EVERYONE'S BUSINESS: MAKING BUSINESS WORK FOR ALL

December 2016




CSJ The Centre for Social Justice

Placing Social Value at the Heart of Business

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About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantage and injustice, every possible opportunity to reach their full potential.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in government thinking and policy. The majority of the CSJ's work is organised around five 'pathways to poverty', first identified in our groundbreaking 2007 report, *Breakthrough Britain*. These are: family breakdown; educational failure; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

In March 2013, the CSJ report *It Happens Here*, shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

The CSJ delivers empirical, practical, fully-funded policy solutions to address the scale of the social justice problems facing the UK. Our research is informed by expert working groups comprising prominent academics, practitioners, and policy-makers. Further, the CSJ Alliance is a unique group of charities, social enterprises, and other grass-roots organisations that have a proven track-record of reversing social breakdown across the UK.

The 11 years since the CSJ was founded has brought with it much success. But the social justice challenges facing Britain remain serious. Our response, therefore, must be equally serious. In 2016 and beyond, we will continue to advance the cause of social justice in this nation.

Chief Executive's Preface

For the past decade, the Centre for Social Justice (CSJ) has shown that employment, educational achievement, stable families, and freedom from addiction and serious personal debt are the remedies to poverty in the UK. The CSJ has highlighted the importance of government and the voluntary sector in providing these remedies. This report builds on this by recognising that business also has a positive impact and plays a role in finding solutions to poverty in Britain.

The social and environmental impacts of business and the responsibilities of businesses to all their stakeholders (including employees, customers, communities and the environment), as well as their shareholders, are being increasingly recognised. Large numbers of businesses, including social enterprises, B Corporations and large corporates such as Unilever, are recognising this and are embedding social and environmental goals. They are also often finding that their efforts bring important financial benefits.

However, there is still much further to go before all businesses accept these responsibilities and before stakeholder interests are given closer esteem to shareholders. For this reason, we are calling for increased levels of support for impact-driven businesses to build their capabilities and capacity (and increase their impact in doing so). We are also calling for the strengthening of the Social Value Act, which aims to support impact-driven organisations through Government commissioning and procurement practices, but the implementation of which remains low. This is a potentially transformative way of achieving value for the Government's money. It is also an important means by which impact-driven organisations can be supported to flourish.

Supporting impact-driven businesses to unleash their full potential is clearly important. However, efforts must also be made to encourage businesses that have not yet embedded social and environmental goals to embrace social and environmental concerns. The CSJ therefore advocates efforts to shift the discourse around business away from one emphasising profit maximisation no matter its social or environmental costs, towards a view of the role of business as being to contribute to a flourishing society, with profit and a fair return to shareholders one part of this. The CSJ recommends making a purpose declaration a requirement of incorporation and including purpose in the curricula of business schools to achieve this.

Over the course of this research, the CSJ has also identified the barriers preventing businesses from increasing their impact. These include perceived fiduciary duties, short term pressures and a lack of resources to build partnerships with charities and communities. We propose a series of measures to overcome these, including: a review of section 172 of the Companies Act, which lays out directors fiduciary duties; aligning the remuneration of company directors for the long term; and investing in brokerage organisations, which play a vital role in supporting partnerships between businesses and charities.

In publishing this report, I would like to thank Steve Richards and the wider working group for their time, expertise and dedication. I would also like to thank the lead researcher and author of this report, Saskia Greenhalgh, and Edward Davies, our Director of Policy, for supporting Saskia in the final stages of this task.

Andy Cook
CEO

Members of the CSJ Working Group

Steve Richards
Chairman

Steve currently Chairs several companies, having spent much of his career in commerce, including time as CEO of Interflora and as Managing Director of Manchester United's global merchandise business, where he was instrumental in introducing Unicef into the football market.

In addition to his commercial roles, Steve has been a member of the England and UK committees of The Big Lottery Fund, is a trustee of a small charity, a mentor for two CEO's of social enterprises and a founding member of a Community Benefit Society aiming to bring his local village pub into community ownership.

Saskia Greenhalgh
Author and Researcher

Saskia leads the CSJ's work on business and responsible capitalism. Prior to joining the Centre for Social Justice, Saskia worked for a Member of Parliament and completed a Master's degree in Social Policy (Research) at the London School of Economics and Political Science, graduating with a Distinction. Saskia completed her Undergraduate degree and her first Master's degree at the University of Oxford.

Neil Sherlock
Head of Reputational Strategy, PwC

Neil is the Head of Reputational Strategy at PwC. Previously, Neil was a special adviser to the Deputy Prime Minister covering business issues and political reform. Prior to this, he was a partner at KPMG.

Outside of work, Neil has been Chairman of the charity Working Families, a member of Alan Milburn's Social Mobility Commission and a member of the Armed Forces Pay Review Body. He has stood for Parliament twice as a Liberal Democrat, was an adviser to Paddy Ashdown, speechwriter for Charles Kennedy in the 2005 election, adviser to Menzies Campbell and edited 'The Progressive Century: the future of the centre-left in Britain' with Neil Lawson.

Loughlin Hickey
Trustee, Blueprint for Better Business

Loughlin is a Trustee and Senior Adviser to Blueprint for Better Business. Blueprint is an independent charity that challenges and supports businesses to be a force for good. This helps businesses to realise their potential to serve society, rediscover their purpose and thereby earn a fair and sustainable return for investors. Loughlin is also a Governor of Heythrop College, the specialist theology and philosophy college of the University of London. He is a Chartered Accountant and worked with the tax practice of KPMG until his retirement in 2011. Within KPMG he served in many management roles and spent the last six years as Global Head of Tax and member of the Global Executive Team.

Amanda Powell-Smith
CEO, Forster Communications

Amanda is Chief Executive of Forster Communications, an award-winning social change PR agency which is employee-owned and became a founding UK B Corporation in 2015. She has been working at the forefront of the sustainable business movement for over 20 years, helping organisations to successfully combine commercial and social agendas. Her clients range from multinationals to social enterprises, and she works with leadership teams to help them articulate and deliver their social purpose. She is on the Ethical Advisory Group for Ninety CIC and supports a range of UK charities with communications advice.

