DISCUSSION PAPER

What is holding purpose-driven business back?

OCTOBER 2020

REGENERATE

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ReGenerate Trust

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We are grateful, too, to the Joseph Rowntree Foundation for their financial support for this research.

About the working group

Our research Working Group is helping guide and develop our core 2020/21 research project to identify reforms that will make the UK a great place for purpose-driven business.

At ReGenerate, we understand the importance of collaboration and gaining strategic insight from people with all sorts of experiences, backgrounds and passions. For this reason, we built a working group that represents a diverse range of sectors, from investment through to entrepreneurs. For more information, see www.re-generate.org/working-group.

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Contents

About ReGenerate

ReGenerate is investigating how the growth of the ecosystem for purpose-driven business can be accelerated, making it easier to start, grow and lead a business doing good.

Entrepreneurs and established businesses have tremendous power to help tackle the great social and environmental issues of our age, whether it is modern slavery, racial injustice, in-work poverty or climate change.

When their unique ability to innovate and scale is combined with a drive for positive impact, they have the potential to transform society and the planet. We believe that the world would be a better place if there were more businesses operating like this.

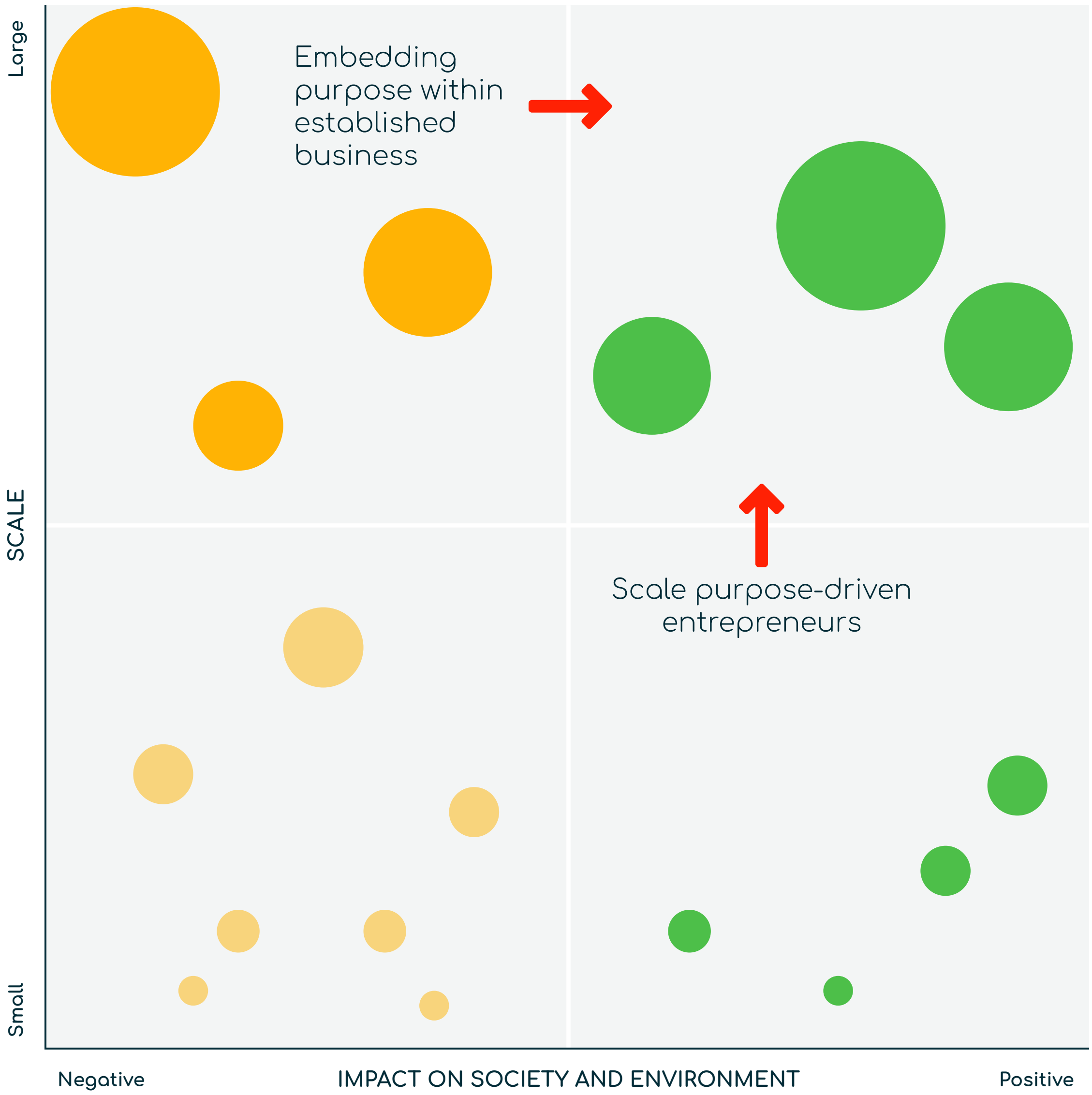
It is, however, harder than it should be to set up, grow or lead a business that is explicitly seeking to have a positive impact on society or the environment. The ecosystem that supports them is immature, and too many leaders are frustrated in their attempts to live with a purpose beyond profit in their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

Our focus is on creating an environment that enables these purpose-driven businesses to thrive and benefit society and the environment, rather than seeking to change the way in which all businesses work.

We are a deeply collaborative organisation, and have gathered leading thinkers from across established businesses, government, academia, investment and entrepreneurship.

Together, we are conducting research that identifies the barriers and shares the solutions necessary to make the UK, and the wider world, a place for purpose-driven entrepreneurs and businesses to thrive. We also intend to start programmes to help make this happen.

Business will have a greater, positive impact on the world if more purpose-driven businesses are supported to scale and established business embed purpose in all that they do.



Executive summary

When businesses operate in a purpose-driven way, everybody wins. Not only does it lead to a profoundly positive effect on society and the environment, but running a business in a purpose-driven way is increasingly evidenced to make them more successful and sustainable in the long run.

Encouragingly, interest in purpose-driven business is growing: customers want to buy from them, potential employees want to work for them, and investors want to invest in them.

Moreover, a significant proportion of business leaders also want companies to be purpose-driven. A poll by the British Academy found that 44 percent of senior decision makers in business thought companies should be purpose-driven (the same proportion that thought that the purpose of business was to maximise returns to shareholders).

What this paper has revealed, however, is that instead of being supported and encouraged to thrive, many purpose-driven businesses are being held back. There are four core, interconnected reasons why:

1. **Identification:** It can be difficult to identify purpose-driven businesses,
2. **Incorporation:** It is not clear how a company can be legally set up in a manner consistent with being purpose-driven,
3. **Investment:** Purpose-driven companies can find it difficult to get purpose-aligned investment, and
4. **Impact measurement:** It is hard for companies to prove that they are having a positive impact on society and the environment.

We have included separate chapters on identification and measurement because our research has found them to be two crucially important, mutually reinforcing issues. If a company is committed to acting in a purpose-driven way (identification) but has persistently poor outcomes (impact measurement) then there is a concern that the company is not being successful at living out its purpose. Equally, if a company has a positive social and environmental impact, but no intent, then there could be concerns that this will not last or that they might, if pushed, game the measurement system, which will always be far from perfect.

This paper will be followed by another in early-mid 2021 that will set out the package of systemic reforms that will help tackle these four challenges.

1. It can be difficult to identify purpose-driven businesses

We know that people want to work for, buy from and invest in purpose-driven companies and that this, in turn, helps them be successful. Yet, if people cannot identify the purpose-driven companies versus those who are simply using purpose as a marketing tool, then it can take away some of the advantages of operating in this manner.

There is evidence that people are struggling to identify purpose-driven companies: polling conducted by B Lab UK and ReGenerate showed that just a tenth of the public could identify companies doing good versus those just talking about it.

There are four things to look for when seeking identify purpose-driven businesses:

- **Intent:** Have they set out an authentic, practical and inspiring purpose that will benefit society?
- **Integration of the purpose into the business model:** How central is the purpose to the core business model, does it reflect the core commercial activity and shape profit distribution?
- **Whether governance and operations reflect the purpose:** Does the way the business is governed and operated reflect their purpose? Does the business care about people?
- **Measurement of impact:** Do they measure and seek to understand their impact?

While it is possible to identify purpose-driven companies by investigating them one-by-one, it is difficult and time-consuming, particularly at scale. There are certification marks that can act as proxies, such as B Corporation and the Good Business Charter. The B Corporation mark is robust, however most businesses have not gone through the B Corp process. The Good Business Charter certification is a very useful proxy, however it is relatively light touch and is still gaining momentum, having been launched last year.

2. It is not clear how a company can be legally set up in a manner consistent with being purpose-driven

The current legal framework within which businesses sit is broadly permissive of operating in a purpose-driven way. It is not, however, obvious or easy for purpose-driven companies to incorporate in a way which reliably protects their purpose and provides clarity for Directors on their fiduciary responsibility to both shareholders and wider stakeholders.

There are three main ways in which purpose-driven companies are incorporated:

- **A regular limited company:**[1] Most companies are set up in this way, including 71 percent of new UK companies in 2019. They are subject to Section 172(1) of the Companies Act 2006 which many, although not everyone, argues is too focused on maximising shareholder return, above their impact on other stakeholders. In the British Academy Purposeful Business poll, 52 percent of senior decision makers in business said that they felt the current legal and regulatory environment was focused on shareholder interests, and only 15 percent thought it was more focused on society's interests.
- **A regular limited company, with their purpose written into their articles:** Though this option legally protects a company's purpose, writing purpose into articles is not an obvious option for purpose-driven entrepreneurs: none of the model articles available at Companies House include any purpose statement, the guidance does not prompt Directors to think about it and it can be easily missed as an option by founders. It is also difficult for established companies to later write their purpose into their articles, as it requires at least 75 percent of shareholders to agree to it.
- **Using an alternative incorporation type:** While incorporation types such as Community Interest Companies and Cooperatives are very useful and offer a blend of profit and purpose, they tend to be fairly restrictive due to arduous setup processes, and ownership models that are off-putting to mainstream investors.

3. Purpose-driven companies can find it difficult to get purpose-aligned investment

It is important that, should they need it, companies can attract investment that supports them to operate in a purpose-driven way. There are different challenges for both entrepreneurs and established companies.

- **Purpose-driven entrepreneurs:** Purpose-driven entrepreneurs often have a choice between pursuing both mainstream and impact investment.
    - Mainstream investment can work for purpose-driven entrepreneurs when they have built their companies such that their purpose is a clear part of their value proposition and they are set up to be successful by delivering profits through their purpose. There is a risk, however, where there is a trade off between the purpose of a company and profitability, that taking on mainstream investment could lead to a dilution of a company's purpose due to the lack of alignment between Directors and investors.
    - Benefits to taking on impact investment arise from the investors caring deeply about the purpose, and being actively supportive of the unique challenges of evolving a truly purpose-driven model. However, impact investment is far smaller, by overall value, deal volume and deal size, than mainstream investment in the UK, and under-represented at both early and late growth stages. For instance, announced equity investment into

1 We have used the term "regular limited company" to include both private and public companies, limited by both shares and guarantee, excluding Community Interest Companies, Industrial and Provident Societies, and other company types such as Partnerships.

private companies through impact funds only accounted for around one percent of total equivalent investments in 2019.

- **Larger, established businesses:** The investment system within which larger, established businesses sit is complex. This pressure can work to erode purpose or, in some cases, encourage it. This is because a key concern for boards will be the prospect of losing a major investor, or finding themselves bargaining to keep them, hence the importance of their perspective.

  Our mapping of the investment system highlighted how, when we talk about investors in the context of large businesses, we are often talking about a system rather than unilaterally motivated individuals. It also highlighted multiple points in the system where support or erosion of purpose can enter the system, spanning consumer demand, the setting of investment objectives, and interactions between Asset Managers and Companies.

4. It is hard for companies to prove that they are having a positive impact on society and the environment

Purpose-driven businesses are, by their very nature, trying to not just to create a profitable business but also benefit society and the environment. If they cannot rely on good measurement, then they, and their stakeholders, have little means with which to know whether they are living out their purpose successfully.

Measuring impact is complementary to, but different from, the identification of purpose-driven businesses: if businesses care only about good impact ratings, then metrics might be gamed; if businesses signal good intent yet have no impact measurement, then it is impossible to know whether they are being successful.

- **The current impact measurement landscape:** While there have been huge efforts to develop impact measurement standards and taxonomies, this extensive effort has led to a complex impact measurement landscape that can be difficult to navigate. The good news is that there is some work going on to bring this together. For example there has been a statement of intent to work together from existing, major reporting organisations; CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), as well as a proposed reporting framework announced by the World Economic Forum (WEF) and International Business Council (IBC) that brings the Big Four accountancy (Deloitte, EY, KPMG and PwC) firms into alignment.
- **How the non-financial reporting directive can benefit all:** Any directional change that improves and increases the scope of measurement could have beneficial ripple down impacts. We are at a pivotal moment, with the imminent release of the European Commission's non-financial reporting directive coinciding with the completion of the UK exit from the European Union. Which parts of the directive the UK adopts will be key, at a time where consistency and integration across borders is helpful.
- **There is a systems design challenge:** Many of the end users of impact measurement information are not experts in social or environmental issues. They are hugely complex and interconnected domains. Distilling information

into a single monetary indicator has not worked in the past, but we should also be mindful about the presentation of complex information, and how those stakeholders might interpret it.

This paper, we hope, helps provide clarity on what is holding purpose-driven businesses back. We welcome and appreciate discussion around contrasting observations or interpretations to those that we have laid out. We hope that this will help to create a common understanding of the cornerstones on which reform efforts could be based.

We look forward to identifying how to unblock these four areas and, in collaboration with others, put forward recommendations in early 2021 that will help purpose-driven businesses thrive in the UK.

Introduction

When businesses operate in a purpose-driven way, everybody wins. Not only does it lead to a profoundly positive effect on society and the environment, but running a business in this manner is increasingly evidenced to make them more successful and sustainable in the long run.[2]

There is also growing interest in purpose-driven businesses. Customers and employees are choosing to buy from and work for them, and investors are seeking them out.[3] Moreover, there is a growing ecosystem of organisations seeking to support them.[4]

Business leaders are increasingly recognising the need for companies to be about more than profit too. In this paper, we drew on new polling from the British Academy of senior decision makers, conducted by YouGov, which asked about purpose in companies.[5] It found that they were evenly split, with 44 percent thinking the purpose of business was to maximise returns for shareholders and 44 percent thinking it was to profitably find solutions to the problems of people and planet. More than three in five business decision makers said their business had taken, or were considering taking, steps to become more purposeful.[6]

This momentum for purpose-driven business is deeply promising, as there is clear evidence that purpose-driven businesses can have a positive impact on society, at a time when Covid-19 and other challenges mean it is needed more than ever.

Our research has found, however, that it is not as easy as it could be to operate a business in a purpose-driven way, and that this is the case whether you are an entrepreneur, established multinational company or something in between.

2 The Case for Purpose-Driven Business. ReGenerate, July 2020 (accessed via www.re-generate.org/the-case-for-purpose-driven-business)

3 Ibid.

4 For instance, see Purpose-driven business ecosystem map, ReGenerate, 2020. (accessed via www.re-generate.org/ecosystem-map)

5 British Academy Purposeful Business poll: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 660 senior decision makers. Fieldwork was undertaken between 14th - 16th September 2020. The survey was carried out online. The figures have been weighted and are representative of British business size. Senior decision makers include senior managers and above, with decision making responsibility in one of the key areas of their business. Senior decision makers are respondents who fall into one of the following levels: Owner/ Proprietor, Partner, Chairperson, Chief Executive, Managing Director, Non-Executive Director, Other board level manager/ director, Other senior manager or director below board level.

6 Ibid.

Much good work goes on despite the system businesses operate in, rather than because of it. The main reason for this is the ecosystem within which purposeful businesses sit is relatively immature and the framework they operate under is more geared to a focus on profit alone.

To ease the journey for these businesses, we need to understand what is holding them back and where they are poorly supported to thrive. Then, having understood this, we need a sound understanding of the set of reforms that will help make the UK a great place to start, grow and lead a purpose-driven business. This paper is focused on what is holding purpose-driven businesses back. A paper on the reforms needed to address this will be published in early 2021.

