders

Chris Hulatt, Co-founder, Octopus

"If you look at the scale of problems the world faces, whether it's climate change or the widening inequalities in society, it is clear that more is needed from business. Businesses have such a huge power to innovate and deliver at scale, and we need this power focused on the big challenges we face.

This excellent report from ReGenerate contains some great ideas on how to re-shape the economy to unlock the power of business to do more good."

Alison Rose, CEO, Natwest:¹¹

"Expectations of companies are changing as stakeholders look for organisations to deliver not only financial performance but also positive contribution to society, benefitting customers and communities as well as shareholders.... Purpose is thinking about business in a much wider sense than before. It is about our role in and connection to society and the communities we serve."

James Timpson, Chief Executive, Timpson

"There is a common misconception that business leaders just think about profits. In my experience, this simply isn't true. Timpson was set up to benefit society, as I know so many other companies were.

ReGenerate's report is as timely as it is needed. The reforms it contains - to create a clear legal form for purpose-driven businesses, to make sure they are well supported and to turbo-charge efforts to understand the impact a business has on the world - will help ensure businesses make their full contribution towards the big social and environmental challenges we face."

Sir Ronald Cohen, Chair, Global Steering Group for Impact Investment and Author of Impact:

"There is now no doubt: we need the innovative power of business to help us recover from covid's social challenges and to tackle climate change. This ReGenerate paper is a welcome contribution and its reforms would help make the impacts of businesses far more transparent and drive support of businesses that seek to have a more positive effect on society."

The Covid Recovery Commission:¹²

"Business already plays vital roles in our society, including as employers, investors and advisers, creating jobs and driving economic growth. However, the role of businesses can, and should, go beyond this traditional view. Firms such as those run by our Commissioners increasingly see themselves as supporting the delivery of shared societal goals in ways that go beyond their core business activity."

Kresse Wesling MBE, Co-founder, Elvis & Kresse:

"This report is very welcome. Businesses need to step up and help tackle the climate emergency. We've been doing this for 16 years; we rescue and transform wastes, donate 50% of our profits to charity, and run on renewables. Is this easy? No. If the reforms in this paper are implemented it will be easier for businesses to operate in a way that benefits society, and will increase transparency around those that don't."

Endnotes

- 1 [What is holding purpose-driven business back?](#), Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020
- 2 [Open Letter to the Prime Minister](#), COVID Recovery Commission, February 2021
- 3 [The case for purpose-driven business](#), Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, 2020
- 4 [Unveiling The 2020 Zeno Strength of Purpose Study](#), Zeno Group, June 2020
- 5 [Benefit Corporation](#), Accessed May 2021: Benefit Corp legislation has been passed in 38 states
- 6 [When the Law Distinguishes Between the Enterprise and the Corporation: The Case of the New French Law on Corporate Purpose](#), Segrestin, B, Hatchuel, A, Levillain, K, January 2020
- 7 [B.C.'s new legislation on benefit companies](#), Scott, T, MacDougall, A, Memon, S, June 2020
[To B or not to B: Benefit companies arrive in Canada](#), Ortved, C., Lawson Lundell LLP, June 2019
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- 9 [Europe's biggest startup hubs in 2020](#), EU-Startups, November 2020
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- 11 [A Blueprint for Better Business: Home](#), A Blueprint for Better Business, May 2021
- 12 This included leaders of companies such as Tesco, Vodafone, McKinsey, Admiral, Heathrow Airport, AstraZeneca, Shell, Hitachi, Babcock and Blenheim Chalcot. [Open Letter to the Prime Minister](#), COVID Recovery Commission, February 2021

About ReGenerate

ReGenerate is making it easier to start, grow and lead a purpose-driven business. Entrepreneurs and established businesses have a tremendous power to help tackle the great social and environmental issues of our age, from modern slavery and in-work poverty to climate change and racial injustice.

When their unique ability to innovate and scale is combined with a drive for positive impact it can transform society and the planet. We believe that the world would be a better place if there were more businesses operating like this. They are especially needed in light of Covid-19.

It is, however, harder than it should be to set up, grow or lead a business that is seeking to have a positive impact on society. The ecosystem that supports them is immature, and too many leaders are frustrated in their attempts to run a business with a purpose beyond profit.

ReGenerate is helping accelerate the growth of the ecosystem that supports purpose-driven businesses in order to make it easier for people to start, grow and lead companies that are doing good in the world.

We are a deeply collaborative organisation, and have gathered leading thinkers from across established business, government, academia, investment and entrepreneurship. Together, we are conducting research that identifies the barriers and shares the solutions necessary to make the UK, and wider world, a great place for purpose-driven entrepreneurs and businesses, and starting initiatives that help address them.

Acknowledgements

Over the past year, more than 70 people have kindly given us their time to understand the true problems faced by purpose-driven businesses, and the reforms that will help them to flourish in the UK and beyond. In particular we would like to thank our [Working Group](#) and [Advisory Council](#) for their detailed inputs, technical help and reviews. We are especially grateful to the sponsors of this report: the Joseph Rowntree Foundation and the Department for Culture, Media and Sport, without whom this report would not have been possible.

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