Dominic Llewellyn
CEO, Numbers for Good

Dominic co-founded and is the Co-CEO of Numbers for Good, a social investment business that holds B-Corporation status and helps organisations prepare for social investment and raise funds. Before setting up Numbers for Good, Dominic set up charities and social enterprises, stood for Parliament and was a School Governor. Dominic is a contributor on Huffington Post and has appeared on BBC News, ITV and Radio 5 Live. He is also a World Economic Forum Global Shaper, sat on the World Economic Forum's Global Agenda Council for Europe between 2012 and 2014, and sits on the board of Home for Good, a charity working to mobilise thousands of people to foster and adopt vulnerable children.

Matt Archer
Vice Principal, City Gateway Alternative Provision

Matt is Vice Principal at City Gateway Alternative Provision, a school which works to transform the lives of disadvantaged young people in East London. Matt oversees the school's partnerships with various corporate employers, developing pathways for young people into sustainable employment opportunities. Prior to this, Matt worked in local government and the private sector.

Sara Heald
CSR Manager, Legal and General

Sara is a CSR Manager at Legal and General and is responsible for their corporate social responsibility for London and their community volunteering. This involves working with charities to identify partnership and volunteering opportunities for Legal and General Group.

Nil Neale
Programme Delivery Leader, EY Foundation

Nil is the Southern Hub Leader for the EY Foundation, an independent charity set up by EY, in 2014 to help young people, particularly those from disadvantaged backgrounds, find alternative routes into employment, education, or enterprise. Nil is responsible for delivery of the EY Foundation's young people programmes in Southern England, which includes Smart Futures, Our Future and Accelerate.

Previously Nil worked as a Manager in the EY Corporate Responsibility team and as a Tax Manager at EY, working on UK and cross border transactions in tax and internal EY projects. Nil is also a member of the Institute of Chartered Accountants Scotland, having qualified as a Chartered Accountant at EY.

Mike Hughes
Founder and Executive Director, TwentyTwenty

Mike is the co-founder and CEO of TwentyTwenty, a charity that empowers disadvantaged and disengaged young people across the East Midlands to overcome personal challenges, succeed in education, and find good jobs. TwentyTwenty has won many awards for its work including the Queen's Award for Voluntary Service, and the Lloyd's Bank Foundation's UK outstanding impact award. Developing mutually beneficial partnerships between charities and employers is a central feature of what TwentyTwenty does to enable those furthest from the jobs market to develop key skills and improve their life chances. Mike's background is in launching and supporting charities and community projects in the UK and overseas.

Al Crisci
Founder, the Clink

Al is the founder of the Clink, a charity that aims to reduce prisoner reoffending by operating four restaurants, two gardens and an event catering service, providing prisoners with training through these and when they leave prison, seeking to place graduates into the hospitality industry. Al was awarded the Prince Philip Medal by HRH the Princess Royal in 2016 and an MBE for services to the hospitality industry in 2009.

Jeremy Hay-Campbell
Marketing and Communications Consultant, Manpower

Jeremy is a Marketing and Communications Consultant at the Manpower Group, a recruitment agency connecting job-seekers with work and helping clients to address their critical talent needs. Prior to working with Manpower, Jeremy worked at the Department for Business, Innovation and Skills.

Disclaimer

Participation in the working group does not indicate that each participant agrees with all recommendations in the final report.

Special thanks

The CSJ would like to thank all the individuals and organisations who have kindly given their time to contribute to this research. Particular thanks go to the working group for their time and expertise and Deutsche Bank, Microsoft, and Ninety for their generous support of this research.

Deutsche Bank

Deutsche Bank is Germany's leading bank, with a strong position in Europe and a significant presence in the Americas and Asia Pacific. Deutsche Bank invests in the societies it is part of and in 2015 invested EUR 76.8m in social projects around the world. The Bank's citizenship strategy is to support the drivers of prosperity – education, enterprise and inclusive communities.

Microsoft

Microsoft is the leading platform and productivity company for the mobile-first, cloud-first world, and its mission is to empower every person and every organization on the planet to achieve more. In the UK, Microsoft employs some 5,000 people and works in partnership with 25,000 predominantly small and medium-sized companies, which form the backbone of the UK's technology industry.

NINETY
CHANGE THE FORMULA

Ninety group comprises a social enterprise, a foundation and several businesses focusing on agile digital transformation. Helping brands adapt to a world of changing technology, innovation & digital disruption. Other businesses are planned. Why Ninety? 90% of their distributable profits are donated to fund global social change.

Chairman's foreword

The symbiotic relationship between business and society and their respective responsibilities has been subject of debate since the industrial revolution. Recent years have seen a dramatic escalation of expectations on business to consider the societal impact of their activities alongside their commercial returns.

While business already provides a lot to society, for example, by paying taxes, providing employment and training opportunities, and thereby contributing significantly to reducing poverty and improving quality-of-life, this wide ranging report sets out to show that much more can be done in a way that benefits all parties. During the production of the report we debated how to encourage positive change across a wide spectrum of approaches from leadership to legislation.

Starting with leadership, we wanted to demonstrate how best practise can make companies of all sizes more financially successful while embracing social impact and so we hope to inspire and empower businesses and managers to embed a social purpose in their work.

At the other extreme, we suggest changing accounting policy to ensure visibility of social impact in company reporting.

We also consider the opportunities opened up by the B Corporation movement and reflect on the challenges facing the expanding social enterprise sector. The hurdles of investment readiness, commercial experience and access to finance are all limitations on growth in this area.

While some will read this report and feel the ambitions are too idealistic and out of reach for all but the largest companies, I know from my own experience of starting from a basic relationship with Unicef at Manchester United, that bringing something as simple as a collaboration with a charity can have lasting effects ranging from brand protection to increased employee and customer satisfaction. Although we didn't evaluate it at the time, I'm convinced there have been material commercial benefits too.