We have identified four core, interconnected ways in which purpose-driven companies are being held back:

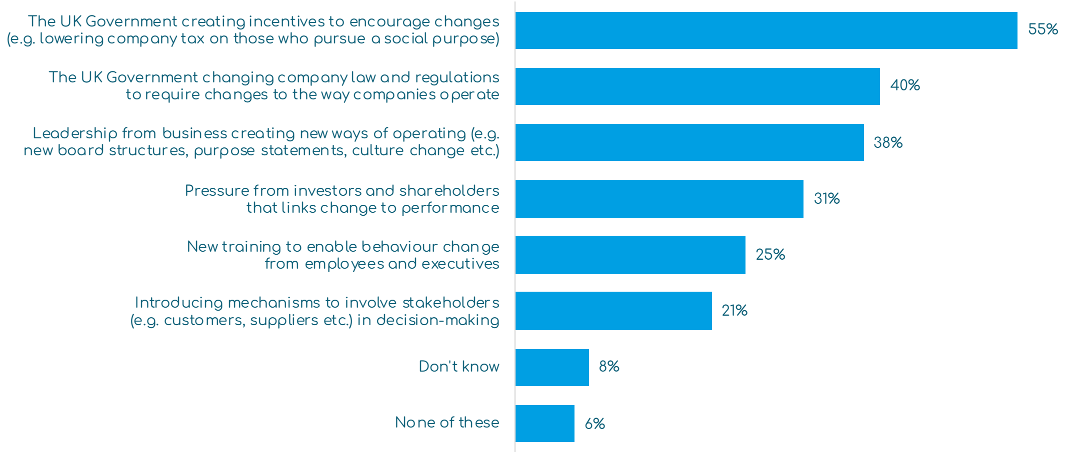
- **Identification:** It can be difficult to identify purpose-driven businesses,
- **Incorporation:** It is not clear how a company can be legally set up in a manner consistent with being purpose-driven,
- **Investment:** Purpose-driven companies can find it difficult to get purpose-aligned investment, and
- **Impact measurement:** It is hard for companies to prove that they are having a positive impact on society and the environment.

These four areas were identified through interviews with a wide range of stakeholders in the purpose-driven ecosystem; across the investment, entrepreneurial and established business communities; and through analysing relevant data. As part of this we drew on new polling from the British Academy, conducted by YouGov, of senior decision makers in business, to ask their views. The results of that poll are included throughout this paper.

One finding worth sharing upfront was what senior decision makers in business felt would be the most effective way of helping develop purposeful businesses, as action on many of them relate back to the four blockers we identify in this paper (see figure 1).

Figure 1: The views of senior decision makers in business on what would help develop purposeful businesses.

For the following question, we want you to think generally about purposeful businesses. By this, we mean businesses which are committed to a purpose, typically in terms related to finding solutions to problems of people and planet...Which, if any, of the following do you think would be the MOST important in helping to develop 'purposeful businesses' in the UK? (Please select all that apply)



Source: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 660 senior decision makers. Fieldwork was undertaken between 14th - 16th September 2020. The survey was carried out online. The figures have been weighted and are representative of British business size.

We welcome challenge and questioning of the perspective of this paper. Undoubtedly our view can be refined and improved, and ReGenerate is focused on continually learning to work out what will help purpose-driven businesses flourish in the UK and beyond.

While this paper stops short of proposing reforms, we hope it proves useful in providing clarity on some of the key issues that will need to be addressed if we are to see business play its full role towards helping tackle the great social and environmental challenges we face.

Our scope within the wider debate on purpose

The work of ReGenerate to make it easier to start, grow and lead a purpose-driven business is not happening in a vacuum. There are a number of other individuals, organisations and movements undertaking complementary and overlapping work to ensure that all businesses operate in an ethical and responsible manner. This work overlaps with ReGenerate's in that both are about getting the most out of businesses to help benefit society and the planet.

We felt it useful to outline two of the key movements outside of ReGenerate's scope, which are helping ensure all businesses take greater responsibility for their social and environmental impact, given how much we have learned from them and the significant overlap with ReGenerate's work. They are:

- Efforts to mandate companies to take greater responsibility of their social and environmental impact, and
- Reforms to advance non-financial reporting.

Both of these have potential relevance to purpose-driven businesses for a couple of reasons. First, a higher bar for all companies reduces the potential operational cost gap between businesses holding to higher standards and those who are not, making for a potentially fairer market. Second, it may help reduce the pressure that purpose-driven businesses can sometimes face to cut purposeful activity in favour of short-term profit. We briefly describe each in turn.

Efforts to mandate companies to take greater responsibility of their social and environmental impact

There have been concerted efforts to change the legal responsibilities of all companies to require them to focus more on their social and environmental impact.

For instance, the B Corporation movement and Social Value UK are campaigning for the key section of the UK Companies Act 2006 to be changed to ensure all companies take full account of their social and environmental impacts.[7]

This is also an active area of reform abroad. For example, French law changed in 2017 to require all companies over a certain size to proactively check they are doing no harm to people or planet, and in 2019 to require all companies to have a lawful corporate purpose, and for Directors to "[take] into consideration the social and environmental issues arising from its activity."[8,9]

Reforms to advance non-financial reporting

There is a clear direction of travel from regulators to increase the focus on companies' social and environmental impact, alongside reporting on financials. This is happening internationally, for example see the recent consultation on the European Commission non-financial reporting directive, and domestically, which we expand on below.[10]

In 2018 the Financial Reporting Council (FRC) revised its guidance to encourage businesses to report on impacts to wider stakeholders and longer term performance.[11]

In March 2019 the Government announced the creation of a new regulator, the Audit, Reporting and Governance Authority (ARGA), in response to the Competition and Market Authority, Kingman, and Brydon reviews in 2018.[12] It will:

- Have powers to direct changes to accounts and issue sanctions,
- Have duties to protect the interests of customers and the public by setting high standards of statutory audit, and
- Regulate the now separate audit profession directly.

7 How Do Companies Act?, Social Value UK, 2020 (accessed via howdocompaniesact.org/open-letter)

8 French Companies Must Show Duty of Care for Human and Environmental Rights, JDSupra, April 2017, (accessed via: https://www.jdsupra.com/legalnews/french-companies-must-show-duty-of-care-56981/)

9 French Legislation on Corporate Purpose, Robé, J-P., Bertrand Delaunay, B., and Fleury, B. Harvard Law School Forum on Corporate Governance, June 2019, (accessed via: https://corpgov.law.harvard.edu/2019/06/08/french-legislation-on-corporate-purpose/#1)

10 Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, the Impact Management Project, World Economic Forum and Deloitte, September 2020 (accessed via (29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf)

11 Revised guidance on the strategic report, Financial Reporting Council, July 2018 (accessed via www.frc.org.uk/news/july-2018/revised-guidance-on-the-strategic-report)

12 Audit regime in the UK to be transformed with new regulator, HM Government, March 2019 (accessed via www.gov.uk/government/news/audit-regime-in-the-uk-to-be-transformed-with-new-regulator)

Though not directly designed to measure just purposeful intent or impact, the simultaneous creation of ARGA and the impending announcement of the European Commission's non-financial reporting directive presents an opportunity to redefine the responsibilities and transparent accountabilities of companies to society.

As part of our section on Measurement later in the paper, we discuss the progress that has been made in harmonising the measures that could support this area of reform.

Why purpose-driven businesses are worth fighting for

Creating systemic changes that cut across law, government policy, investment and measurement standards is not straightforward. It is worth, therefore, reflecting on why it is worth it, and what purpose-driven businesses would add to the work of charities, social enterprises and profit-focused businesses.

The key reason is simple: purpose-driven businesses have the potential to make a positive difference to society and the environment, and at a pace and scale that can be difficult for other types of organisations to achieve. This is because they combine both integrity of intent to do good, with the ability to take on capital and scale, thereby affecting a significant number of people.

While the ecosystem supporting purpose-driven businesses is immature, there are a number of businesses that are aptly showcasing the good that such businesses can do. Anglian Water is deliberately providing jobs in areas that desperately need it, while Recycling Lives are giving work opportunities and wider support to those struggling with criminal records and homelessness. Togetherall is scaling access to mental health support, while Octopus Investments is responsible for 40 percent of the UK's large scale solar generation.[13] We have included in annex one, case studies of these companies, which were originally published in The Case for Purpose-Driven Business (July, 2020). We hope they inspire you as much as they have done us.

ReGenerate firmly believes that if the UK is to thrive in the aftermath of Covid-19, with issues such as unemployment, in-work poverty, systemic injustice and climate change being successfully tackled, then purpose-driven businesses will need to be enabled to play a bigger part in addressing them.

13 The Case for Purpose-Driven Business, ReGenerate, July 2020 (accessed via www.re-generate.org/the-case-for-purpose-driven-business

BLOCKER ONE

Identifying purpose-driven businesses

It can be difficult to identify purpose-driven businesses.

This matters because investors, employees, customers and other stakeholders want to prefer them. This is hard to do if they struggle to identify them.

It can be difficult to tell whether or not a company is purpose-driven. This is the case whether you are an employee, potential customer, investor, the government or another business considering a partnership with them.

This matters because it mutes so many of the benefits of being purpose-driven. We know that people want to work for, buy from and invest in purpose-driven companies.[14] Yet, if people cannot separate those who are really purpose-driven, from those who are simply using it as a marketing tool then it can take away some of the advantages of being purpose-driven.

In this chapter we explore ways in which someone can seek to identify purpose-driven companies, and some of the benefits and risks associated with seeking to make it easier to identify them.

It is important to note that we have included separate chapters on identification and measurement because our research has found them to be two crucially important, mutually reinforcing issues. If a company is committed to acting in a purpose-driven way (identification) but has persistently poor outcomes (impact measurement) then there is a concern that the company is not being successful at living out its purpose. Equally, if a company has a positive social and environmental impact, but no intent, then there could be concerns that this will not last. Furthermore, if pushed, they might game the measurement system, which will always be far from perfect.

14 The Case for Purpose-Driven Business. ReGenerate, July 2020 (accessed via www.re-generate.org/the-case-for-purpose-driven-business)

1.1 What is a purpose-driven business?

Before diving into this section, it is worth reminding ourselves what a purpose-driven business is. The most lucid definition, which is increasingly being adopted, including by ReGenerate, is that expressed by Professor Colin Mayer, the Academic Lead of the British Academy's Future of the Corporation programme:[15]

> "To produce profitable solutions to the problems of people and planet, and not to profit from producing problems for people or planet."
>
> **~ Professor Colin Mayer**

As set out in What is a Purpose-Driven Business? (ReGenerate, June 2020), this definition makes two assumptions. First, that purpose must go beyond the attainment of profit and, second, that it must have a positive impact on people and the planet. "Purpose", therefore, is shorthand for a "positive purpose beyond profit".

It is also the case that, for a company to be purpose-driven, their purpose needs to be part of the company's DNA and integrated into their business model. They need to care about the impact they have on everyone they are connected with including their employees, supply chain and customers, and they need to consider both the social and environmental implications of their business decisions.

1.2 How easy is it to identify purpose-driven businesses?

As articulated in What is a Purpose-Driven Business? (ReGenerate, June 2020), there are four things to look for to identify a purpose-driven business, as set out in figure 2 below. This is based on the excellent work by A Blueprint for Better Business, the In Pursuit of Impact study co-authored by Deloitte, DCMS and Big Society Capital, and McKinsey's recent article Purpose: Shifting from why to how.[16,17,18]

Figure 2: How can you spot a purpose-driven company?

If a company is purpose-driven, it will be reflected in all that they do.
Four helpful questions to ask when trying to spot a purpose driven business:

INTENT
Have they set out an authentic, practical and inspiring purpose that will benefit society?

BUSINESS MODEL
How central is the purpose to the core business model, does it reflect the core commercial activity and shape profit distribution?

GOVERNANCE AND OPERATIONS
Does the way the business is governed and operated reflect their purpose? Does the business care about people?

MEASUREMENT
Do they measure and seek to understand their impact?

15 Professor Mayer, C., Principles for Purposeful Business, The Future of the Corporation, The British Academy, 2019 (accessed via www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business)

16 Five Principles of a Purpose-driven Business, A Blueprint for Better Business, 2020 (accessed via www.blueprintforbusiness.org/wp-content/uploads/2019/12/Principles-and-Framework-v.-2019.pdf)

17 In pursuit of impact, Deloitte, Big Society Capital and Department for Digital, Culture, Media and Sport, 2016 (accessed via assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/574693/MLB_data_report_-_In_Pursuit_of_Impact.pdf)

18 Purpose: Shifting from why to how, McKinsey Quarterly, April 2020 (accessed via www.mckinsey.com/business-functions/organization/our-insights/purpose-shifting-from-why-to-how)

While there is much good work going on to help people identify purpose-driven businesses, it is still not easy. It is possible to investigate companies on an individual basis to determine whether they satisfy the four criteria above, however the time and effort involved makes this approach more suited to a committed potential employee or an investor with the resources to dig deep. It is unlikely to be a practical approach for many and it is not suitable at scale. For instance, it would not work for pension holders to try and investigate every company their pension is invested in.

There are some proxies that hint towards whether a company is purpose-driven or not, which we explore below. There are certification marks that can act as proxies, such as B Corporation and the Good Business Charter, but neither cover the vast majority of UK businesses. The most rigorous is the B Corporation certification, however, this currently covers only 395 businesses in the UK, with about 300 more currently going through the process.[19]

1.2.1 Certifications that hint towards purpose

There is a whole industry dedicated to helping businesses showcase their positive credentials in a public-friendly way. This ranges from certifications that assess the whole business, to ones focused on a particular part of their business, such as whether they pay the real living wage or are committed to being net zero of greenhouse gas emissions by 2050.

While none of these certifications are specifically focused on "purpose-driven business", they can provide a useful indication of intent, and are therefore worth understanding in the context of this debate. In figure 3 we showcase some of the more prominent ones.[20]

19 Chris Turner, Executive Director of B Lab UK in conversation with ReGenerate, September 2020

20 Please note that there are many more certification marks available in the UK and this section is intended, only, to give a flavour of some of the more well known ones available.

Figure 3: Certifications that can hint towards whether a company is purpose-driven

Whole business

B CORPORATION

Businesses undergo a rigorous Impact Assessment in 5 areas: Governance, Workers, Community, Customers and Environment. If they score highly enough they can become a "B Corp", once this score is independently verified and they have embedded purpose in their articles of association.

Launched in the UK in 2015, there are now 400 UK B Corps.

GOOD BUSINESS CHARTER

Companies are required to evaluate their operations in relation to 10 areas, such as whether they pay the living wage, have fair contracts, monitor diversity and inclusion and pair fair tax. It is a relatively light touch certification that can typically be completed within an hour.

Founded in 2019, there are now around 70 GBC companies in the UK.

Specific parts of business

FAIRTRADE

Fairtrade requires companies to pay sustainable prices with a view to addressing injustices of conventional trade.

Founded in 1992, there are now over 6,000 Fairtrade products, ranging from bananas to gold.

INVESTORS IN PEOPLE

A standard for people management that assesses the way businesses lead, develop and support employees. Founded by the government in 1991 to "make work better", there are now around 8,300 UK businesses signed up.

SCIENCE BASED TARGETS INITIATIVE

A science-based global standard for corporate net-zero target setting, aiming to ensure companies' net-zero targets translate into action.

It is a collaboration between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature .

991 UK companies are currently signed up.

LIVING WAGE FOUNDATION

Living Wage accredited organisations commit to paying a minimum wage of £9.30/hr (£10.75/hr in London). The amount is independently calculated based on what is considered necessary for people to get by.

Founded in 2001, there are over 5,000 "real living wage" employers in the UK.

Sources:

Chris Turner, Executive Director of B Lab UK in conversation with ReGenerate, October 2020

The Good Business Charter website, August 2020 (accessed via www.goodbusinesscharter.com)

The Fairtrade website, September 2020 (accessed via www.fairtrade.org.uk)

Investors in People Platinum, Motivational Preparation College for Training, May 2019 (accessed via mpct.co.uk/iip-platinum)

The Science Based Targets initiative website, September 2020 (accessed via https://sciencebasedtargets.org/about-the-science-based-targets-initiative)

Living Wage Foundation website, September 2020 (accessed via www.livingwage.org.uk)

1.2.2 Legal setups that hint towards purpose

Some businesses are set up in a way that suggests they are purpose-driven. There are two main ways in which companies seek to do this.

First, they may have written their purpose into their articles of association thereby making themselves legally responsible for the delivery of that purpose. This does not mean, however, that if a company has not written their purpose into their articles that they are not purpose-driven as there may be a few reasons why this is not the case, which we explore in chapter two.

Secondly, they may have used an incorporation type that by its nature embeds their purpose into the running of their business alongside returns for shareholders. Typically this could be by becoming a Community Interest Company limited by shares, a Cooperative or a Benefit Society. There are, however, relatively few businesses set up in this way as they do not work for the majority of companies, as we explore in more detail in the next chapter.

1.3 The benefits and risks of attempting to identify purpose-driven companies

In advance of considering how it might be possible to better identify purpose-driven businesses, which we will explore in the next paper in this programme, it is worth pausing to ask whether it is desirable and what the risks might be.

1.3.1 The benefits of better identification of purpose-driven businesses

There are significant benefits to being a purpose-driven company. As our previous research has shown, having a purpose beyond profit often leads to a company being more sustainable and successful in the long-run. For example, companies with a clear purpose and high management clarity delivered greater stock performance of up to 7.6 percent above those that did not.[21]

Much of this benefit comes from the fact that people want to invest in, work for and buy from companies that do good. For example:

- Polling conducted for B Lab UK and ReGenerate found that the UK public are almost five-times more likely to favour brands doing good in the world, than those who were not,[22]
- 38 percent of millennials initiated or deepened business relationships because they "perceived a company's products or services as having a positive impact on the environment", according to the Deloitte Global Millennial Survey 2020,[23] and
- Responsible investing is up a quarter in the years from 2017 to 2019 to $23 trillion, according to the Global Sustainable Investment Alliance.[24]

In a poll conducted by YouGov on behalf of The British Academy and discussed throughout this paper, we found that senior decision makers in business were just as likely to think that the role of business was to be purpose-driven as it was to maximise returns to shareholders (see figure 4). It is not a stretch to think that many of those who think this would be eager to work for purpose-driven companies if they could identify them.

21 The Case for Purpose-Driven Business, ReGenerate, July 2020 (accessed via www.re-generate.org/the-case-for-purpose-driven-business)

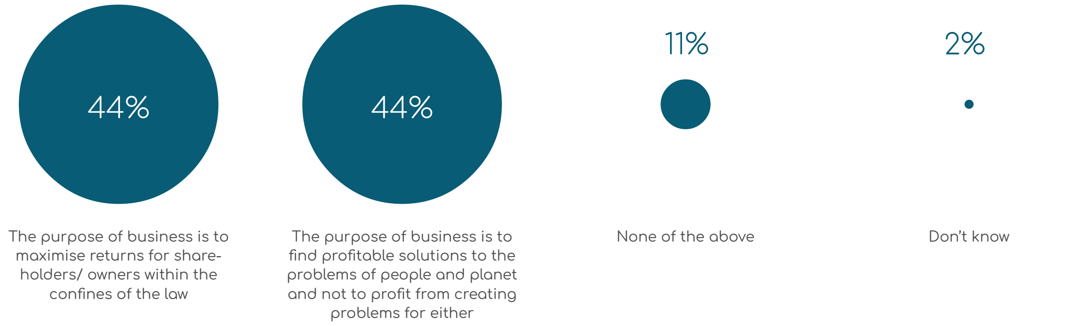
22 Ibid.

23 Ibid.

24 The future of business? Purpose, not just profit, World Economic Forum, January 2019 (accessed via www.weforum.org/agenda/2019/01/why-businesses-must-be-driven-by-purpose-as-well-as-profits)

Figure 4: The same proportion of business decision makers think the role of business is to be purpose-driven as think it is to maximise return to shareholders

Which ONE, if either, of the following statements do you think BEST reflects the role businesses have in society?

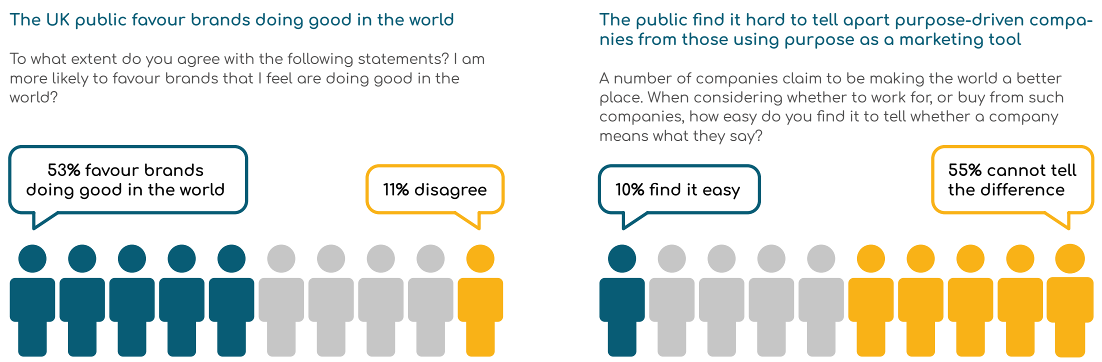


Source: British Academy Purposeful Business poll: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 660 senior decision makers. Fieldwork was undertaken between 14th - 16th September 2020. The survey was carried out online. The figures have been weighted and are representative of British business size.

For the full effects of these benefits to be felt, however, requires people to be able to identify purpose-driven businesses. At the moment, the public struggles with this. In polling conducted for B Lab UK and ReGenerate, just one in ten respondents could identify companies doing good versus those just talking about it. 55 percent said they could not tell the difference (see figure 5).

If people can better identify purpose-driven companies then it is highly likely that those companies will be more successful, creating a virtuous cycle as this will encourage more companies to have a positive purpose beyond profit.

Figure 5: The public favour brands doing good but find it hard to find them



Source: The Case for Purpose-Driven Business, ReGenerate, July 2020 (accessed via www.re-generate.org/the-case-for-purpose-driven-business)

1.3.2 The risks of seeking better identification of purpose-driven businesses

There are a number of risks associated with attempting to better identify purpose-driven businesses. If it were not possible to do so without addressing them then there would be a question as to whether it was a good step to take. We explore three key risks below.

- **Doing identification badly:** It might not be possible to identify purpose-driven companies well and doing this badly could be worse than the status quo. The whole point of helping people know which companies are purpose-driven is that people, whether they are investors, employees or consumers, can make more informed decisions. And, as an extension of that, for purpose-driven businesses to thrive because people want to support them.

If the method of identification was flawed to the extent that it excluded too many purpose-driven businesses (false negatives) or included too many who were not (false positives), then the method and standard would not be trusted, and so prove counterproductive.

- **Setting conditions for entry:** The conditions for entry would need to be pitched at the right level. It would be a mistake if the bar were so low, such that companies that were not purpose-driven were labelled as though they were. This would aid "purpose" or "green" washing. Equally, if the bar were too high it could make it too difficult for many companies to identify in this way.

  With this in mind, it will be interesting to observe how the new French legislation to create a new corporate type plays out in practice. The Société à Mission requires companies to write their company's purpose into their by-laws and set up an ad hoc committee to monitor and report on them, but leaves the obligations at that.[25]

- **Classification:** We need to ensure that the term "purpose" is not captured by any narrow view of what the word means. This is because each company's purpose is unique to them and any overly controlling approach to defining what purpose meant for all companies could prove counterproductive.

Discussion points

The next step for this research project is to start considering the systemic reforms that might help tackle these, and any other potential barriers to seeing purpose-driven businesses flourish in the UK and beyond.

Towards that end, there are a number of questions we will investigate off the back of this initial discussion paper on the topic of identification. They include:

- Can purpose-driven businesses be identified in a way that deals with the risks listed above? If so, how?
- Should identification be a binary thing, or something that is graded?
- What approach will reduce false positives, without being too bureaucratic?
- How should the overlaps between incorporation type, identification and measurement best be managed?
- How can we make it easy and attractive for purpose-driven businesses to go through a process which leads to being externally identified as one?

25 Segrestin, B., et al., When the Law Distinguishes Between the Enterprise and the Corporation: The Case of the New French Law on Corporate Purpose, Springer Link, January 2020 (accessed via link.springer.com/article/10.1007/s10551-020-04439-y)

BLOCKER TWO

Incorporation of purpose-driven businesses

It is also not clear how a company can be legally set up in a manner consistent with being purpose-driven.

This matters because the legal set up of the company not only signals their intent, but also is a crucial means of using the law to protect a company's purpose.

The current legal framework within which businesses sit is broadly permissive of operating in a purpose-driven way. It is not, however, obvious or easy for purpose-driven companies to operate under, which can lead to them being legally incorporated in ways that do not adequately protect their purpose, and can create confusion for Directors over what their incorporation type means for their company's purpose.

The key concern for purpose-driven companies is that their legal set up may be overly orientated towards shareholder interests. This risks Directors being left exposed to a fiduciary responsibility to their shareholders that supersedes, and therefore risks erosion of, their purpose.

The British Academy Purposeful Business polling shows that the current legal and regulatory environment is, in the eyes of senior decision makers in business, more focused on shareholders' interests, with the majority of them believing this to be the case.[26]

The poll also found that there is significant demand from senior decision makers in business for a purpose-driven approach, with an equal number thinking that businesses should take this approach as those who think they should be focused on maximising shareholder return. It is important, therefore, that there are suitable options for such companies and that there is clarity on what legal protection they have.

26 Responses to the following question were as follows: "For the following question, we want you to think about the current legal and regulatory environment for business in the UK...Whose interests, if anyone, do you think the legal and regulatory environment for business in the UK are more focused on?" 52% More focused on shareholders' interests,, 35% Both share the same amount of focus, 15% More focused on society's interests and 8% Don't know

In this chapter we explore the three main ways in which UK businesses can currently be incorporated and how well they serve the interests of purpose-driven businesses:

- A regular limited company,[27]
- A regular limited company, with their purpose written into their articles, and
- Through an alternative incorporation type.

We have focused less on alternative incorporation types here as the overwhelming majority of the UK's businesses are set up as regular limited companies, and the restrictions within alternative incorporation types have made them less suitable to many businesses. A full list of incorporation types and their relative popularity is provided in annex two.

2.1 Setting up and operating as a regular limited company

The overwhelming majority of companies are set up and operate as regular limited companies, without having their purpose written into their articles of association. For instance, in 2019-20, 71 percent of new company incorporations were set up in this way, using model articles provided by Companies House, rather than writing their purpose into bespoke articles.[28]

Companies set up in this way are subject to a crucial part of the Companies Act 2006, Section 172(1), under which directors must "ensure the success of the company" while having "due regard to" a number of social and environmental issues, as listed in box 1.

Box 1: Companies Act 2006, Section 172 (1) and (2)[29]

Duty to promote the success of the company

1. A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to

   a) the likely consequences of any decision in the long term,

   b) the interests of the company's employees,

   c) the need to foster the company's business relationships with suppliers, customers and others,

   d) the impact of the company's operations on the community and the environment,

   e) the desirability of the company maintaining a reputation for high standards of business conduct, and

   f) the need to act fairly as between members of the company.

2. Where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes.

27 We have used the term "regular limited company" to include both private and public companies, limited by both shares and guarantee, excluding Community Interest Companies, Industrial and Provident Societies, and other company types such as Partnerships.

28 Percentages of new incorporations under bespoke articles were provided by Companies House on request for the years from 2015-16 to 2019-20. In 2019-20, 29.3% of UK companies incorporated using bespoke articles, hence 71% were incorporated under model articles, as these are the only two options. See annex one for more details.

29 Companies Act 2006, Section 172. (accessed via www.legislation.gov.uk/ukpga/2006/46/section/172)

During our research interviews, we heard a number of concerns that this legal basis was too focused on shareholder rights for purpose-driven companies. Charlotte Villiers, Professor of Company Law and Corporate Governance at the University of Bristol Law School told us:

> "While there was an intent to ensure companies were not solely focused on the needs of shareholders, at the potential expense of all else, this has not proven to be the case with Section 172 of the Companies Act 2006. Backed up by the case law that has flowed from it, this provision has effectively set up UK Companies to allow their directors discretion to prioritise shareholder needs, since their duty merely to 'have regard' to the interests of stakeholders does not sufficiently protect those wider interests."

~ Professor Charlotte Villiers

This is a view echoed by Professor Colin Mayer, the Academic Lead of the British Academy's Future of the Corporation programme, who wrote about 172(1):[30]

> "In effect, given that 'members' are almost entirely shareholders, directors should therefore take account of the interests of shareholders, and only consider other stakeholders if that furthers the interests of shareholders. The Act therefore enshrines what is sometimes termed "enlightened shareholder value". The problem this creates is that it does not permit directors to further interests of stakeholders at the expense of shareholders and it does not provide protection to companies that promote purposes beyond shareholder value."

~ Professor Colin Mayer

This view is, however, not unanimous. We have heard from those working directly with companies that, in practice, the legal set up is not the biggest concern for companies seeking a purpose-led approach. Charles Wookey, Chief Executive of A Blueprint for Better Business told us:

> "In our work it is rare for us to hear executives referring to Section 172 of the Companies Act as a blocker to becoming a truly purpose-led company. The 2018 corporate governance code has given a helpful steer in putting purpose at its heart and makes clear that the current law is permissive of a purpose led approach. Section 172 does not say that Directors have a duty to maximise shareholder value. In fact they don't have to maximise anything, and can take balanced decisions which optimise for purpose."

~ Charles Wookey, A Blueprint for Better Business

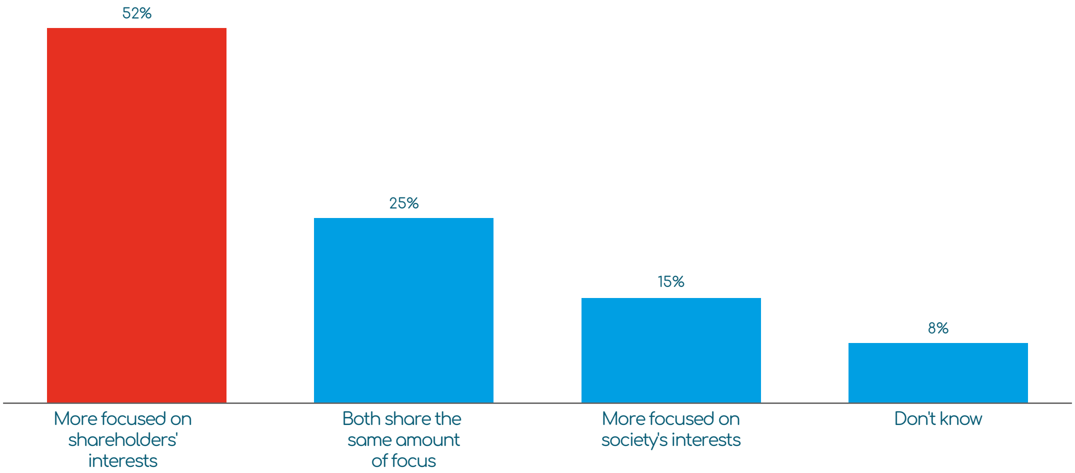
There is, however, evidence from the British Academy Purposeful Business poll that senior decision makers in business, as a whole, feel as though they operate in an environment primarily focused on shareholder interest: over half of business decision makers believe that the legal and regulatory environment is more focused on shareholders interests, compared with 15 percent who thought it was focused on society's interests (see figure 6).

30 Professor Mayer, C., Principles for Purposeful Business, The Future of the Corporation, The British Academy, 2019 (accessed via www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business)

It is clear that, at the very least, companies incorporated in this way do not have a clear and unambiguous legal protection for their purpose and therefore it risks the erosion of their purpose.

Figure 6: Senior decision makers in business think the legal and regulatory environment is shareholder focused

For the following question, we want you to think about the current legal and regulatory environment for business in the UK... Whose interests, if anyone, do you think the legal and regulatory environment for business in the UK are more focused on?



Source: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 660 senior decision makers. Fieldwork was undertaken between 14th - 16th September 2020. The survey was carried out online. The figures have been weighted and are representative of British business size.

2.2 Writing purpose into the articles of association

All companies have the option of writing their purpose into their articles of association. When they do, section 172(2) of the Companies Act 2006 (see box 1) offers direct legal protection for the company to pursue that purpose.

It is technically possible for a company to set themselves up in this way, or for them to change their articles to include their purpose with the permission of shareholders, and for a negligible fee. An online tool has even been set up to help companies do this, called Purposely (see box 2).

Box 2: Purposely[31]

Purposely is a simple, web-based tool that supports company founders in embedding purpose into their company articles. After filling in a short set of questions, founders are directed to one or more recommended examples of company articles, alongside tips on how to adapt them to their purpose, and legal support with drafting and registering them at Companies House.

While this approach to incorporation is very helpful for purpose-driven businesses we have heard of a few challenges with it, which we set out below.

31 Purposely website, September 2020 (accessed via getpurpose.ly)

2.2.1 Writing purpose into articles is not an obvious option for purpose-driven entrepreneurs

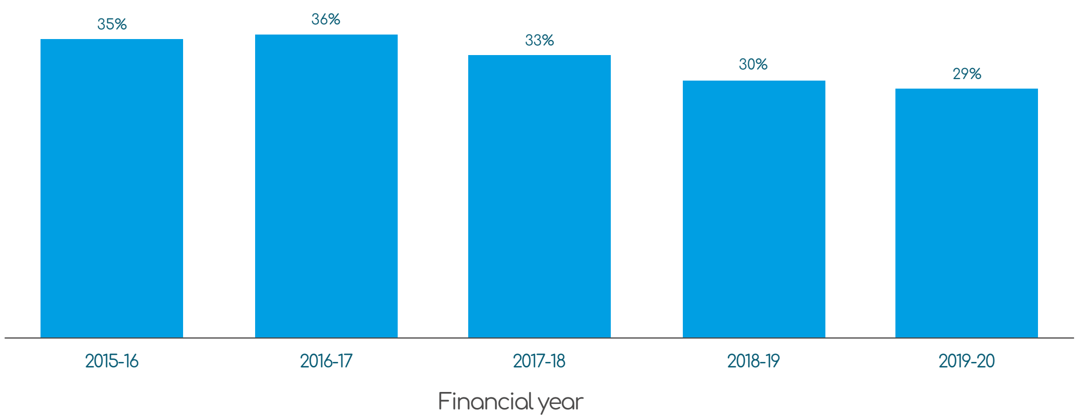
Writing the purpose of a company into its articles is not an obvious option when a company is being set up. None of the model articles available at Companies House include any purpose statement, the guidance does not prompt directors to think about it and it is rare that legal advisors raise it with business founders. Louise Harman, Partner at the law firm Bates Wells told us:

> "When someone is thinking about setting up a company the current Companies House infrastructure and company formation agents do not prompt a founder to think about purpose. This means that most founders adopt default model articles and do not embed purpose into their articles, regardless of whether purpose is important to their business or operations.
>
> This is a shame, as writing a purpose into the articles is a great way of protecting that purpose, particularly during periods of growth or taking on new investment and showing people what you are all about. It is also fundamental to shaping director decision making, strategy and attracting aligned partners and investors."