I would like to thank the report's sponsors, Deutsche Bank, Microsoft, and Ninety, and the members of the Working Group, which oversaw the development of the report.

Finally, particular thanks to Saskia Greenhalgh at the CSJ for her herculean efforts in researching and writing this substantial report.

Steve Richards
Report Working Group Chairman

Executive summary

Business, by its very existence, is one of the best tools for social mobility that society has. The fact that it drives employment and economic growth is of itself a boon to the nation.

But the inherent operations of most businesses only enhance this. In 2015 the private sector employed 21.8 million people in England alone and 66% of employers funded or arranged training or development opportunities for their staff at a cost of £45.4 billion.[1] Many businesses support employees to save for the future and to balance work and family life, including through pension schemes, maternity/paternity packages, shared parental leave and flexible working.

And many businesses go well beyond this.

Working for social benefit

Firstly, there are an increasing number of businesses that are working with wider social benefit specifically in mind. For some, aligning social, environmental and financial goals into the core of what they do is increasingly popular – this could encompass anything from a mission to advance health and wellbeing to developing and supplying renewable energy sources.

Others are increasingly looking to social, environmental and financial goals in how they do their work – for example, cutting carbon emissions that come as a by-product of their work.

While others are simply ensuring that some of their profits or staff time are given to supporting charities and communities.

This report alone highlights more than 20 specific examples of best practice currently going on in the business world.

Socially beneficial by design

Businesses are also embracing innovative models to achieve social good including the social enterprise model, co-operative model and B Corporation status.

There are now 70,000 social enterprises in the UK alone – businesses set up specifically to tackle social or environmental problems and who reinvest most their profits in furthering

1 Department for Business, Innovation and Skills (BIS), *Private Sector Employment Indicator, Quarter 2 2015 (May 2015 to July 2015): Statistical Release*, London: BIS, 2015, p6; UK Commission for Employment and Skills, Employer Skills Survey 2015: UK Results, London: UK Commission for Employment and Skills, 2016, p94&108

this mission – contributing £24 billion to the economy (approximately 0.65% of businesses total contribution) and employing nearly a million people (representing 4.6% of the UK population employed by business).[2]

The bottom line

And for businesses, this desire for social good should not be dismissed as do-gooding or a sop to society – it has huge benefits including to brand value and reputation, talent recruitment and retention, levels of employee engagement and productivity, and ultimately, to the bottom-line.

A strong and well-communicated purpose can boost financial performance by up to 17%.[3] Actively managing and measuring corporate responsibility is hugely important to organisational resilience – companies that did this recovered faster from the 2008 financial crisis, with shareholder returns an average of 10% higher in 2009, than at those companies that did not.[4]

Among consumers 84% say they try to purchase products and services that are socially and environmentally responsible whenever possible.[5] 90% would also like to see a greater availability of responsible products and services. 79% consider a company's social and environmental commitments when thinking about jobs. And 69% consider them when making investment decisions.[6]

Any business not considering its place in society is selling itself short. And yet many are doing so.

Work to do

Bad practices are not necessarily widespread but a series of high profile cases have led a culture of mistrust in business: that too many businesses continue to prosper at the expense of society. Recent examples of this include businesses paying workers less than the minimum wage, businesses alleged to have installed software in their products to circumvent emissions regulations, several major banks involved in the Libor fixing rate scandal, and accusations of senior executives profiting at the expense of employees.

If business and society are going to fully realise the benefits of working together and repair the damage of that public perception, there is much more to be done by both businesses and government.

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2 Social Enterprise UK, *State of Social Enterprise Survey 2015*, London: Social Enterprise UK, 2015, p4. Percentages calculated using figures from: Department for Business, Innovation and Skills (BIS), *Private Sector Employment Indicator, Quarter 2 2015 (May 2015 to July 2015): Statistical Release*, London: BIS, 2015, p6; House of Commons Library, Business Statistics, London: House of Commons Library, p5

3 Burson-Marstellar and IMD Business School, *Corporate Purpose Impact Study 2010*, Brussels: Burston-Marstellar, 2010, p10

4 Business in the Community (BITC), *The Value of Responsible Business* London: BITC, 2010, p1

5 Cone Communications and Ebiquity, *Global CSR Study*, Boston: Cone Communications, 2015, p23

6 Ibid, p11

Recommendations

This report makes 22 recommendations and gives 23 examples of how this can be achieved, but fundamentally they fall under three main themes:

1. Social sector businesses are a good thing – there should be more of them. The CSJ's research has found several barriers, both real and perceived, that are hindering the ability of social sector businesses to improve their capability, scale and therefore impact. The Government must emphasise the importance of social enterprises within the remit of Local Enterprise Partnerships and place support for them with business skills and advice within the remit of Business Growth Hubs. The remit of the What Works Centre for Local Economic Growth should also be broadened to include the evaluation of different forms of business skills support for social enterprises and their level of success. And the scope and strength of the Social Value Act should be strengthened.
2. Social objectives should be tied into the core existence of business. Our review found that many businesses were finding effective and innovative ways of supporting social objectives, alongside delivering a financial return. It is in the interest of business, government and wider society that such approaches are further encouraged and supported. One key change would be making a 'purpose declaration' be made a requirement of incorporation to signal that the role of business extends beyond profit maximisation. Government and business will need to work closely together to ensure that this purpose declaration is effective and sustainable for business, and creates a meaningful system of social accounting – potentially reporting on metrics such as employee training, employee health, supply-chain practices and environmental impacts. It could be run by accreditation, self-regulated audit or centrally governed scheme, but the format should be decided by cooperation between business and Government.
3. Stakeholder interests should be given regard closer to shareholder interests. Despite the contrary evidence base in relation to the business benefits, there is often pressure on company directors to prioritise short-term pressures and shareholder interests over long-term investment. This is despite the fact that such investment is crucial for long-term financial performance, as well as for value creation for society more broadly. Efforts should be made to encourage a longer-term approach, for example, by introducing longer-term financial incentives for company directors, shareholders and fund managers. In addition, it has been ten years since the Companies Act was introduced in which the 'have regard' provision is so weak as to be meaningless. It is time that the Government reviewed the Companies Act, and strengthened this provision, pushing stakeholder interests closer to shareholders, in both parties' interests. Alternatively, businesses could be given the choice at incorporation as to the balance between stakeholders and shareholders in recognition that their interests are aligned.