~ Louise Harman, Partner at Bates Wells law firm

This has undoubtedly contributed to low take-up, with just 29 percent of new incorporations in 2019-20 doing so under bespoke articles, the lowest level in five years (see figure 7).

Figure 7: Percentage of companies incorporating under bespoke articles by year



Source data: Percentages of new incorporations under bespoke articles were provided by Companies House on request for the years from 2015-16 to 2019-20. A total number of companies incorporated under bespoke articles is not available, meaning it is not possible to know the total percentage of companies that have either incorporated in this way or transitioned to model articles.

Furthermore, the relevant legal guidance in the Companies Act 2006 makes clear that it is to apply only to exceptionally altruistic companies.[32] This was picked up by Professor Colin Mayer:[33]

> "The provision therefore already exists within UK company law for companies to put purpose at their heart, but it is very rarely used because the notes to the Act make clear that it should apply in exceptional circumstances in what are described as 'altruistic' companies."
>
> **~ Professor Colin Mayer**

This matters because it is possible for purpose-driven entrepreneurs to not realise this is an option, or that it applies to them, and thereby miss the opportunity to embed their purpose into their articles at the beginning before they potentially take on outside investment. Scott Erwin, founder of Hire Hand, told us:

> "I set up Hire Hand to make a difference - it was driven by my passion to help those who were struggling to get work that was flexible enough for their schedule and paid them on time, every week. I had no idea I could have baked this purpose into our company through writing it into my articles. If I had known, I would have done, and it would have definitely proved useful when it later came to investor conversations, as the intent of what I was going to do would have been clearer as would the direction I was taking the company."
>
> **~ Scott Erwin, founder of Hire Hand**

2.2.2 It is difficult for established companies to later write their purpose into their articles

Established businesses can face significant hurdles when attempting to change from regular to bespoke articles that include their purpose. The action of changing a listed company's articles requires at least three-quarters of shareholders to agree, which carries the dynamic of 'turkeys voting for Christmas' as they are voting to end prioritisation of their own interests over other stakeholders.[34]

It follows that activating this course of action is a bold and potentially risky move for Directors. Doing so relies on both exceptionally deep consensus and belief at executive and board level that it is the right thing to do despite potential hurdles, and a level of confidence in the purpose-mindedness of shareholders. The risk of losing a major shareholder due to single-minded profit focus is very real.

This view is backed up by the British Academy polling of senior decision makers in business. While 63 percent said that their business was taking steps to become more purposeful, only eight percent said their business was revising their Memorandum and Articles of Association to reflect their company purpose (see figure 8).

32 Note 317, Companies Act 2006, Legislation.Gov, 2020 (accessed via www.legislation.gov.uk/ukpga/2006/46/notes)

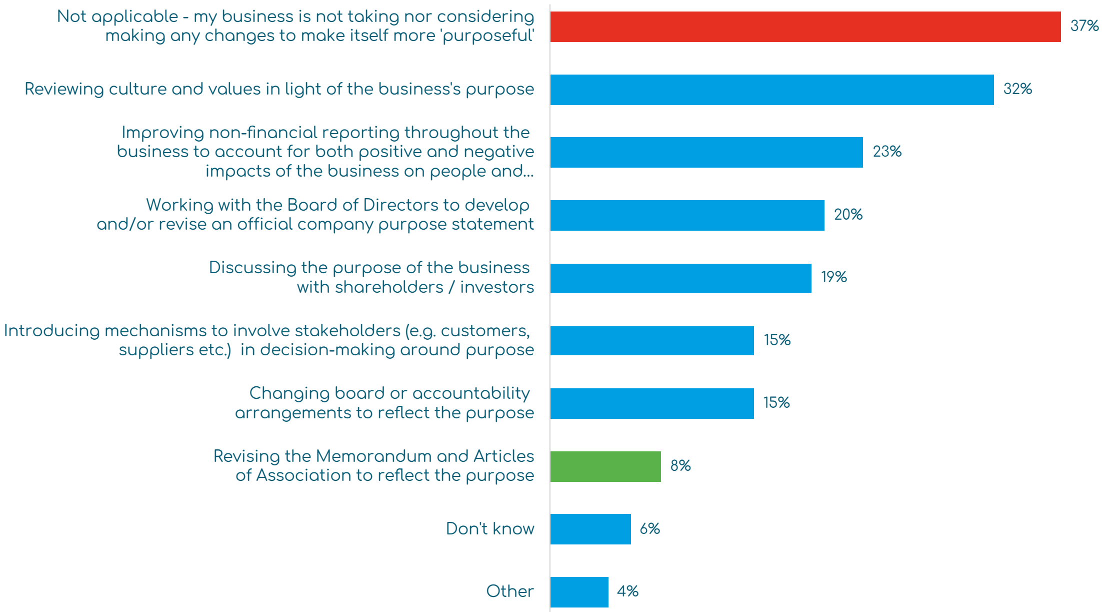
33 Professor Mayer, C., Principles for Purposeful Business, The Future of the Corporation, The British Academy, 2019 (accessed via www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business)

34 Make changes to your private limited company, HM Government, September 2020 (accessed via www.gov.uk/make-changes-to-your-limited-company/get-agreement-from-your-company)

Though many companies do successfully incorporate under bespoke articles, these two challenges are genuine blockers to many purpose-driven companies' ability to legally protect their purpose under the model provided by Section 172(2).

Figure 8: While 63% of businesses are taking steps to become more purposeful, only 8% are seeking to write their purpose into their articles of association

Again, we want you to think generally about purposeful businesses. By this, we mean businesses which are committed to a purpose, typically in terms related to finding solutions to problems of people and planet... Which, if any, of the following steps has your business taken or considering taking to make itself more 'purposeful'? (Please select all that apply. If your business has not taken or is not considering making any changes to make itself more 'purposeful', please select the 'Not applicable' option)



Source: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 660 senior decision makers. Fieldwork was undertaken between 14th - 16th September 2020. The survey was carried out online. The figures have been weighted and are representative of British business size.

2.3 Setting up and operating under an alternative incorporation type

Having analysed the available incorporation types for a purpose-driven business (see annex two), the two alternatives to a Standard Limited Company that come closest to enabling a purpose-driven model are Cooperatives and Community Interest Companies (CICs) limited by shares.

Both incorporation types carry Inherent requirements for the consideration of stakeholders other than shareholders, while allowing profit generation and payment of (often capped) dividends to shareholders.[35]

35 What is a CIC?, Dixon Wilson, October 2019 (accessed via www.dixonwilson.com/technical-updates/community-interest-companies-cics#:~:text=The%20maximum%20aggregate%20limit%20%E2%80%93%20the,for%20up%20to%20five%20years)

However, uptake is low. Even when counting all CICs and Community Benefit Societies (which include Cooperatives), they represent less than one percent of all organisations in the UK.[36] Though our research has not yet extended to investigate why, anecdotally we understand that both are significantly more burdensome to set up than a Standard Limited Company, and restrictions on investor returns may put off entrepreneurs who want to attract investment.

Discussion points

This initial research has revealed that there is, at the very least, a lack of clarity and understanding over what protection of purpose is provided under the current legal framework, particularly for the majority of companies which incorporate under model articles using Section 1721(1). There is also a very real question over whether or not there is any suitable incorporation type for purpose-driven businesses. We will investigate this further in our forthcoming paper on systemic reforms, and explore questions including the following:

- Are the current incorporation options sufficient to support purpose-driven companies to thrive in the UK? If not, what alternative incorporation type would be most appropriate?
- How can purpose-driven entrepreneurs be better supported to consider the most suitable incorporation type for them?
- Is it desirable for established purpose-driven companies operating under Section 172(1) of the Companies Act 2006 to pivot across to a different incorporation type? If so, how would they best be enabled and supported to do so?
- What would be useful to ensure there is clarity for businesses over the best incorporation type for them?

36 Original analysis by ReGenerate, based on the following data set: Companies register activities: statistical release 2019 to 2020, HM Government, June 2020 (accessed via www.gov.uk/government/statistics/companies-register-activities-statistical-release-2019-to-2020)

BLOCKER THREE

Investment into purpose-driven businesses

Purpose-driven companies can find it difficult to get purpose-aligned investment.

This matters because whether investors are supportive of a company's purpose can make a big difference as to whether a company continues to remain purpose-driven.

It is important that, should they need it, companies can attract investment that supports them to operate in a purpose-driven way. This is the case whether they are a fledgling business, a more established business needing investment to scale its impact, or one transitioning to a purpose-driven model. In particular, investor alignment with the purpose can help protect it, particularly where the current legal framework falls short.

In this chapter we explore some of the options and challenges that purpose-driven entrepreneurs and established businesses face when it comes to accessing appropriate investment to grow their businesses and their social and environmental impact.

It is worth noting that this is a significant, and complex topic. We do not seek to cover every facet of it but instead represent just a few of the key points that have come up in our research from entrepreneurs, business leaders and investors themselves.

3.1 Purpose-driven entrepreneurs

Purpose-driven entrepreneurs often have a choice between pursuing both mainstream and impact investment. This choice is, however, tempered by the fact that the scale of impact investment is far smaller than mainstream investment and under-represented at both early and late growth stages. We explore these options below.

3.1.1 Taking on mainstream investment

Mainstream investment can work for purpose-driven entrepreneurs. We heard from both investors and entrepreneurs themselves that, when they have built their companies such that their purpose is a clear part of their value proposition, mainstream investment can work well.

This is backed up by the evidence we gathered in The Case for Purpose-Driven Business (ReGenerate, July 2020), which showed that there was a strong business case for purpose-driven companies, as they tended to be more sustainable and successful than their non-purpose-driven equivalents.[37]

Henry Jones, CEO of Togetherall, summarised it well:

> "Increasingly mainstream investors are realising the value of purpose, which means that we can gain investment on mainstream markets and have full alignment with these investors. They realise that our purpose is a core component of what makes us a valuable investment proposition."
>
> **~ Henry Jones, CEO of Togetherall**

This can present a risk, however, when there is a trade off between the purpose of a company and profitability. We heard how this can happen, for example, when companies are in their early stages of growth and seeking to identify and refine their purpose and how they can generate profit through that purpose. In these cases, taking on mainstream investment could lead to a dilution of a company's purpose due to the lack of alignment between Directors and investors. For instance, Danyal Sattar, Chief Executive of Big Issue Invest told us:

> "Specialist purpose-minded investment is not always needed. Where there is a real alignment between the purpose of a company and their means of being successful and generating profit, a purpose driven company may be as successful as any other for profit company in raising mainstream investment. This is not, however, always the case. I have seen companies go off mission by taking on investment that was not aligned with their purpose. I've seen commercial investors encouraging targeting a more profitable market segment, with a lower social impact."
>
> **~ Danyal Sattar, Chief Executive of Big Issue Invest**

3.1.2 Taking on impact investment

There are some clear benefits to taking on purpose-aligned investment. This is, in part, because they are not neutral on a company's purpose, but instead care deeply about it. We heard from LetUs Grow, for example, about how they were supported in their purpose in a way they may not have been by a mainstream investor:

37 The Case for Purpose-Driven Business, ReGenerate, July 2020 (accessed via www.re-generate.org/the-case-for-purpose-driven-business

> “It was great to get early-stage investment from an impact investing firm, as they supported us to invest in people, well being, and impact in a way that I don’t think we’d have got from other investment sources that would be less focused on helping us to deliver our purpose, as well as becoming a profitable company.”

~ LetUs Grow

This was reiterated by Ida Levine at the Impact Investing Institute:

> “Impact investing has a critical role to play in supporting purposeful businesses because of a commonality of interests on desired outcomes.”

~ Ida Levine, Board member and Policy/Regulation Lead Expert, Impact Investing Institute

We also heard from Melanie Hayes, Managing Partner as Bethnal Green Ventures that such support is especially useful in earlier stages of growth:

> “Specialist impact investment can make a real difference to a purpose-driven founder. It is especially useful in earlier stages of growth as it means investors will give a founder the capital, support and space to focus on how they are going to embed their purpose into every part of their business model, in a way that they might find it difficult to persuade a mainstream investor.“

~ Melanie Hayes, Managing Partner, Bethnal Green Ventures

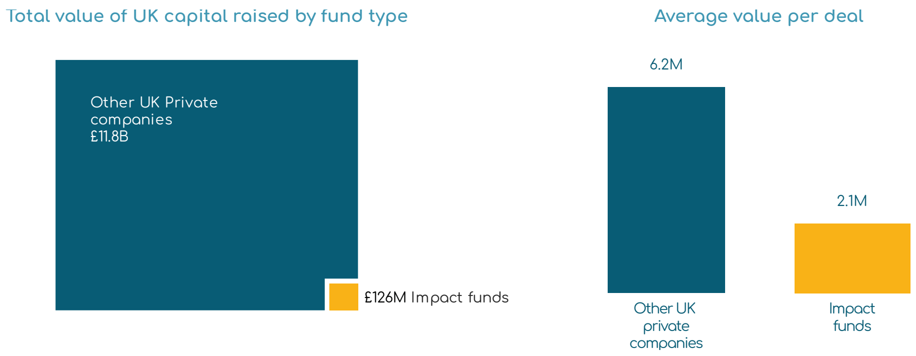
There were, however, two concerns with the impact investment market that we heard in our research: it is not big enough; and there is a lack of investment at early and late stages. We look at each below.

3.1.3 While impact investment is growing, it is still relatively small

With thanks to Beauhurst for their generous support, we have investigated the relative scale of equity backed impact investment into the UK private companies.

Over the past eight years, announced equity investment backed by impact funds has more than doubled, growing from £44.4m in 2011 to £126m in 2019 (see figure 10). However, in 2019, these investments made up just one percent of the equivalent mainstream investments by value, and just three percent of the total number of equivalent mainstream deals. Furthermore, the average value of impact investment deals was about a third of the average value of equivalent mainstream deals. (see figure 9).

Figure 9: Comparison of UK capital raised by fund type in 2019



Source Data: Beauhurst, Social Impact Investing in the UK 2020, (https://www.beauhurst.com/blog/impact-investing-top-funds-companies-and-trends/)

Impact investments: Announced equity investment into UK private companies through impact funds. To identify these funds, Beauhurst focussed on intent and purpose, and have included funds that have explicitly stated that the social impact of a company is central to investment decisions, rather than funds whose social impact and environmental benefits are a byproduct of their philosophy or sector restriction. In accordance with EQ Investors, they have also only picked funds that are investing in companies whose products and services are making a positive impact. This excludes those who operate in an ethically, environmentally and socially responsible manner, regardless of the purpose of their products and services (commonly known as ESG investing). A list of the 29 funds included in this data can be downloaded through the footnoted article.[38]

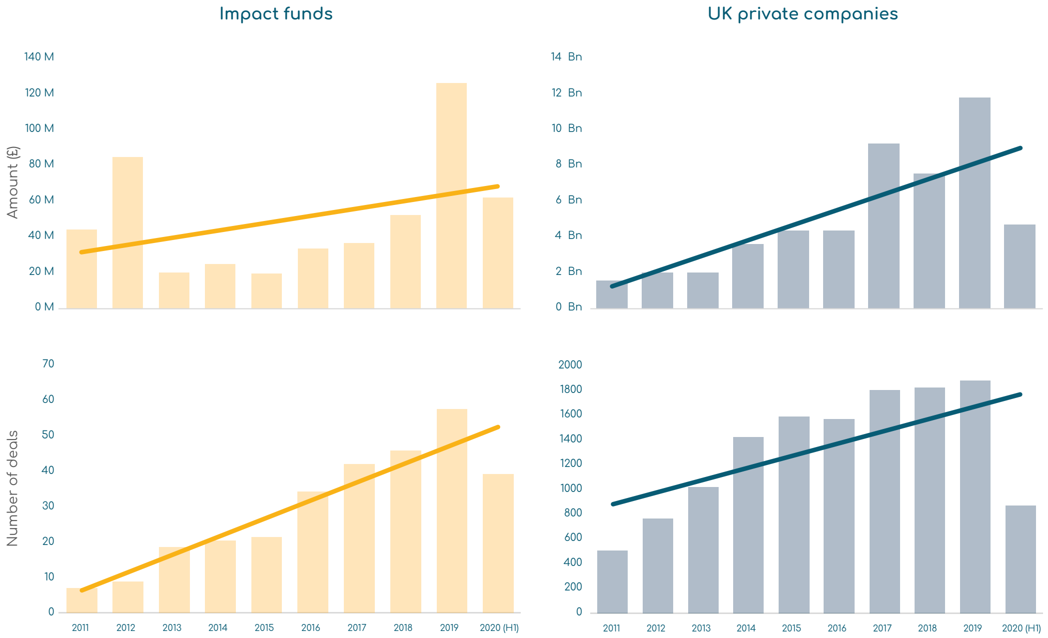
All equity investments: Announced equity investment into UK private companies, minus Impact investments.

Date range: 2019

Moreover, although impact investment volume and overall value of deals are growing, they are growing only at the same pace of mainstream private equity investment as a whole, which means, in relative terms, they are not increasing (see figure 10).

Figure 10: Impact fund growth rate is comparable to other UK private investment

Source Data: Beauhurst, Social Impact Investing in the UK 2020, (https://www.beauhurst.com/blog/impact-investing-top-funds-companies-and-trends/)



Date: Date range: 2019

Impact investments: Announced equity investment into UK private companies through impact funds. To identify these funds, Beauhurst focussed on intent and purpose, and have included funds that have explicitly stated that the social impact of a company is central to investment decisions, rather than funds whose social impact and environmental benefits are a byproduct of their philosophy or sector restriction. In accordance with EQ Investors, they have also only picked funds that are investing in companies whose products and services are making a positive impact. This excludes those who operate in an ethically, environmentally and socially responsible manner, regardless of the purpose of their products and services (commonly known as ESG investing). A list of the 29 funds included in this data can be downloaded through the footnoted article.[39]

All equity investments: Announced equity investment into UK private companies, minus Impact investments.

38 Social Impact Investing in the UK 2020, Skingle, H., Beauhurst, June 2020, (accessed via www.beauhurst.com/blog/impact-investing-top-funds-companies-and-trends/)

39 Social Impact Investing in the UK 2020, Skingle, H., Beauhurst, June 2020, (accessed via: https://www.beauhurst.com/blog/impact-investing-top-funds-companies-and-trends/)

Nesta conducted a similar analysis using alternative data sets, and reached a similar conclusion: *"In the UK, Impact venture investments constituted <0.5% of all UK VC activity in 2019, and just over 1% of transactions under $25m."*[40]

The closest attempt there has been to sizing the whole market has been an exercise by Big Society Capital four years ago, who found that UK social investment was at £1.5bn at the end of 2015, of which approximately £450m was focused on social enterprises and profit-with-purpose companies with no asset lock.[41]

Though we have led with the Beauhurst data due to its recency, direct comparability, and alignment with our definition of a purpose-driven business, it seems there is no definitive and regularly updated sizing of investment in purpose-driven business, as comparable to mainstream private investment in the UK.

3.1.4 Under-representation at accelerator and buy-out stages

The accelerator and buy-out stages of growth are particularly under-represented amongst impact investors (see figure 11)[42]. This paucity of opportunities at both ends of an entrepreneur's journey is a concern for the purpose-driven ecosystem. Melanie Hayes from Bethnal Green Ventures agreed, saying that:

> "It is definitely the case that there are too few specialist impact investors at early and buy-out stages. We welcome co-investors at the earlier stages, and know that our companies would be delighted if they had more opportunities down the line to sell to someone who cared about the purpose of their company."

~ Melanie Hayes, Managing Partner, Bethnal Green Ventures[43]

At earlier stages, scarcity of purpose-driven investment can slow down both the establishment and growth of purpose-driven businesses. The lack of options at buy-out stages can make it more likely that a purpose-driven entrepreneur will sell to an investor who is not purpose-aligned, and could also reduce the chance of someone attempting to grow a purpose-driven enterprise if they do not believe they will be able to exit.

40 In conversation with ReGenerate, September 2020

41 The size and composition of social investment in the UK, Big Society Capital, 2017, (accessed via https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/The_size_of_and_composition_of_social_investment_in_the_the_UK_3.pdf)

42 BVCA members within the impact investment industry and the broader market, BVCA, 2018 (accessed via https://www.bvca.co.uk/Our-Industry/Impact-Investment/Impact-Investment-in-Private-Equity-Venture-Capital/BVCA-members-within-the-industry)

43 In conversation with ReGenerate, October 2020

Figure 11: BCVA mapping of self-identifying impact investors to company development stages

Source Data: British Venture Capital Association (adapted)

3.2 Larger, established businesses

The investor pressure felt by large organisations can have a significant bearing on how strategies are developed, major decisions are made and how they respond in a crisis. Front-of-mind for any board will be the prospect of losing a major investor, or finding themselves bargaining to keep them.

In the context of purpose-driven business, this pressure can work to erode purpose or, in some cases, encourage it. The increasing shift to purpose in the investment system has been recognised in the banking community, for example Kirsty Britz from NatWest Group told us:

> "The expectations of banks have changed significantly in recent years, with investors looking for us to deliver not only financial performance but a positive contribution to society, benefiting customers, colleagues and communities as well as shareholders. Being purpose-driven is not only the right thing to do, there is a clear commercial imperative."
>
> **~ Kirsty Britz, Director of Sustainable Banking, NatWest Group**

In this section, we look at how this investor influence can form and flow through the investment system, and look at some of the implications of it.

3.2.1 The source of investor pressure

The investment system that surrounds established businesses is complex. As a result, it is difficult to identify one definitive source of the investor pressure purpose-driven companies can face. This is further complicated by the increasing popularity of passive index funds, where investment decisions are made by algorithms in place of active, human, fund managers.[44]

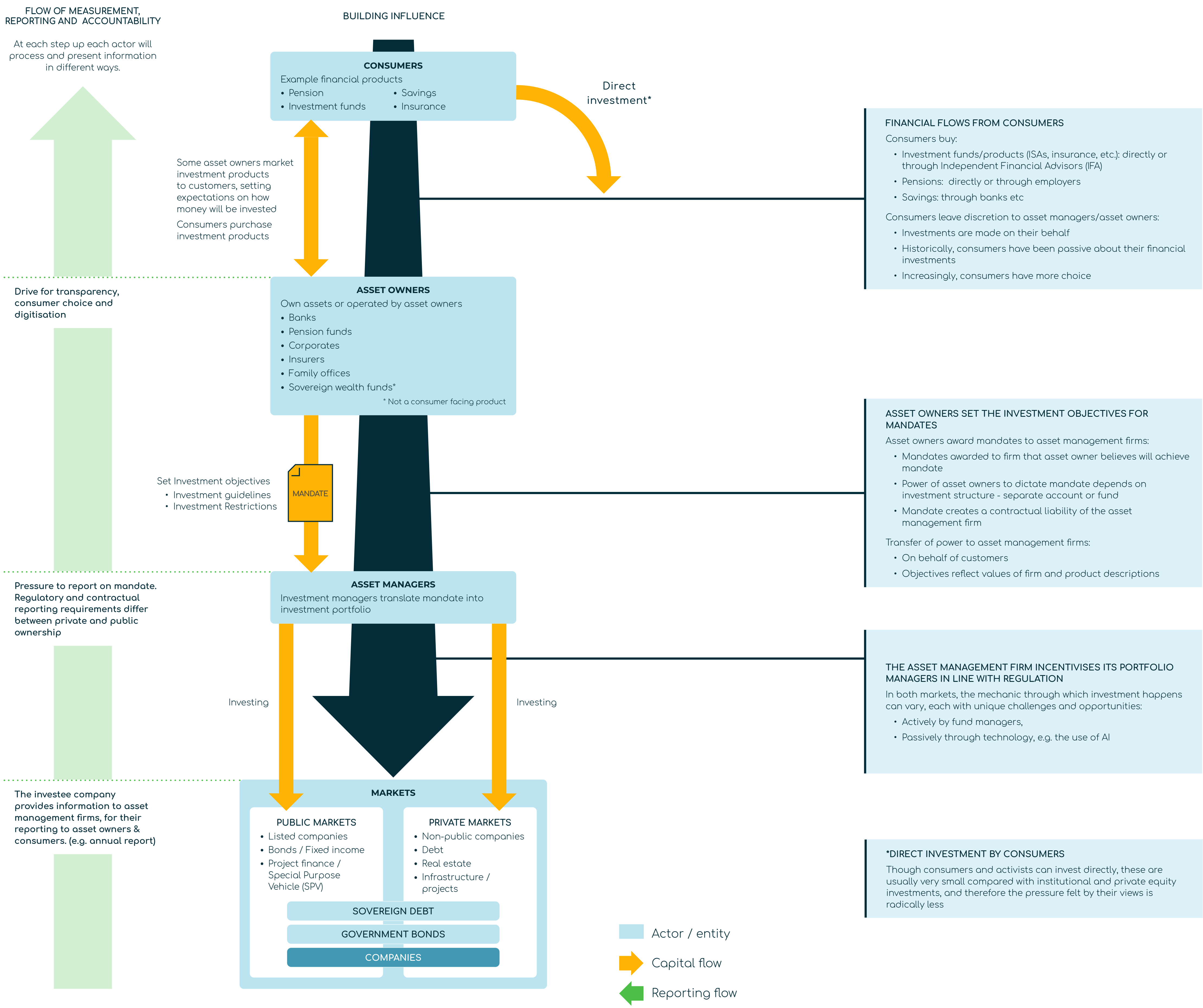
We share a basic view of the investment system in figure 12. The purpose of this is to show how the myriad of different actors and their incentives, responsibilities and pressures can work to affect those businesses they invest in.

We extend particular thanks to Louise Hosking and the team at Schroders, Ida Levine at the Impact Investing Institute, and Richard Brass at Berenberg for their help in developing this picture.

44 How the rise of passive index funds is deepening the climate crisis, Buller, A., NewStatesman, March 2020, (accessed via https://www.newstatesman.com/politics/environment/2020/03/how-rise-passive-investment-funds-deepening-climate-crisis)

A map of the UK investment system

Figure 12: How investor influence flows through the UK investment system



We start at the bottom of our diagram with **Companies** themselves. The investor influence that is particularly felt by companies will come from those with the largest investments, often (and for the sake of simplifying this explanation) **Asset Management Firms**. A large **Company's** interface with major investors will typically be direct to these firms, and indirectly through the analysts they listen to.

However, **Asset Management Firms** are not investing their own assets. They are agents, investing on behalf of others: **Asset Owners** (the next layer up), and will be operating to a mandate that they are contractually bound to meet. This mandate includes investment objectives that they have agreed with the **Asset Owner**, such as their appetite for risk, expectation of returns over a time period, and the types of company that should or should not be included in a fund. The mandate is important to the **Asset Owner** as it reflects the commitments they have made to their customers, which include **Consumers** who have chosen their products, at the top of our diagram.

An **Asset Management Firm's** failure to meet its mandate carries serious consequences due to the knock-on effect through the system. For example, if consumers have been sold an 'ethical' pension product but it transpires that investments were made in some irresponsible companies, it could result in reputational and commercial damage to the pension firm, thereby triggering serious penalties for the **Asset Management firm**.

We now come full circle to the scenario of a **Company** feeling pressure from a major investor that could impact its purposeful endeavours. If something the **Asset Management Firm** is hearing causes them to lose confidence that their expectations will be met, they are contractually bound to question whether the investment can continue.

3.2.2 How this system can affect purpose-driven businesses

We have heard from a number of larger businesses that pressure from the investment system can pull them in the direction of focusing on short-term profitability, rather than staying true to their purpose and seeking profit through the delivery of that purpose.

Freddie Woolfe, an investment professional, interviewed fifteen corporate executives and investors on this, and summarised the issue well:

> "Some [interviewees] mentioned income demands, where companies could find themselves hamstrung by a dividend that might either restrict their ability to invest or worse over-distribute to the detriment of the business. Additionally, some corporate interviewees were concerned that investors don't sufficiently understand the practicalities of certain aspects of how a business is run, which can hamper discussions on the implementation of purpose and its relevance in various scenarios.
>
> An example of some of these differences could be seen in differing views on how to measure investments related to purpose, with investors broadly expecting return on investment to be a key criteria whereas corporates were more willing to balance this with what they deemed the right thing to do."

~ Freddie Woolfe, an investment professional

Another dimension of this downside is when there is an opportunity for investors to make a significant gain, but at the expense of the purposeful impact of the company. The case of Unilever highlights the dilemma between protecting the purpose-driven model of a company, and generating a significant windfall for Asset Owners and the end customers they represent (see box 3).

Box 3: Unilever's defence against a hostile takeover bid

On 17th February 2017, Brazilian-owned 3G Kraft-Heinz launched a hostile takeover bid for Unilever, which was jointly listed in the UK and The Netherlands.

Unilever

In 2010 Unilever re-energised its purpose, publishing its Unilever Sustainable Living Plan and its purpose statement: 'To make sustainable living commonplace'. This reflected recognition of how the product, customer and wider community all played roles in achieving sustainable living, and Unilever's ambition to grow.[45]

The purpose would serve as a plumbline which Unilever's people, from top to bottom and in every geography, could use to make decisions. Over the next 10 years, in the context of delivering strong returns for shareholders, Unilever put in the hard yards to embed this purpose in all aspects of its model.[46]

By 2017 impacts included helping more than 1.3 billion improve their health and hygiene, sustainable sourcing of 99.6 percent of palm oil and 88 percent of key crops, 65 percent reduction in CO2 emissions from energy in manufacturing since 2008, and helping 1.8m small-scale retailers worldwide improve income.[47]

45 Our Strategy for Sustainable Growth, Unilever, 2010 (accessed via www.unilever.com/sustainable-living/our-strategy)

46 Opinion piece for Financial Times, Stewart Investors, February 2017 (accessed via www.stewartinvestors.com/en-gb/news/unilevers-brand-of-responsible-capitalism-should-be-lauded)

47 Making sustainable living commonplace for 8 billion people, Unilever, 2020 (accessed via www.unilever.com/sustainable-living/ten-years-on)

News of hostile takeover

At 10.30am on Thursday 17th February 2017 Alphaville (Financial Times' online news site) leaked the news that Brazilian-owned 3G Kraft-Heinz had launched a hostile takeover bid, offering an 18 percent bonus on their share price.[48,49]

The two businesses had radically different models, and there was a strong view from the outset that a takeover by Kraft would carry a risk of Unilever being asset stripped, undermining its current and potential societal impacts.[50]

The defence relied upon goodwill towards Unilever, not the law

Although the official window in which to mount a defence is 28 days, it is widely understood in the world of Mergers and Acquisitions that, if a hostile bid is still on the table after 7 days, there is a ninety percent or more chance it will succeed. In practice, for Unilever, this left just a few days to mount any sort of defence.

Under the Companies Act, a Directors' duty is to advise shareholders on whether to accept a bid or not. Although other factors can be considered this, ultimately, comes down to shareholder value.

In the case of Unilever, an 18 percent bonus on the share price represented a major windfall to shareholders, and the only justification for not submitting it to shareholders for approval would be to hold out for a stronger offer from the bidder.

A legal challenge to resist a hostile bid would need to be based on Section 172 of the Companies Act 2006, citing the responsibility of company Directors to have 'due regard' for other stakeholders. However, the complete lack of case law indicates strongly that legal action on this basis would not be successful.

Specifically in the case of Unilever, one senior member of the team told us:

> **"What became clear quickly is that S172 of Companies Act does not provide effective cover in practice to Directors of publicly listed companies if they wish to balance shareholder interests with other stakeholder interests in the company."**

~ Sue Garrard, EVP Sustainable Business and Communications, Unilever, 2010-2018

The Board was unanimous that the Kraft-Heinz bid was not compatible with the Unilever multi-stakeholder model. Faced with the limitations of the Companies Act to defend against the bid, Unilever instead chose to use its power, and the goodwill it had built, to orchestrate a campaign highlighting the misfit between Kraft-Heinz and its own operation. Two and a half days after the takeover bid was launched, it was taken off the table.

The aftermath let to an erosion of Unilever's purpose

To woo shareholders, Unilever bought back €5bn of shares, alongside a 12 percent increase in its dividend and a doubling of planned cost cuts to €2bn by 2020, resulting in a 20 per cent operating profit margin by the same year. Paul Polman, CEO at the time, later expressed regret over doing this due to its corrosive implications for Unilever's positive impact on stakeholders.[51]

48 Friday, 17th February, 2017 live markets commentary from FT.com, Alphaville, 2017 (accessed via ftalphaville.ft.com/marketslive/2017-02-17)

49 Unilever rejects $143bn Kraft Heinz takeover bid, Financial Times, 2017. Accessed via: https://www.ft.com/content/e4afc504-f47e-11e6-8758-6876151821a6

50 Kraft case showed limits to UK's power to intervene, Financial Times, February 2017, (accessed via https://www.ft.com/content/e24ca166-f694-11e6-bd4e-68d53499ed71)

51 Unilever chief admits Kraft Heinz bid forced compromises, Financial Times, February 2018 (accessed via www.ft.com/content/ea0218ce-1be0-11e8-aaca-4574d7dabfb6)

On the flip side, there are some signs of the investment system increasingly putting pressure on companies to focus more on their responsibilities towards all shareholders and their social and environmental impact. For example, there are new movements, such as Make My Money Matter and ShareAction, who are seeking to empower individual pension holders and businesses to ensure their pension is invested in a responsible way (see box 4). There are also changes coming from asset managers. For example, UBS became the first Asset Manager to make sustainable investments the preferred path for its clients and Schroders SustainEx tool which measures the costs companies would face if all of their negative externalities were priced, or the boost if benefits were recognised financially (see box 4 in the next chapter).[52]

We include these positive shifts to highlight how the very system that can negatively impact purpose-driven endeavours by companies, can be geared to proactively support them.