As with all CSJ reports we want to see our recommendations taken up at the heart of government. But this one must also be picked up and read by businesses and their executives, whose interests it is in, both for the good of society and their bottom line.

Introduction

Over the past 12 years, the Centre for Social Justice (CSJ) has sought to expose the root causes of poverty in Britain – in particular, educational failure, worklessness, family breakdown, addiction and serious personal debt – and identify how these problems should be tackled. In its ground-breaking work on Breakthrough Britain in 2007, the CSJ highlighted the potential for the voluntary sector, as well as government, to help find solutions to poverty in Britain. This report builds on this work by recognising that government and charity are not the only types of organisations generating social value. Business too is a key player.

Business brings society innumerable benefits

Across all areas of life, business plays a significant role providing important goods and services to consumers and researching and developing new technologies. These have enabled us to travel further and faster, increased our access to information, and made us more connected than ever before. They have also played a critical (and not always recognised) role in improving lives and creating prosperity.

Business also provides people with jobs and livelihoods, catalyses economic activity among suppliers and in doing so, creates secondary jobs. Many businesses also play a vital role in supporting employees to develop their skills, enabling them to progress in work and increase their income. In its most recent survey, the UK Commission for Employment and Skills found that 66% of employers had funded or arranged training or development opportunities for their staff in the 12 months prior to the survey.[7] Businesses also support employees to save for the future and to balance work and family life through pension schemes, maternity/paternity packages and flexible working. As the government introduces pension auto-enrolment, paternity leave, a national living wage and the right to request flexible working, support for employees by business will increase.

The CSJ has shown that employment, with opportunities to progress, is the best and most sustainable route out of poverty.[8] This is not only because work provides an income, but also other benefits. For example, it positively benefits physical and mental health and wellbeing.[9] Conversely, the evidence suggests that unemployment is generally harmful to health.[10]

7 UK Commission for Employment and Skills, *Employer Skills Survey 2015: UK Results*, London: UK Commission for Employment and Skills, 2016, p94
8 Centre for Social Justice (CSJ), *Signed On, Written Off: An Inquiry into Welfare Dependency in Britain*, London: CSJ, 2013
9 Mental Health Taskforce, *The Five Year Forward View for Mental Health 2016,* England: National Health Service, February 2016; Waddell G and Burton A K, *Is Work Good for your Health and Wellbeing,* London: TSO, 2006
10 Ibid

As well as contributing to society by investing in research, providing us with goods and services, and creating employment opportunities, many businesses have, throughout their history, also gone beyond this. Indeed, as early as the fifteenth century when the guilds of medieval Europe were established under Royal Charters, strict Codes of Conduct known as 'Pointz' were drawn up.[11] These established standards of apprentice education and frequently included some form of direct responsibility for the poor and for maintaining public works such as city walls.[12] The standards of apprentice education and the philanthropic work undertaken by the guilds established important precedents that many businesses have adhered to in some form or another ever since.[13]

Today, in addition to corporate philanthropy and the provision of apprenticeships, many businesses are seeking to go even further and make a social purpose-beyond-profit and social and environmental goals central to their business. An example of a business that has done this is Unilever, which in 2009 laid out its purpose 'to make sustainable living commonplace'. This was introduced under its CEO Paul Polman due to his belief that business must play a key role in solving the world's problems and that the most successful businesses in the future will be those that make a positive contribution.[14] In line with its purpose, Unilever is committed to doubling the size of its business by 2020 whilst reducing the environmental footprint of its operations (to half by 2030) and increasing its positive social impact (by enhancing the livelihoods of millions of people and helping more than a billion people take action to improve their health and wellbeing by 2020).[15] In 2015, Paul Polman was awarded the UN's highest environmental accolade, the Champion of the Earth Award. This was given in recognition of his work seeking to lead both Unilever and the business community more widely, towards a more sustainable model of growth.[16]

The bad news

Some businesses have prospered at the expense of society

Unfortunately, whilst overall business has served society well and many organisations are seeking to increase their positive impact in a range of ways as outlined, too many businesses continue to prosper at the expense of society. Recent examples of this include businesses accused of effectively paying workers less than the minimum wage, businesses alleged to have installed software in their products to circumvent emissions regulations, and a number of major banks involved in the Libor fixing rate scandal.

11 Caulfield P A, 'The Evolution of Strategic Corporate Social Responsibility', Euromed Journal of Business, Vol 8, 2013, pp223–226

12 Ibid

13 Ibid

14 Polman P, 'Business, society, and the future of capitalism', *Commentary McKinsey Quarterly,* May 2014; As written on the UNEP website, Champions of the Earth – About Paul Polman [accessed via: http://web.unep.org/champions/laureates/2015/paul-polman (25.05.16)]

15 As written on the Unilever website, About our strategy, [accessed via: www.unilever.com/sustainable-living/the-sustainable-living-plan/our-strategy/about-our-strategy/ (25.05.16)]; Unilever, *Making Sustainable Living Commonplace: Annual Report and Accounts 2015*, London: Unilever, 2015, pp1,12

16 As written on the UNEP website, Champions of the Earth – About Paul Polman [accessed via: http://web.unep.org/champions/laureates/2015/paul-polman (25.05.16)]; As written on the Unilever website – Paul Polman receives UN's highest environmental accolade [accessed via: www.unilever.com/news/news-and-features/2015/Paul-Polman-receives-UNs-highest-environmental-accolade.html (25.05.16)]

Public trust in business is low

Given this behaviour, as well as the financial crisis, it is unsurprising that public trust in business is low.[17] In the UK, just 46% of the public trust business 'to do what is right'[18] and although higher, just 57% of employees trust the company they work for.[19] 74% of the public also believe that if there were no government regulations, big business would abuse its staff and 68% believe it would abuse its customers.[20]

It is noticeable that a lack of faith and disillusionment with key institutions and organisations appears to have played a key role in the recent EU referendum result. YouGov polling carried out shortly before the referendum vote found a clear divide between remain and leave voters in levels of trust for these institutions. In response to the question: 'How much do you trust what the following types of people say about whether we should leave or remain in the European Union?'