Box 4: Examples of how new initiatives are encouraging purpose within the investment system

Some feel that in order for the voice of the individual to be heard within the flow of influence in the UK investment system, they must be brought together (see figure 12). The following are examples of movements, targeting the individuals to influence pension investments and investment firms to influence businesses.

Make My Money Matter

Make My Money Matter is a community-oriented movement calling for people, organisations, the government and industry, to request or provide transparency of where pension money is being invested, and to demand that it is invested to build a better future. Their premise is to encourage individuals to use their pensions as a combined voice to add pressure on their employers and pension providers to better reflect their values. This would result in investment focusing on companies with a positive impact. This translates into greater transparency and accountability provided through impact measurement, as discussed in the next chapter.

> **"We need to make it easier for people to invest with their values and then for that money to flow in an accountable way through to initiatives that are really going to deliver."**

~ Dame Elizabeth Corley, former CEO of Allianz, Global Investors, July 2019[53]

ShareAction and the Living Wage Foundation

When investment firms have a sizable proportion of shares in a business, they are able to use their share power as leverage, in some cases to encourage more responsible performance from business. ShareAction and the Living Wage Foundation are targeting investors, suggesting they could encourage their portfolio of companies to adopt the real Living Wage.[54]

52 UBS is first to make sustainable investments the preferred path for clients of its $2.6 trillion wealth management business, Market Watch, September 2020 (accessed via www.marketwatch.com/story/ubs-is-first-to-make-sustainable-investments-the-preferred-path-for-clients-of-its-26-trillion-wealth-management-business-2020-09-10)

53 A toolkit for Pledge Partners Make My Money Matter Toolkit, Make My Money Matter, 2020 (accessed via www.makemymoneymatter.co.uk/wp-content/uploads/2020/06/MMMM_PartnerPledge_Toolkit_v5.pdf)

54 Hepher, S., Hargreaves, R., Lilley M., and Buttle, M., Investing in the living wage. A toolkit for responsible investors, Living Wage Foundation and ShareAction, September 2020 (accessed via https://www.livingwage.org.uk/sites/default/files/Investing%20in%20the%20Living%20Wage%20toolkit.pdf)

Discussion points

Whether a fledgling venture, a large private company or a listed corporation, purpose-aligned investment is a crucial protection for, and enabler of, running a purpose-driven business. Having highlighted some of the gaps and challenges faced when securing such investment, we propose a number of questions for further exploration:

- How can access to purpose-aligned investment be made more accessible to purpose-driven entrepreneurs?
- What should be the responsibilities of actors in the investment system towards purpose-driven businesses?
- What opportunities for purpose-driven businesses are presented by the current momentum surrounding responsible investment?
- What reforms are needed to prompt greater support for purpose-driven businesses throughout the investment management system?

BLOCKER FOUR

Impact measurement

It is hard for companies to prove that they are having a positive impact on society and the environment.

This matters because it enables purpose-driven companies to demonstrate their social and environmental impact to stakeholders, helping them attract greater investment and wider support, and optimise their business to achieve profits through their purpose.

Being able to demonstrate that they are having a positive social and environmental impact is vital to purpose-driven businesses. By their very nature, purpose-driven businesses exist to not only make a profit, but to benefit people and the planet. Without good measurement, it is not possible for them or their stakeholders to know whether they are being successful in their quest to benefit the world.

With robust, comprehensible measurement in place, purpose-driven businesses can prove to their stakeholders the impact they are having and therefore benefit from being preferred by those stakeholders. In a marketplace where there is a homogenisation of products, being able to state purpose and demonstrate impact can positively influence a purchase decision or help to justify a higher price point.[55] Measurement can, therefore, become the difference that makes the difference. Importantly, for a truly purpose-driven business, measurement will be in its DNA and it will want to learn how its actions are leading to impact, and how it can improve its impact further.

Measuring impact is complementary to, but different from the identification of purpose-driven businesses, which we discussed in chapter one. Intent and impact measurement go hand in hand. If businesses just care about obtaining good impact ratings, then there is a chance that metrics will be gamed. Equally, for businesses that signal their good intent but without sight of whether they are making a positive difference on the world, it is impossible to know whether they are being successful.

55 The Case for Purpose-Driven Business. ReGenerate, July 2020 (accessed via www.re-generate.org/the-case-for-purpose-driven-business)

While measurement, then, may be difficult, it is important. Sir Ronald Cohen summarised it well in his book, On Impact.[56]

> "Many dismiss impact measurement as impossible, or at best difficult and expensive. Yet the absence of measurement comes at great cost to the world."
>
> **~ Sir Ronald Cohen**

In this chapter, we explore:

- Why good measurement is important,
- The current impact measurement landscape, and
- Recent developments that could be a cause for optimism.

4.1 Why good measurement is important

Purpose-driven businesses are, by their very nature, trying to not just create a profitable business but also benefit society and the environment. If they do not have good measurement to rely on, then they, and their stakeholders, have little means with which to know whether they are living out their purpose successfully.

Good measurement helps purpose-driven businesses in two main ways: it provides them with a feedback loop on how they are performing against their purpose; and signals to their stakeholders whether they are improving their social and environmental impact, in turn unlocking investment and the potential for incentives to be offered.

4.1.1 Measurement provides businesses with a feedback loop on their impact

For a business to successfully optimise their performance not just for financial return, but also social and environmental impact, then it is crucial that they understand the impact that they are having.

Measurement allows a purpose-driven business to understand if it is succeeding in creating a positive impact and if it is causing any negative, unintended consequences. It also helps a business to better understand causality so that key performance indicators can be set alongside targets and incentives in a way that prompts action towards its purpose.

There is clearly something attractive about the simplicity of a single, monetary indicator of success for a business. However, the nature of our interconnected planet, with complex societies and ecosystems, mean that too much is left unseen, unmeasured and unaccounted for.[57] Businesses that are successful in assessing the impacts they cause, through quantitative or qualitative feedback loops, will be better equipped to make optimisations or trade-offs that align with their purpose-driven strategy.

56 Cohen, R., On Impact: A guide to the impact revolution, November 2018 (accessed via www.onimpactnow.org/the-complete-guide-index)

57 Kate Raworth, Doughnut economics. Seven Ways to Think Like a 21st-Century Economist, April 2017

4.1.1.1 The cost-benefit of transparency

Embracing measurement can be a challenge (see box 5 that illustrates some aspects of impact measurement that relate to businesses). On the one hand, there is the potential of a skills deficit, which leads to questions on whether to in-source or outsource measurement capabilities. There is also the potential for other significant embedded costs associated with measurement.

However, this can also create possibilities. Many businesses that have begun the process of the B Corporation questionnaire have remarked on how it has created transparency on areas of their business that were previously opaque and inspired structural change.

> "The B Impact Assessment, beyond being a practical, useful tool, was like a CAT scan of our organization's effect on society."
>
> **~ Jed Davis, Cabot Cheese (a Certified B-Corporation)[58]**

Box 5: Aspects of impact measurement that relate to businesses

Good impact measurement is hard and not everything that is important can be measured. We have outlined some crucial enablers of good measurement, which lead to the myriad of positive benefits from getting measurement right, and aiding avoidance of the harmful impacts of poor measurement.

Transparency: In other sectors that share the goal to achieve positive outcomes on society or the environment (such as government, humanitarian, development and charity organisations) transparency is critical.[59,60,61] Transparency reveals the complex relations between cause and effect, which can then be viewed internally or shared externally. For businesses, ensuring people can view the results and can respond appropriately which enables performance monitoring and accountability.

Performance monitoring: Businesses are adept at using measurement to drive their performance, whether for internal optimisation or to attract investment. Setting performance goals relating to impact indicators, and monitoring progress towards those goals, will enable a new breed of business optimisation for the delivery of profits through a company's purpose.

Accountability: Visibility of performance against impact indicators will allow businesses to attract capital from the growing pool of ESG investment, and allow investors to determine if the business is aligned with its own investment strategy and in some cases to hold them to account.

Measuring what is important: Though it can be tempting to measure only what is easy, measuring the impact of a purpose-driven business also requires a focus on measuring what is important. The following examples show why impact measurement is not straightforward and hints as to why specialist expertise may be needed in some circumstances:

- Cause and effect timescales might not fit neatly into reporting cycles,
- Qualitative indicators, like quality of life and wellness, can be hard to represent as a number, and
- Complexity caused by multiple touchpoints and external factors might mean that claiming attribution of impact is not always possible, thereby making it hard to establish the incremental effect of the businesses actions.

58 Case studies, B impact assessment (accessed via https://bimpactassessment.net/case-studies)

59 Greater Transparency, Inter-agency Standing Committee (accessed via interagencystandingcommittee.org/greater-transparency)

60 Supporting Grand Bargain signatories in meeting commitments to greater transparency, ReliefWeb, June 2020 (accessed via reliefweb.int/report/world/supporting-grand-bargain-signatories-meeting-commitments-greater-transparency-june-2020)

61 Open Government Data, OECD (accessed via www.oecd.org/gov/digital-government/open-government-data.htm)

Over-heavy focus on few, easily measurable metrics over the important can lead to unforeseen unintended and negative impacts.[62] For example, when an indicator, such as GDP or profit, is given such significance, then it can become the only measure upon which to optimise. In essence, it becomes the tail that wags the dog.

Customisation vs. standardisation: No two businesses are alike and every business has a unique purpose. Purpose-driven businesses will want to use measurement to highlight their unique selling points and to demonstrate their impact, and therefore measure according to their needs. At the same time, there needs to be comparability of impact measurement indicators across businesses and sectors, which has led to the creation and adoption of a variety of standards. Standards have the benefit of creating uniformity in how information is reported and presented, and ideally how it is measured.

Validation and verification: Where results are self-submitted or not independently validated there is the risk of Garbage-in, Garbage-out (GIGO). If the skills and tools required for accurate measurement are immature, this can have significant implications further down the chain.[63,64]

Simplicity belies complexity: Single monetary indicators might be easy to understand but not everything can be assigned a monetary value that can be commoditised and traded. Therefore, we move into a vastly complex domain where philosophical and practical contentions are rife, where 'current' scientific norms can be replaced with new knowledge and the presentation of information can become convoluted and messy.

Business leaders and investors are central actors in both creating and consuming measures and the frameworks they sit within. We cannot expect them to be experts in the vastly complex domains of social issues or the environment, nor can we expect them to "just be left to it." This can lead to well-intentioned actors falling foul of poor data, poor analysis and/or poor reporting; if BooHoo was awarded a AA rating by MSCI for above-average labour standards can investors be blamed for its inclusion on ESG funds?

This is a systems design problem that points to the complexity of what information is consumed and by whom, and that the technological platforms that present information need to be simple enough to be understood but nuanced enough to allow defensible informed choices.

4.1.2 Stakeholders can understand whether a business is having a positive impact

Further to understanding whether or not a company has a purpose beyond profit, stakeholders will often need to know whether or not a business is having a positive social and environmental impact, or at least improving their impact. It could lead to governments rewarding these businesses, potential employees and investors prioritising them and customers choosing their products or services.[65,66]

In particular, demonstrating impact can be the key to unlocking a strong flow of capital and incentives. Environmental, Social and Governance (ESG) investing, where environmental and social factors are taken into account for investing strategies, is becoming more widespread and, although imperfectly, is looking for impact in businesses (see box 6):

62 Goodhart's law - definition and meaning, Market Business News (accessed via towardsdatascience.com/unintended-consequences-and-goodharts-law-68d60a94705c)

63 Rozen, M., Ethical investors want more proof of good deeds, Financial Times, April 2020 (accessed via www.ft.com/content/5c943b66-5a22-11ea-abe5-8e03987b7b20)

64 Olsson, E., ESG data management under spotlight as investments grow, Bobs Guide, May 2020 (accessed via www.bobsguide.com/guide/news/2020/May/4/esg-data-management-under-spotlight-as-investments-grow)

65 Porter, M., Serafeim, G. and Kramer, M., Where ESG fails, International Investor, October 2019 (accessed via https://www.institutionalinvestor.com/article/b1hm5ghqtxj9s7/Where-ESG-Fails)

66 Global Millennial Survey, Deloitte, 2020 (accessed via www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html)

> "Now, however, asset managers, insurers and banks are starting to see ESG as a centrist principle (much like cost, compliance and customer experience) that must be incorporated into the very core of the organisation's decision-making and strategic processes. It is the lens through which the board and executive team view their future. It is the prism through which they demonstrate their values and purpose."

~ James Liddy, KPMG[67]

With ever more start-ups setting purposeful ambitions, it becomes a challenge for angel investors to be able to cut through the mission and purpose statements to find the businesses making a positive impact too:

> "With so many start-ups claiming to have a positive social impact, we want to back founders who are intentional in delivering impact that is also integral to their commercial success. We want to build evidence that our investment is growing their positive impact over time. This relies on robust impact measurement that is deliverable and meaningful for a busy, growing business."

~ Lisa Barclay, Nesta Impact Investments

Box 6: ESG and purpose-driven businesses

ESG is deeply relevant to purpose-driven businesses, but there are some key differences that we thought it worth highlighting.

While a good ESG score may hint at a company being purpose-driven, it does not mean it is. Firstly, some elements of ESG scoring are not particularly robust yet, particularly the Social dimension, as evidenced by our Boohoo case study in box 8.[68]

Secondly, there is a difference between the external motivation driven by a framework such as ESG and the internal motivation within a company to be a positive influence on society and the environment. ReGenerate believes both external and internal motivators are helpful, especially when used in tandem.

4.2 The current impact measurement landscape

Much work has gone into accurately measuring the social and environmental impact of businesses over the past few decades with numerous impact measurement frameworks being developed. As a result, the current impact measurement landscape is complex and can be difficult to navigate, for example, see the following quote from KPMG just referring to the ESG landscape:

67 Liddy, J., A new view on value. Page 4, Frontiers in Finance Issue 62, KPMG, May 2020 (accessed via home.kpmg/ie/en/home/insights/2020/06/frontiers-in-finance.html)

68 Markets reward companies that treat workers well in a crisis. Marsh, A., Bloomberg, July 2020 (accessed via https://www.bloombergquint.com/business/markets-reward-companies-that-treat-workers-well-in-a-pandemic)

> "A significant number of frameworks and voluntary standards already exist for ESG reporting, even running into the hundreds. But in fact, this is part of the problem. There are so many that for some preparers it can be hard to know which one to follow."
>
> **~ Brown, King & Klein. KPMG**[69]

Most, if not all, efforts for standardisation of measurement are focused on impact measurement, applicable to all business types, and are not targeted specifically at purpose-driven businesses. There are a few different areas where there has been a particular surge in activity:

- Businesses developing their own systems,
- Measurement organisations helping businesses with standards and technical frameworks,
- A proliferation of ESG aggregators,
- Investors creating their own frameworks, and
- Attempts to harmonise impact measurement

We recognise that this is a rapidly changing and developing field and therefore any observations described here are very much made at a point in time. Nor have we attempted to map the entire landscape or assess the quality of existing measures. Rather, our intention is to illustrate the depth and complexity of the landscape by describing some of the different approaches that have been taken.

4.2.1 Businesses developing their own systems

Businesses can be innovators within, and customers of, the measurement landscape. A common step for businesses engaging with more complex purpose-aligned measurement is reporting on a sub-set of indicators that are materially related to the purpose of their business.

For example, a retailer with a clear purpose around creating 'good jobs' could invest in continual learning for staff and provide clear career pathways from entry level jobs. However measuring the true impact of these efforts with integrity is hard to do, potentially requiring innovation in the way data is collected and analysed. There may not be a ready-made framework available for this particular 'fingerprint' of impact measurement, and tracking down and applying the closest ones might be a significant job in itself. This can lead to businesses taking on the role of developing an appropriate system themselves, which can come at some expense.

69 Frontiers in Finance issue 62, KPMG, May 2020 (accessed via home.kpmg/xx/en/home/insights/2020/05/towards-consistent-and-comparable-esg-reporting.html)

4.2.2 Measurement organisations helping businesses with standards and technical frameworks

In response to the complexity, of impact measurement and requirement for standardisation to enable comparability across businesses, a whole industry of impact measurement and technical frameworks has been born.

Despite having the goal of creating standards, the current landscape now provides many options for a purpose-driven business to select from. To illustrate the complexity we have attempted to collate the main frameworks and approaches that are currently being used the most, set out in box 7. This is illustrative, and we are aware there are some we may have missed.

Box 7: Impact measurement frameworks

Carbon Accounting

Specifically designed to address the issues caused by greenhouse gas emissions, Carbon Accounting looks to measure, and include in firms' financial reporting, a company's annual emissions of carbon, including by-products such as carbon dioxide.[70] Guidance for Carbon Accounting includes standards such as the GHG Protocol and ISO standards.[71,72,73]

Environmental Profit & Loss

Devised by Puma and launched in 2011, Environmental Profit and Loss looks to account for all of the environmental impacts (first beginning with Greenhouse Gas and water usage, before graduating to also include air pollution, land conservation, and waste) implicated in a company's supply chain.[74,75,76]

Full/True Cost Accounting (Triple Bottom Line)

Based upon the premise of full-cost accounting, in which the entirety of the end-to-end indirect and fixed costs of manufacturing a product or service are included in its costing, environmental full cost accounting looks to also collect and present the costs from an environmental or social perspective too. The three bottom lines can be summarised as People, Planet and Profit. TBL has been adopted and adapted by many organisations yet it has not brought around the systems change originally envisioned by its creator, hence in a recent article he recognised its, and other measurement approaches, and looks forward to their evolution.[77]

Integrated Reporting

Integrated Reporting, particularly as promoted by the International Integrated Reporting Council, seeks to incorporate non-financial reporting into companies' annual and / or quarterly reporting requirements, ensuring that ecological or social costs are also accurately reported when a company gives an account of itself.[78]

70 Carbon accounting, Nature, October 2018 (accessed via www.nature.com/collections/xhrmtzsxct)

71 Greenhouse Gas Protocol (accessed via ghgprotocol.org)

72 ISO 14064-1:2018. Greenhouse gases - Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals, ISO, December 2018 (accessed via www.iso.org/standard/66453.html)

73 ISO 14064-3:2019. Greenhouse gases - Part 3: Specification with guidance for the verification and validation of greenhouse gas statements, ISO, April 2019 (accessed via www.iso.org/standard/66455.html)

74 PUMA: Environmental Profit and Loss Account, Trucost ESG analysis, February 2012 (accessed via www.trucost.com/publication/puma-environmental-profit-loss-account)

75 PUMA and PPR HOME announce first results of unprecedented environmental Profit & Loss Account, Kering Finance, May 2011 (accessed via www.kering.com/en/news/puma-ppr-home-announce-first-results-unprecedented-environmental-profit-loss-account)

76 Environmental Profit & Loss, Kering Finance, 2020 (accessed via www.kering.com/en/sustainability/environmental-profit-loss)

77 Elkington, J., 25 Years Ago I Coined the Phrase "Triple Bottom Line." Here's Why It's Time to Rethink It, Harvard Business Review, June 2018 (accessed via hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it)

78 International <IR> Framework, Integrated Reporting, December 2013 (accessed via https://integratedreporting.org/resource/international-ir-framework)

Social Return on Investment

Conducted both as forecasts and retrospectively, Social Return on Investment intends to capture the social value created by an historical or prospective investment, by gathering inputs and accounting-for the impacts on all potentially-implicated stakeholders of a transaction.[79]

Total Societal Impact

Developed by Boston Consulting Group's Henderson Institute in 2017, Total Societal Impact aims to provide a more integrated view on a company's Total Shareholder Return and Social Impact, which had hitherto been separate and distinct considerations. In combining the two to show both a company's return and impact, the goal is for a more holistic view of a company's overall value and contribution to society to be presented.[80]

As such, it looks to incorporate a number of different elements on top of shareholder return, including but not limited to all ESG metrics, but also including the more intrinsic benefit to society of the product or service produced (a life-saving drug, for example), and jobs creation as a result of the company's supply-chain activities.

UN Sustainable Development Goal Indicators

Alongside the lofty ambitions of the seventeen UN Sustainable Development Goals (SDG), which were announced in 2015, are 174 targets and 231 unique indicators.[81] Charities, social enterprises and businesses increasingly want to align activities with the SDGs. As such, tools are entering the market that help businesses integrate or align their reporting alongside the SDG framework (see GRI in box 10: Attempts to harmonise measurement).

Workforce Disclosure Initiative: The Workforce Disclosure Initiative (WDI) aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide. As of 2019, the WDI investor coalition is made up of 49 institutions, with $6.5 trillion in assets under management. The WDI survey is aligned with other reporting frameworks including DJSI, GRI, the UNGPs and the SDGs, and offers a comprehensive and comparable reporting system.[82]

4.2.3 A proliferation of ESG aggregators

ESG criteria emerged from increasing calls for 'responsible investment' from customers and investors. Financial institutions developed frameworks to enable them to assess an organisation's performance relating to environmental and social impacts and how it was governed.

ESG ratings are based upon self-submitted data by companies that are aggregated by ratings firms. From this, ESG aggregators provide ratings to investors and automated trading platforms, taking the hard work away from the investment institution. According to State Street Global Advisors, in 2016, there were more than 125 ESG data providers and according to SustainAbility, in 2018 there were over 600 ESG ratings and rankings globally, and this has grown further

79 A guide to Social Return on Investment, Social Value UK, January 2012, (accessed via www.socialvalueuk.org/app/uploads/2016/03/The%20Guide%20to%20Social%20Return%20on%20Investment%202015.pdf)

80 Total societal impact. A new lens for strategy, Boston Consulting Group, October 2017 (accessed via www.bcg.com/en-gb/publications/2017/total-societal-impact-new-lens-strategy)

81 Inventory of Business Indicators, SDG Compass, (accessed via sdgcompass.org/business-indicators)

82 Workforce Disclosure Initiative, ShareAction, 2019 (accessed via: https://shareaction.org/workforce-disclosure-initiative/)

since.[83,84]

Complicating factors include a dependency on good quality information being reported by businesses and that each ESG aggregator uses different weighting methodologies to the many impact indicators being reported.[85,86] Unfortunately, it can have undesirable consequences, as they sometimes lack due diligence. This highlights the systems design issue that investors are not, and nor should they be, experts in social and environmental issues themselves (see box 8).

Box 8: ESG and Boohoo

An undercover investigation by The Sunday Times found that a garment factory in Leicester, that was part of Boohoo's supply chain, was exploiting workers, paying them just £3.50 an hour, when the minimum wage is £8.72 for workers over 25 years old.[87] This resulted with the Home Secretary asking the National Crime Agency to investigate.

Prior to the investigation, Boohoo had been given an AA rating on labour standards from MSCI, the world's largest ESG index provider, amongst others, who noted its above-average performance on this aspect relative to competition.[88] In total, 20 ESG funds had invested in Boohoo.[89] Commenting on this, Steve Nelson, insight director at the Lang Cat, said:

> *"What financial services is adept at is getting very quickly into 'manufacturing mode' and before you know it we have lots of ESG funds and risk ratings when it is clear the notion of what exactly ESG is isn't mature enough yet or fully defined."*[90]

4.2.4 Investors creating their own frameworks

Incoming regulation requires investors to take into account their clients' ESG considerations and preferences as part of their duties towards clients, and report on how any recommendation meet "their investment objectives, risk profile, capacity for loss bearing, and whether the client's investment objectives are achieved by taking into account their expressed ESG preferences."[91] Through positive or negative selection, investors are able to select businesses that measurably contribute-to or detract-from key environmental or societal targets.

To account for perceived shortfalls in external ESG ratings, some investment management firms have chosen not to rely solely on these rankings, and have developed their own frameworks and algorithms for evaluating whether companies are translating their purposeful intent into action (see box 9).

83 The ESG data challenge, SSGA, March 2019 (accessed via www.ssga.com/investment-topics/environmental-social-governance/2019/03/esg-data-challenge.pdf)

84 Rate the Raters 2020: Investor survey and interview results, SustainAbility, March 2020 (accessed via sustainability.com/our-work/reports/rate-raters-2020/)

85 Tew, I., Boohoo issues highlight ESG 'minefield' for advisers, The FT Advisor, August 2020 (accessed via www.ftadviser.com/investments/2020/08/07/boohoo-issues-highlight-esg-minefield-for-advisers)

86 The ESG data challenge, SSGA, March 2019 (accessed via www.ssga.com/investment-topics/environmental-social-governance/2019/03/esg-data-challenge.pdf)

87 Matety, V., Boohoo's sweatshop suppliers: 'They only exploit us. They make huge profits and pay us peanuts', The Times, July 2020 (accessed via www.thetimes.co.uk/article/boohoos-sweatshop-suppliers-they-only-exploit-us-they-make-huge-profits-and-pay-us-peanuts-lwj7d8fg2)

88 Mooney, A. and Nilsson, P., Why did so many ESG funds back Boohoo?, The Financial Times, July 2020, (accessed via https://www.ft.com/content/ead7daea-0457-4a0d-9175-93452f0878ec)

89 Tew, I., Boohoo issues highlight ESG 'minefield' for advisers, The FT Advisor, August 2020 (accessed via www.ftadviser.com/investments/2020/08/07/boohoo-issues-highlight-esg-minefield-for-advisers)

90 Boohoo issues highlight ESG minefield for advisors. FT Adviser, August 2020. (accessed via: https://www.ftadviser.com/investments/2020/08/07/boohoo-issues-highlight-esg-minefield-for-advisers)

91 Overview of the ESG driven amendments to MiFID, Dechert LLP, May 2020 (accessed via www.dechert.com/knowledge/onpoint/2020/5/overview-of-the-esg-driven-amendments-to-mifid.html)

Box 9: Schroders SustainEx

Schroders developed its SustainEx tool, which measures the costs companies would face if all of their negative externalities were priced, or the boost if benefits were recognised financially.[92] SustainEx is designed to help their analysts, fund managers and clients identify those risks to help ensure they are reflected in investment decisions and valuations.

They looked at around 50 individual measures, such as wages, carbon emissions, tobacco sales and workplace stress; examined almost 500 academic studies to put an economic cost to those activities; and then used data from dozens of sources to measure the effects for nearly 9,000 companies.

Discovery

This approach to measurement found that if all of the impacts their research identifies were crystallised as financial costs, the $4.1 trillion of profits generated by listed companies would fall by 55 percent. One third of companies would become loss-making. The research also highlights the total positive or negative impact of each sector, relative to the sales of companies in each sector.

Reflection

Andy Howard, Global Head of Sustainable Investment at Schroders told us:

> **"Measuring in this way has a dual benefit. Alongside the investment benefits of improved risk measurement, we are able to have more proactive and informed conversations about the societal impact of investments, with both our clients and the companies in our portfolios".**

~ Andy Howard, Schroders

4.2.5 Attempts to harmonise impact measurement

There are a large number of organisations that are set up to help businesses improve transparency, comparability and to join up business leaders and investors, see box 10. Our own work in mapping the purpose-driven business ecosystem, and that completed by the Economics of Mutuality Lab at Said Business School describes what is now a fragmented landscape.[93,94,95]

With the existing volume of taxonomies and standards, the question shifts from one where there were previously there were limited standards, to one where there are so many standards, it is hard to know which is most relevant to each business. Which impact measurement frameworks are the most robust? Which measures can be trusted? Which one will, or should, a business, an investor or Government base decisions upon?

92 Howard, A., SustainEx: Quantifying the hidden costs of companies' social impacts, Schroders, April 2019 (accessed via www.schroders.com/en/ch/asset-management/insights/thought-leadership/sustainex-quantifying-the-hidden-costs-of-companies-social-impacts)

93 Purpose-driven business ecosystem map, ReGenerate, May 2020 (accessed via www.re-generate.org/ecosystem-map)

94 Economic System Map, Economics of Mutuality, September 2020 (accessed via eom.ecosystem.guide/maps/economic-system)

95 Colin-Jones, A., The Oxford Economics of Mutuality Forum Day 2. Measurement ecosystem, Economics of Mutuality, September 2020 (accessed via youtu.be/6jDGkWSYJ5Y?t=1121)

Box 10: Attempts to harmonise measurement

Climate action investors

Climate Action 100+ is an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.[96] It comprises over 500 investors with over $47 trillion in assets under management. They actively engage with companies to encourage emissions reductions, improve governance and to improve climate-related financial disclosures.

The Future Fit Foundation

Established with the goal of creating an "environmentally restorative, socially just and economically inclusive" society, by creating and sharing a series of "free-to-use tools designed to help business leaders, investors and policy makers respond effectively to today's biggest challenges".[97]

The Global Impact Investing Network

An advocacy and information group for Impact Investing, set up with the intention of reducing impediments to impact investing "so more investors can allocate capital to fund solutions to the world's most intractable challenges".[98]

The Global Reporting Initiative

The Global Reporting Initiative (GRI) originated the GRI Standards: "the world's most widely used standards for sustainability reporting", which cover topics ranging from anti-corruption to water and occupational health and safety. They develop the standards by working with businesses, investors, policymakers, civil society, labour organisations, and other experts, aiming to provide a common language for impact reporting.[99]

The Global Steering Group for Impact Investment

The Global Steering Group for Impact Investing (GSG) aims to "drive real impact that improves lives and the planet by innovating, agitating and orchestrating the advance towards impact economies."[100] It continues the work of the Social Impact Investment Taskforce and brings together impact leaders from the worlds of finance, business, government and philanthropy. They aim to unleash the twin powers of impact capital and social entrepreneurship and at the core of this is the setting of measurable impact objectives and the management of financial performance.

Impact Management Project

The Impact Management Project (IMP) is a forum for building global consensus on how to measure and manage impact. They convene over 2,000 organisations to debate and find consensus on technical topics, as well as share best practices. They also facilitate the IMP Structured Network - an unprecedented collaboration of organisations that, through their specific and complementary expertise, are coordinating efforts to provide complete standards for impact measurement and management.[101]

The International Integrated Reporting Council

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession,

96 Global Investors Driving Business Transition, Climate Action 100+ (accessed via www.climateaction100.org)

97 About us, Future Fit Business (accessed via futurefitbusiness.org/about-us)

98 About the GIIN, Global Impact Investing Network (accessed via thegiin.org/about)

99 How to use the GRI Standards, Global Reporting Initiative, (accessed via www.globalreporting.org/about-gri/)

100 About us, The Global Steering Group for Impact Investment (accessed via gsgii.org/about-us)

101 About, The Impact Management Project (accessed via impactmanagementproject.com/about)

academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting.[102]

Sustainability Accounting Standards Board

They connect businesses and investors on the financial impacts of sustainability creating a common language between business and investors.[103] Their standards differ by industry, enabling investors and companies to compare performance from company to company within an industry.

Value Balancing Alliance

The Value Balancing Alliance's objective is to create a global impact measurement standard for disclosing positive and negative impacts of corporate activity and to provide guidance on how these impacts can be integrated into business steering.[104]

Principles for Responsible Investment

A UN backed initiative to "achieve a sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation."[105]

World Benchmarking Alliance

Set up with the goal of systematising and sharing benchmarks and best-practice advice to help private companies work towards delivering their share of the United Nations' 2015 Sustainable Development Goals (SDGs), the World Benchmarking Alliance now comprises over 159 allies across academia, non-profits and NGOs, governmental agencies, and private enterprises.[106]

4.3 Recent developments that could be a cause for optimism

For measurement to be effective, it should be consistent and complete. In practice this requires two things:

1. That individual businesses measure and report a complete set of standardised indicators, and
2. All, or enough, businesses measure and report.

The good news is that, in some areas, positive action is recently underway that could be game-changing in addressing these two areas.

4.3.1 Consistency

In September 2020, some of the leading voluntary reporting frameworks (CDP, CDSB, GRI, IIRC and SASB) announced a statement of intent to work together.[107] Between them, these actors cover a range of social and environmental measurements, as well as providing a technical platform for reporting, potentially

102 The IIRC, The International Integrated Reporting Council (accessed via integratedreporting.org/the-iirc-2)

103 Sustainability Accounting Standards Board Foundation (accessed via www.sasb.org)

104 About us, Value Balancing Alliance (accessed via www.value-balancing.com/about-us)

105 About the PIR, Principles for Responsible Investment. (accessed via www.unpri.org/pri)

106 Meet our Allies, World Benchmarking Alliance (www.worldbenchmarkingalliance.org/wba-allies)

107 Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, CDP, CDSB, GRI, Integrated Reporting, SASB, September 2020 (accessed via https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf)

providing the most comprehensive framework to date. They propose a "building-block" approach that would enable businesses of different sizes to engage. There has been widespread praise for the initiative:

> "We fully support the objective of having a consistent global set of interconnected standards for corporate reporting of financial and non-financial information."
>
> **~ PwC**[108]

> "[I]nternational guidance towards common metrics and consistent disclosure of non-financial information is preferable to the current diverse situation."
>
> **~ Dutch Accounting Standards Board**[109]

At the end of September 2020, the International Financial Reporting Standards (IFRS) announced a consultation on a global approach to sustainability reporting, to assess demand for global sustainability standards and to what extent the IFRS Foundation should contribute to the standards.[110]

Until very recently, Deloitte, KPMG, EY and PWC all had their own discrete methodologies for impact assessment that were focused on enabling better decision making for managers within business.[111] Again in September 2020, the World Economic Forum, the International Business Council and the Big Four accountancy firms announced a proposed framework of 21 core universal and material indicators (and a further 34 extended set) that bring together standards from major standards into a single package.[112] It identifies the UN Sustainable Development Goals as the roadmap for the alignment as views the statement of intent made by the reporting frameworks to be a complimentary workflow.