- 55% of remain voters said that they trust people from well-known businesses compared to 27% of leave voters;
- 61% of remain voters said that they trust people from the Bank of England compared to 19% of leave voters.

For these (among other) reasons, the result has been interpreted as a vote against the establishment, which big business is considered a part of.[21]

What needs to change?

The public have expressed their views loudly and clearly. They are tired of a business environment that they believe lines the pockets of the few whilst failing to serve the needs of the many. They feel that the existing order is unfair and that it is working against them. Polling shows that 61% of leave voters believe that 'for most children growing up in Britain today, life will be worse than it was for their parents'.[22] Therefore, although the achievements of capitalism are many and large numbers of businesses take their social and environmental responsibilities seriously, efforts must go much further and where it exists, poor practice must be highlighted. The promise of shared and sustainable prosperity for all must be realised if public trust in business is to be won.

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17 See: Ipsos Mori, *Consumers Vote with their Feet on Corporate Tax Avoidance,* 2015 [accessed via: www.ipsos-mori.com/researchpublications/researcharchive/3529/Consumers-vote-with-their-feet-on-corporate-tax-avoidance.aspx (11.08.2016)]

18 Edelman, *2016 Edelman Trust Barometer: Global Report,* 2016, p27 [accessed via: www.edelman.com/insights/intellectual-property/2016-edelman-trust-barometer/global-results/ (06.06.2016)]

19 Ibid, p42

20 YouGov survey on public opinions towards business, 2014, pp6–7 [accessed via: http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/td238luxyb/StephanResults_141020_Toplines_W.pdf (06.06.2016)]

21 For example: The Sun, *Inspired by Leaving: Brexit was Delivered by 2.8m Non-Voters Inspired to March into Polling Stations In Uprising Against the EU, Expert Claims,* 5 July 2016 [accessed via: www.thesun.co.uk/news/1392767/brexit-was-delivered-by-2-8m-non-voters-inspired-to-march-into-polling-stations-in-anti-establishment-uprising-against-the-eu/ (12.08.2016)]; The Independent, *The Brexit Vote is not just a Judgement on Brussels – it was a chance to stick it to Londoners and the Establishment,* 24 June 2016 [accessed via: www.independent.co.uk/voices/brexit-latest-eu-referendum-leave-brussels-voters-stick-it-to-london-establishment-a7101341.html (12.08.2016)]; Allegra Stratton, ITV News National Editor on ITV News, 24 June 2016 [accessed via: www.itv.com/news/update/2016-06-24/analysis-brexit-is-vote-against-the-establishment/ (12.08.2016)]

22 Lord Ashcroft Polls, *How the United Kingdom Voted on Thursday… And Why,* 2016 [accessed via: http://lordashcroftpolls.com/2016/06/how-the-united-kingdom-voted-and-why/ (12.08.2016)]

To achieve this vision, the cultural, systemic and practical issues that continue to hinder good practice (including a perception that a trade-off must be made between social and financial returns, an emphasis on short-term profit maximisation at the cost of all else and market failure from negative externalities) must be overcome. In place of our current system, a business environment must be created in which a social purpose-beyond-profit and the adoption of social and environmental, as well as financial goals, is the norm, rather than the exception.

Business leaders have a key role to play in engendering this change. However, institutional investors, asset managers, policy-makers, civil society and consumers are also important. Good practice must be rewarded and businesses must be helped to identify concrete steps they can take if change and shared and sustainable prosperity are to be achieved.

Good practice provides exciting opportunities for financial reward

Far from compromising financial returns, a substantial body of evidence shows that social value generation can provide exciting opportunities for financial reward. This is because a social purpose-beyond-profit, stakeholder management and support for charities and communities may lead to improved company reputation, talent recruitment and retention, and employee engagement and productivity among other benefits.[23] As a result, financial performance is ultimately improved.[24]

For example, a study by Burson-Marstellar and IMD Business School finds that a strong and well-communicated purpose may positively impact upon financial performance by up to 17%.[25] Looking at the effect of actively managing and measuring corporate responsibility (including through KPI's, performance management and stakeholder engagement), a study by Ipsos Mori finds that companies that do this recovered faster from the financial crisis, with shareholder returns an average of 10% higher in 2009 compared to those companies that did not manage their corporate responsibility.[26] Another study by Hillman and Keim finds that stakeholder management practices translate into higher shareholder value creation (operationalised as market-value added), with the businesses relationship with communities a key driver of shareholder value creation.[27]

23 IO Sustainability and the Lewis Institute for Social Innovation at Babson College, *Project ROI: Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability,* United States: IO Sustainability and Lewis Institute for Social Innovation at Babson College, 2015; Deloitte, *Volunteer IMPACT Survey,* London: Deloite, 2011; Gallup, *State of the Global Workplace: Employee Engagement Insights for Business Leaders Worldwide*, UK: Gallup, 2013 ; Ipsos Mori, *Engaging Employees through Corporate Responsibility,* London: Ipsos Mori, 2008; McCartney C, 'Volunteering for a Successful Business', *The Roffey Park Institute,* 2006; Jiao Y, 'Stakeholder welfare and firm value', *Journal of Banking and Finance,* Vol. 34, 2010, pp2549–2561; Pure Strategies, A*dvancing on the Path to Product Sustainability*, USA: Pure Strategies, 2015