These are all huge recent initiatives, among others, that represent a pulling together with international reach, rather than divergence. They have the potential to remove the major risk faced by any country that unilaterally raises the measurement bar (where investment inflows could dry up as they redirect to less regulated markets). Instead, if everyone moves together, it becomes safer to raise the bar.

4.3.2 Completeness

The European Commission is revising its Non-Financial Reporting Directive. We are at a pivotal moment in how the UK completes its exit from the European Union and what aspects of the directive it keeps or adapts. Any regulatory changes with relation to who will be required to report will be felt differently by businesses, depending on their size, sector, ownership and purpose. The feasibility of quality

108 Follow-up paper: interconnected standard setting for corporate reporting, Accountancy Europe, June 2020 (accessed via www.accountancyeurope.eu/wp-content/uploads/200615-Follow-up-paper-Interconnected-standard-setting.pd)

109 Ibid.

110 IFRS Foundation Trustees consult on global approach to sustainability reporting and on possible Foundation role, IFRS, September 2020 (accessed via www.ifrs.org/news-and-events/2020/09/ifrs-foundation-trustees-consult-on-global-approach-to-sustainability-reporting/)

111 Colin-Jones, A., The Oxford Economics of Mutuality Forum Day 2. Measurement ecosystem, Economics of Mutuality, September 2020 (accessed via youtu.be/6jDGkWSYJ5Y?t=1121)

112 Measuring Stakeholder Capitalism. Towards Common Metrics and Consistent Reporting of Sustainable Value Creation. White paper. World Economic Forum, September 2020 (accessed via www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf)

measurement will vary by sector, scale and business model, with some having more margin to play with, more quantifiable outcomes, or closer alignment between their impact and their value chain.

Discussion points

- Despite the extraordinary effort that has gone into the existing measurement landscape, we are at basecamp rather than the peak. All stakeholders, from the public to investors to the government, need greater visibility on which companies are having a significantly positive impact, and which are not. Some questions we are left with:
- How can the measurement ecosystem better serve businesses seeking to rigorously understand, demonstrate and improve their impact?
- How can purpose-driven businesses be supported or encouraged so that barriers of entry to measurement are lowered?
- How can investors and customers be equipped with enough information so that they can make real informed decisions, rather than be influenced by persuasive communication presenting just a select few variables?
- What should the Government's role be, if any, in harmonising measurement?

Conclusion

There are many people who want to set up or operate a business in a purpose-driven way, out of a desire to see their business have a positive social and environmental impact. We explored this in our previous work on The Case for Purpose-Driven Business (July, 2020). We have also found in the new British Academy Purposeful Business poll, that the same proportion of business decision makers think businesses should be purpose-driven as those who think they should be focused only on the interests of shareholders.

This is deeply encouraging. We should always welcome purpose-driven businesses because of their potential to tackle the great social and environmental issues of our age, whether that is poverty, climate change or racism. We should particularly welcome them in an age of Covid-19 when the potential for business to do good needs to be realised now, more than ever.

What this paper has revealed, however, is that instead of being supported and encouraged to thrive, many purpose-driven businesses are being held back. We have found four key reasons why:

- **Identification:** It can be difficult to identify purpose-driven businesses,
- **Incorporation:** It is not clear how a company can be legally set up in a manner consistent with being purpose-driven,
- **Investment:** Purpose-driven companies can find it difficult to get purpose-aligned investment, and
- **Impact measurement:** It is hard for companies to prove that they are having a positive impact on society and the environment.

This paper does not put forward reform ideas on how to address these four blockers. ReGenerate will be working, in partnership with our Working Group and others, to put forward a package of systemic reforms to do this, which will be released in early 2021.

Instead, this paper, we hope, helps provide clarity on what is holding purpose-driven businesses back. We welcome and appreciate discussion around contrasting observations or interpretations to those that we have laid out. We hope that this will help to create a common understanding of the cornerstones on which reform efforts could be based.

If you think we have missed anything that is important in this discussion paper, or would like to get involved in helping put together a package of systemic reforms to address the issues we have raised, then please do get in touch at info@re-generate.org. We would be so pleased to hear from you.

Annex one
Case studies supporting the case for purpose-driven business

The following pages showcase case studies from The case for purpose-driven business (ReGenerate, 2020), that highlight examples of businesses helping to tackle social and environmental problems.

CREATING WORK OPPORTUNITIES FOR PEOPLE AND PLACES THAT ARE OFTEN EXCLUDED

Challenges

Black graduates are twice a likely to be unemployed as white graduates

Disparity in employment exists for all levels of qualification.

One million over 50s locked out of work

A million people aged over 50 were locked out of work due to age discrimination.

8% unemployment rate for Black, African, Caribbean and Black British people

Compared with 3% for white people.

Only 17% in PAYE after prison

Only 17 percent of people were in PAYE employment a year after leaving prison.

Female pay 8.6% lower than male pay

In 2018 the UK's average pay for full-time female employees was 8.6% lower than for full-time male employees.

Coastal towns made up 5/10 of the local authorities with the highest unemployment rate (2017)

Half the number of jobs as working age people

Some regions, which do not share in the economic growth and prosperity of a country, had only half as many available jobs as people of working age.

How businesses are already helping

Anglian water

They bring environmental and social prosperity to the regions they serve, through their commitment to "Love Every Drop".

- In 2013 Anglian Water focused on providing jobs to those not in employment, education or training in the town of Wisbech.
- They helped secure the lease of a disused school building, and transformed it into a community hub.
- 76 different services and groups are now delivering directly out of the hub, including a weekly jobs cafe offering advice on CV improvement, applications and interviews, and annual jobs fair. Through it they have helped over 2,000 people, and secured 300 jobs.

Timpson

Their primary goal is to provide high quality retail services for their customers. As part of this, they specialise in offering employment and a opportunities to ex-offenders and other marginalised groups, as well as facilitating career progression for all employees.

- They currently employ around 650 ex-offenders. This helps reduce reoffending rates significantly and gives people a second chance.
- During Covid-19, furloughed employees have been paid 100% of their pay.

Applied

They are seeking to strip unconscious bias out of hiring and improve staff retention in the process.

- They have processed over 200,000 applications in five years.
- 60% of candidates shortlisted would never have been hired through a typical CV shift and were statistically more likely to come from underrepresented groups.

Recycling lives

They provide waste management solutions to increase recycling and reuse. They do so in a way that provides not only financial return, but social return through helping ex-offenders and those who have been homeless to turn their lives around and get back into employment, often at Recycling Lives.

- The ex-offenders they work with have a reoffending rate of just four percent.
- They have provided over one-million meals a year to families suffering from food poverty.
- They have assisted homeless people into employment and stable accommodation.

PROMOTING GOOD PHYSICAL AND MENTAL WELLBEING

How businesses are already helping

Diabetes Digital Media

They have developed digital platforms to connect diabetic patients with clinical health support relating to pre-diabetes, obesity, type 2 diabetes, and wellbeing.

- Through data collection and use of AI, they have contributed to the discovery that Type 2 diabetes can go into remission.
- Diabetes.co.uk has given typically self-managing diabetics a trustworthy community of support.
- GPs can now provide higher quality monitoring more efficiently. Through the GP dashboard, a doctor can review how someone is progressing and suggest timings for adjustments based on two-way data sharing.

Big White Wall

They provide a 24/7 digital mental health service through its online platform, and access to a supportive network of peers and mental health professionals.

- BWW has helped 215,000 people, with around 10,000 signing up each month.
- Seven in ten members join for immediate access, demonstrating the power of 'always on' mental health support.
- Three-quarters experience a mental health wellness gain with over half feeling less isolated after using the service.
- It is estimated that they will save the NHS over £15 million in a reduction of visits to GPs or AE and save employees over £4 million in days lost to sick leave.
- In the wake of Covid-19, they have seen registrations double and member activity increase four-fold, with around half of the activity in the community now being anxiety caused by the pandemic.

Challenges

1/4 experience mental health problems

A quarter of people in the UK experience a mental health problem each year.

Over half of Brits lonely

54% of Britain's' admitted to feeling lonely at work, and that was before Covid-19.

141 million lost days

In 2018, an estimated 141 million working days were lost because of sickness or injury in the UK.

Mental health and stress

A study found mental ill health and stress as the two leading causes of long-term absences.

ACHIEVING NET ZERO GREENHOUSE GAS EMISSIONS BY 2050

Challenges

+0.9°c temperature rise
The average global temperature has risen by 0.9 degrees Celsius, between 1993 and 2016.

8 inches in 100 years
Sea levels have risen by about 8 inches in the past 100 years.

90% of CO_2 emission
Fossil fuels and industry created nearly nine in ten of all CO_2 emissions (2018) and they are currently catering for over 85% of our energy consumption.

134 million tonnes CO_2 reduced
The UK has reduced the amount of carbon dioxide it emits by 134 million tonnes since 2010.

364 million tonnes CO2 produced
Yet it still produced 364 million tonnes of carbon dioxide, in 2018.

75 - 175 million tonnes
In order to achieve Net Zero it is likely that between 75 and 175 million tonnes of greenhouse gases will have to be removed by carbon capture and storage technology alone. For comparison, the UK's biggest carbon capture plant is set to capture just 16 million tonnes by the mid 2020s.

0% coal in the UK energy mix
By June 2020, the UK achieved a new record of 67 days without coal power.

How businesses are already helping

Octopus Energy

octopus energy

They were set up to provide energy that is "good for the planet, and good for your wallet".

- In 2019 Octopus Renewables created four terawatt hours of energy, mostly from solar power, but also from wind and biomass, saving 3.6 million tonnes of CO2.
- They boost social impact by helping customers understand their energy use through a variety of resources and apps.
- More than nine in ten of Octopus's customers rate them as 5* Excellent on TrustPilot.

Energiesprong

energie sprong uk

They aim to bring about desirable, viable Net-Zero energy refurbishment solutions to the mass market.

- The low cost and low hassle of retrofits removes barriers to householders and local authorities and helps uptake.
- In the Nottingham pilot, energy bills halved for tenants; while in the Netherlands there was an average 60 percent reduction in bills.
- The model removes the need for government subsidies for improving the energy efficiency of homes.
- Potential scale: 11 million UK homes are suitable for Energiesprong retrofits. This includes 2.3 million social homes and seven million privately owned homes in England alone.

CREATING A CIRCULAR ECONOMY

How businesses are already helping

ELVIS & KRESSE

Elvis & Kresse

They create lifestyle accessories by re-engineering waste material. They are a certified B Corporation.

- For over a decade, as a result of Elvis & Kresse, none of London's fire-hose has gone to landfill and over 200 tons of material has been reclaimed.
- They are on track to repurpose 120 tonnes of leather offcuts from Burberry's manufacturing.
- Their apprenticeship scheme pays the living wage, they only buy renewable energy, and they give half of their profits to charity.

OLIO

Olio

Olio's purpose to reduce food waste is embedded in a set of four values the company shares in public: "inclusiveness", "resourcefulness", "caringness", and "ambitiousness." They are a certified B Corporation.

- Nearly five million food portions have been shared through the app and "saved."
- The app has brought communities together, especially in cities with "insular" demographics.
- Throughout Covid-19, the app provided a platform to support those who needed leftover food most.

Challenges

45% of emissions from everyday products

45% of all global emissions come from the production and disposal of cars, clothes, food, and other everyday products.

1.5 million tonnes of plastic littering

In the UK an estimated five million tonnes of plastic are used every year, just under a third (30 percent) of which is littering the soil, rivers, and oceans.

9.5 million tonnes food waste

The UK wastes around 9.5 million tonnes of food a year (2018), causing the emission of as much as 25 million tonnes of greenhouse gases since rotting food produces methane, a powerful greenhouse gas, as it decomposes.

16% of food is thrown away

The average household throws away 16% of all food.

52.3 million tonnes of waste to landfill

In the UK, 52.3 million tonnes of waste was sent to landfill (2016), up 8.5 percent from 2014.

Annex two - Incorporation types

Original analysis by ReGenerate, based on the number of active entities of each company type listed on Companies House. The table below shows the incorporation types available to UK ventures and the numbers of organisations incorporated under each.

Incorporation Type	Sub- type	Sub-type variant	Description of this incorporation type	Applicable Act	Number	%
Public Limited Companies			A limited liability company whose shares can be sold and / or traded with the public. PLCs require a minimum share capital of £50,000, and can be either listed or unlisted on stock exchanges	Companies Act (2006)	6,198	0.14%
Private Limited Companies	Private Limited Company by Shares	Private Limited Company by Shares (non-CIC)	Private Limited Companies by Shares are limited liability (e.g. the directors are not personally liable for debts incurred by the business); limited such that investors' maximum possible loss is their investment into the company (as denoted by shares)	Companies Act (2006)	4,180,550[f]	92.74%
		Community Interest Companies (CIC)	CICs are limited liability companies, intended to be easy to set up, whose goal is for Social Enterprises to be able to use their profits towards social, rather than profit-motivated, goals. For this reason they have certain stipulations on how their funds can be employed.[b]	Companies (Audit, Investigations and Community Enterprise) Act 2004	3,438[g]	0.08%
	Private Limited Company by Guarantee	Private Limited Company by Guarantee (non-CIC)	Similar to a private company limited by shares, however there is no share capital. Instead, members of the company act as guarantors to creditors, agreeing in articles to put up a set amount of capital in case of bankruptcy.	Companies Act (2006)	140,877[h]	3.13%
		Community Interest Companies (CIC)	CICs are limited liability companies, intended to be easy to set up, whose goal is for Social Enterprises to be able to use their profits towards social, rather than profit-motivated, goals. For this reason they have certain stipulations on how their funds can be employed.[c]	Companies (Audit, Investigations and Community Enterprise) Act 2004	15,466[i]	0.34%
Industrial and Provident (aka Registered) Societies	Community Benefit Societies		"Although a community benefit society has the power to pay interest on members' share capital, it cannot distribute surpluses to members in the form of dividends. A community benefit society can opt to have a statutory asset lock, which has the same strength as the asset lock for a charity and for a community interest company. This type of asset lock is not currently available for co-operatives."[d]	Co-operative and Community Benefit Societies Act 2014	3,843[j]	0.09%
	Co-Operatives		"A co-operative society can pay interest on member share capital and a share of the surplus, or dividend, based on the level of transactions (customer-purchases, supplier-sales or employee-wages) with the society."[e]	Co-operative and Community Benefit Societies Act 2014	7,063[k]	0.16%
Other	Partnership			Companies Act (2006)	104,427	2.32%
	Unlimited Company				4,388	0.10%
	Charitable Incorporated Organisation (CIO)				21,351	0.47%
	Other[a]				20,300	0.45%
TOTAL					4,507,901	

List of sources and methodology for incorporation types table:

a) The list of incorporation types included in this group can be found in Table C1, Rows 6-22 of the Companies Register (accessed via https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2019-to-2020)

b) Annual report 2018-2019, Regulator of Community Interest Companies, 2019 (accessed via https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/823460/CIC_Annual_Report_2019_v2.pdf)

c) Annual report 2018-2019, Regulator of Community Interest Companies, 2019 (accessed via https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/823460/CIC_Annual_Report_2019_v2.pdf)

d) About Cooperative and Community Benefit Societies, Community Shares (accessed via https://communityshares.org.uk/about-cooperative-and-community-benefit-societies)

e) About Cooperative and Community Benefit Societies, Community Shares (accessed via https://communityshares.org.uk/about-cooperative-land-community-benefit-societies)

f) Calculated by taking the total number of Private Limited Companies by Shares in the Companies Register (156,343), minus the total number of CICs Limited by Shares in the Community Interest Companies Annual Report (see next footnote)

g) Number of CICs Limited by Shares taken from the following report: Community Interest Companies Annual Report 2019-2020, page 15, Regulator of Community Interest Companies, OGL, 2020 (accessed via https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916250/cic-20-1-community-interest-companies-annual-report-2019-2020.pdf)

h) Calculated by taking the total number of Private Limited Companies by Guarantee in the Companies Register (4,183,988), minus the total number of CICs Limited by Guarantee in the Community Interest Companies Annual Report (see next footnote)

i) Number of CICs Limited by Guarantee taken from the following report as the specific number is not provided in the companies register: Community Interest Companies Annual Report 2019-2020, page 15, Regulator of Community Interest Companies, OGL, 2020 (accessed viahttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916250/cic-20-1-community-interest-companies-annual-report-2019-2020.pdf)

j) Figure calculated using the total number of Industrial and Provident Societies provided in the companies register linked at the top of the page, minus the number of Co-operatives (see next footnote)

k) The number of co-operatives is not specifically provided in the companies register, so we have sourced it from the following report: The Co-op Economy 2020, Co-operatives UK, 2020 (accessed via https://www.uk.coop/economy/2020)

REGENERATE