24 IO Sustainability and the Lewis Institute for Social Innovation at Babson College, *Project ROI: Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability,* United States: IO Sustainability and Lewis Institute for Social Innovation at Babson College, 2015; Business in the Community (BITC), *The Value of Responsible Business* London: BITC, 2010; Edmans A, 'Does the stock market fully value intangibles? Employee satisfaction and equity prices', J*ournal of Financial Economics* Vol. 101, 2011, pp621–640; Friede G, Busch T and Bassen A, 'ESG and financial performance: aggregated evidence from more than 2000 empirical studies', J*ournal of Sustainable Finance and Investment V*ol. 5, 2015, pp210–233; Gallup, S*tate of the Global Workplace: Employee Engagement Insights for Business Leaders Worldwide,* UK: Gallup; Jiao Y, 'Stakeholder welfare and firm value', J*ournal of Banking and Finance* Vol. 34, 2010, pp2549–2561; Pure Strategies, A*dvancing on the Path to Product Sustainability,* United States: Pure Strategies, 2015

25 Burson-Marstellar and IMD Business School, *Corporate Purpose Impact Study 2010,* Brussels: Burston-Marstellar, 2010, p10

26 Business in the Community (BITC), *The Value of Responsible Business* London: BITC, 2010, p1

27 Ibid

The purpose and structure of the report

The aim of this report is to help catalyse change in favour of businesses committed to social and environmental impact and to encourage others to follow suit. It aims to do this by exploring first, the extent to which businesses are seeking to generate social value and how they are seeking to do this (chapter 1). It then considers why businesses should embrace this agenda, discussing, for example, the financial benefits that businesses may accrue from generating social value (chapter 2). Finally, the policy environment is considered and recommendations are made regarding how those businesses that are already seeking to maximise their social impact can be further supported and how other businesses can be encouraged to increase their impact (chapter 3). The aim of this is to assist business and government in creating a more enabling environment in which both business and society can flourish.

chapter one

State of the nation

As outlined in the introduction, the power and potential for business to have a positive social impact is significant. Increased numbers of businesses are now recognising this and are seeking to realise this potential by:

1. Aligning social, environmental and financial goals in *what* they do through the adoption of a purpose-beyond-profit (a *raison d'être*) that serves society in some way;
2. Aligning social, environmental and financial goals in *how* they do it (through stakeholder management and work to decrease the negative impact and increase the positive impact of their operations); and
3. Support for charities and communities

It is worth noting that many businesses are seeking to generate social value in all these ways simultaneously. Within each of the areas outlined, businesses may have a positive impact in a multitude of different ways and efforts may vary in their extensiveness and level of success.

This chapter of the report will explore in more detail how business generates social value and outline the scale upon which efforts to generate social value by business are occurring. It will show that where this work that is taking place, it is bringing hugely positive results. However, the majority of companies have not yet aligned social, environmental and financial goals. Therefore, if business is to work for everyone, efforts must go further.

1.1 Businesses, by their existence, contribute to the social good

It is notable that across all areas of life, businesses supply important goods and services to consumers. They also innovate, developing new products and technologies, which they are making available to an increasing proportion of the world's population – a notable example is the opening up of mobile technologies to millions of new users in developing countries.[28] By developing and supplying new products and services, business plays an important role in improving lives and creating prosperity.

28 Ahlstrom D, 'Innovation and Growth: How business contributes to society' in *Academy of Management Perspectives,* 2010, pp10–23; Bock W, Field D, Zwillenberg P and Rogers K, *The Growth of the Global Mobile Internet Economy: The connected world,* BCG Perspectives, 2015 [accessed via: www.bcgperspectives.com/content/articles/telecommunications_connected_world_growth_global_mobile_internet_economy/ (14.08.2016)]

Through these activities, business also creates employment. In England alone, the private sector employs 21.8 million people.[29] As well as providing these people with a livelihood, evidence shows that work also brings other benefits, including improved physical and mental health.[30] Further, work may promote recovery where people experience health problems.[31] It is therefore important not only for economic reasons, but for our wellbeing as well.

Many businesses also play a vital role in supporting employees to develop their skills, enabling them to progress in work and increase their income. In its most recent survey, the UK Commission for Employment and Skills found that 66% of employers had funded or arranged training or development opportunities for their staff in the 12 months prior to the survey.[32] 31% of employers in the UK also provided their staff with training intended to lead to nationally recognised qualifications and 57% of those providing training leading to nationally recognised qualifications had done so at level 3 or above.[33] In 2015, this was at a cost to employers of £45.4 billion.[34]

Businesses also support employees to save for the future and to balance work and family life through pension schemes, maternity/paternity packages and flexible working. As the government in the UK introduces pension auto-enrolment, paternity leave and the right to request flexible working, support for employees by business will increase.

1.2 Businesses are increasingly embracing social and environmental concerns

Even if they do nothing else, business contributes to the social good of the country. But as well as contributing to society by investing in research, providing us with goods and services and creating employment opportunities, increasing numbers of businesses are seeking to generate social value through *what* they do, *how* they do it and support for charities and communities.

1.2.1 What they do

To take *what* businesses do first, businesses are increasingly seeking to align social, environmental and financial goals by adopting a 'purpose' (a *raison d'être*) that serves society in some way. This could encompass anything from a mission to advance health and wellbeing through the sale of healthy food products, the development of health technologies, or the provision of low cost sports facilities, to a commitment to tackle environmental challenges by inventing and supplying renewable energy sources. Achieving this social purpose should enable financial and social or environmental returns to be realised. In this way, 'shared value' is created for both the business and society and the potential for business to generate social value is likely to be maximised.

29 This equates to 62.4% of the total population aged 16–64 and of those in employment and aged over 65. See: Department for Business, Innovation and Skills (BIS), *Private Sector Employment Indicator, Quarter 2 2015 (May 2015 to July 2015): Statistical Release,* London: BIS, 2015, p6

30 Mental Health Taskforce, *The Five Year Forward View for Mental Health 2016,* England: National Health Service, February 2016; Waddell G and Burton A K, *Is Work Good for your Health and Wellbeing,* London: TSO, 2006

31 Ibid

32 UK Commission for Employment and Skills, *Employer Skills Survey 2015: UK Results*¸ London: UK Commission for Employment and Skills, 2016, p94

33 Ibid, p102

34 Ibid, p108

Case study 1: Unforgettable

An example of a business with a social purpose-beyond-profit is Unforgettable, a UK-based start-up (founded in September 2015) that aims to improve the lives of people affected by dementia. It does this through the provision of practical, product-based solutions to some of the daily challenges associated with dementia such as wandering, sleeplessness, confusion, behavioural difficulties and boredom. Additionally, it provides practical information about the dementia journey to help family members and carers understand what to expect, and a community offering support for those struggling to manage the care burden.

Unforgettable has had overwhelmingly positive feedback from its customers, with one stating that as a result of finding Unforgettable, she is considering taking her mother out of her care home and bringing her home. The average user rating of Unforgettable's products is also 4.8/5, significantly above the industry benchmark. By providing practical solutions to the challenges associated with dementia, Unforgettable is therefore helping to improve the quality of life of people affected by dementia, whilst also driving financial returns. With 850,000 dementia sufferers in the UK (a figure that is predicted to increase to 1 million by 2025 and 2 million by 2050), initiatives such as Unforgettable's are (and will continue to be) of great importance.

Case study 2: Danone

Another example of a business with a social purpose-beyond-profit is Danone, a French multinational food products corporation operating in over 130 countries across the world and dedicated to bringing 'health through food' to as many people as possible.[35] In keeping with its purpose, Danone concentrates on four categories of products that are beneficial to people's health: dairy; water; early life nutrition; and medical nutrition.[36] 86% of its sales are in 'healthy' food categories and 29% of its sales have been improved nutritionally in the last three years.[37]

As well as seeking to bring 'health through food' through its products, Danone actively encourages healthier lifestyles through education programmes and events.[38] An example is its 'Eat Like A Champ' programme, which aims to tackle poor nutrition and obesity among primary school children in the UK and which in 2013, ran in 1,000 UK primary classes, reaching 30,000 children.[39] An evaluation of 'Eat Like A Champ' by the Children's Food Trust found that it was effective in shifting the behaviours of the children who took part in the programme towards healthier eating habits.[40] 12 weeks after the programme took place, children ate 2.8% fewer less healthy items (including cakes, biscuits and sweets) and 3.2% more healthy items (such as fruit and vegetables).[41] Another example of one of Danone's programmes is it's Healthy Eating for Young Children (HEY!) programme, which is delivered over 7 weeks and is aimed at the parents of children aged 1–3 years. This programme has also been shown to successfully shift behaviours. For example, an evaluation of the programme

35 As written on Danone's website – Our Mission in Action – Danone, one of a kind [accessed via: www.danone.com/en/for-all/our-mission-in-action/danone-one-of-a-kind/ (31.05.2016)]
36 As written on Danone's website – Our Mission in Action – 4 health centred businesses [accessed via: www.danone.com/en/for-all/our-mission-in-action/our-unique-company/4-health-centered-businesses/ (31.05.2016)]
37 Danone, *Our Nutrition and Health Commitments: 2014 achievements,* Paris: Danone, 2015, pp4, 6
38 Ibid, pp15–17
39 As written on Eat Like A Champ's website – About [accessed via: www.eatlikeachamp.co.uk/about/ (31.05.2016)]
40 Children's Food Trust, *Eat Like A Champ (ELAC): evaluation of school-based healthy eating intervention,* Children's Food Trust, 2012
41 Ibid, p1

found an increase of 43% in the number of participants stating that their toddlers ate 5 or more portions of fruit and vegetables a day at its end compared to the start. It also identified a decrease of 63% in the number of respondents who stated that their toddlers ate less than three portions of fruit or vegetables a day, an increase in the number of parents eating 5 portions of fruit and vegetables a day, and in the numbers of parents exercising more than 3 days a week. These changes continued to be seen in the follow up 6–8 weeks after the course had ended.

1.2.2 How they do it

As well as aligning social, environmental and financial goals in *what* they do, businesses are increasingly seeking to embed social and environmental goals in *how* they do it, i.e. in the way in which they conduct their operations. For example, many businesses are working hard to build collaborative and reciprocal relationships with their stakeholders (including their employees, customers, shareholders, suppliers, communities and the environment) and are adopting a triple bottom-line approach that prioritises social, environmental and financial goals equally.[42] These efforts may take place in conjunction with the adoption of a social purpose-beyond-profit or separately.

To aid businesses in the adoption of social and environmental goals, a number of accounting methodologies have been created to help businesses measure, monitor and manage their wider social, environmental and economic impacts. Two of the most well known of these are: the Global Reporting Initiative's (GRI's) framework, first launched in 2000; and B Lab's Impact Assessment, launched in 2007. These and other frameworks are being used by increasingly large numbers of businesses. For example, 9,534 organisations have a profile in GRI's Sustainability Disclosure Database and over 40,000 organisations have used B Lab's Impact Assessment.[43] 92% of the world's largest 250 corporations now report on their social and environmental performance.[44]

Pressure is also increasingly being placed on businesses to consider their wider social and environmental impacts by investors, although efforts still need to go much further. Examples of investors taking steps to integrate social and environmental concerns into their analyses of companies include Goldman Sachs and Morgan Stanley.[45]

42 The term 'triple bottom-line' was first coined by John Elkington in 1994. It was then more fully articulated in Elkington J, *Cannibals with Forks – Triple bottom-line of 21st century business,* CT: New Society Publishers, 1997

43 GRI Sustainability Disclosure Database [accessed via: http://database.globalreporting.org (14.08.2016)]; B Impact Assessment website [accessed via: www.bimpactassessment.net (14.08.2016)]

44 GRI website – Information – About GRI [accessed via: www.globalreporting.org/information/about-gri/Pages/default.aspx (14.08.2016)]

45 See: Goldman Sachs website – Citizenship – Environmental stewardship – Environmental market opportunities – Global Investment Research [accessed via: www.goldmansachs.com/citizenship/environmental-stewardship/market-opportunities/global-investment-research/ (15.08.2016)]; Goldman Sachs, *GS Sustain: An integrated approach to investing in a changing world,* NY: Goldman Sachs, 2011 [accessed via: www.responsible-investor.com/images/uploads/reports/05OCT_1620_Howard.pdf (15.08.2016)]; Morgan Stanley website – What We Do – Sustainable investing [accessed via: www.morganstanley.com/what-we-do/institute-for-sustainable-investing (15.08.2016)]; Morgan Stanley, *Investing with Impact: Creating economic, social and environmental value,* Morgan Stanley, 2016 [accessed via: www.morganstanley.com/assets/pdfs/articles/investing-with-impact.pdf {15.08.2016)]

Case study 3: Alun Griffiths (Contractors) Ltd

An example of a business that is placing a commitment to its stakeholders at the heart of its business is Alun Griffiths (Contractors) Ltd, a leading regional civil engineering contractor working in Wales, the English border counties and the West country. Established in 1968 and still privately owned, it has an annual turnover of over £100 million and employs over 600 people.

Griffiths' commitment to its stakeholders is exemplified by its support for its employees. Griffiths runs regular health campaigns and provides its workforce with regular health assessments among other benefits. It also invests significantly in skills training for its employees and provided over 10,000 hours of training in 2015 to help them progress.

Griffiths is also committed to the promotion of equality and diversity. This has led it both to support its employees with individual needs and to promote equality within the construction industry more generally. For example, Griffiths seeks to help hard to reach groups, including those with criminal convictions and who are not in employment, education or training (NEET) back into employment by providing training, work experience and employment opportunities. Griffiths also supports women in construction, for example through Women's Careers in Construction Events and 20% of its board is female (compared to an industry average of 16%).[46] Regarding support for existing employees, Griffiths tries to be flexible to assist members of staff in their roles where necessary, including through flexible working, home-working arrangements and adaptions to roles. This has enabled many of its employees to work well into their 70s and to Griffiths employing people with disabilities across their workforce.

Regarding its relationships with other stakeholders, Griffiths prides itself on forming long-term relationships with its suppliers. It also formally assesses all suppliers and annually audits them to ensure that they mirror their approach to corporate responsibility and to encourage good practice. Griffiths also works hard to support local communities, including through the sponsorship of local community groups and events and engagement with local schools and colleges. Its relationships with stakeholders and its work around diversity and inclusion led Griffiths to win the All-Party Parliamentary Corporate Responsibility Group's (APCRG) National Responsible Business Champion Award in 2016.

Case study 4: Patagonia

A business that has embraced both a purpose-beyond-profit and a commitment to its stakeholders is Patagonia, a US-based company that makes outdoor clothes for sports including: climbing; skiing; snowboarding; surfing; and trail running. Patagonia's mission is to 'build the best product, cause no unnecessary harm and use business to inspire and implement solutions to the environmental crisis.'[47] This mission grows out of Patagonia's love for wild and beautiful places and their belief that they have a duty to participate in the fight to save them.[48]

46 Randstad, *Women in the UK Construction Industry in 2016,* 2016, p4 [accessed via: www.randstad.co.uk/women-in-work/women-in-the-uk-construction-industry-in-2016.pdf (14.08.2016)]

47 Patagonia, *Annual Benefit Corporation Report,* Patagonia, 2015, p5

48 As written on Patagonia's website – Inside Patagonia – Our Mission Statement [accessed via: www.patagonia.com/eu/enGB/patagonia.go?assetid=8952 (31.05.2016)]

To fulfil their mission, Patagonia has undertaken a wide range of initiatives. Many of these involve efforts to reduce the environmental impact of their products, for example, by foregoing unnecessary packaging, replacing conventionally grown cotton with organic cotton and encouraging customers to extend the life of their clothes so they don't need to buy more.[49] The latter of these has been done by making clothes last longer, repairing clothes for customers, reusing clothes (Patagonia resells used clothes on eBay or in their stores Worn Wear section) and recycling old clothes.[50] Patagonia also donates 1% of sales to charitable organisations working to protect the environment and to increase sustainability.[51]

Patagonia is also committed to supporting its stakeholders. For example, it provides a range of benefits to its employees including: health insurance; retirement benefits; company-operated, on-site childcare for employees at its Ventura headquarters and its Reno distribution centre in the US; a childcare cost subsidy for other employees in the US and employees in Japan; a travellers support programme for nursing mums, which pays for the cost of the baby's primary caregiver or a relative to accompany the mum and their baby on work trips; flexible working; and tuition assistance for employees enrolled in an accredited college programme.[52] Within its supply chain, Patagonia works to promote fair labour practices by monitoring its factories for poor practice and requiring them to move towards paying a living wage.[53]

1.2.3 Community Impact

As well as generating social value through *what* they do and *how* they do it, many businesses are playing an important role in tackling social issues through the provision of support to charities and communities. This may involve cash donations, sponsorship, secondments, employer-supported volunteering, in-kind donations or any other form of support.[54]

According to the National Council for Voluntary Organisations (NCVO) *Almanac*, corporate donations and gifts in-kind to the voluntary sector were valued at £1 billion in 2013/14, whilst corporate sponsorship was worth an additional £314 million and earned voluntary sector income from the private sector totalled £749 million.[55] Together, these sources of income from the private sector were valued at just under £2.1 billion, equating to 4.75% of total voluntary sector income in 2013/14.[56] Regarding volunteering support for the voluntary sector, although regular employer-supported volunteering (defined as volunteering that takes place at least once/month) remains rare, less regular employer-supported volunteering is slightly more widespread. The 2014/15 *Community Life Survey* finds that just 3% of respondents reported regularly taking part in employer-supported volunteering, compared to 8% who had taken part in employer-supported volunteering at least once in the 12 months prior to the interview.[57]

49 Patagonia, *Annual Benefit Corporation Report,* Patagonia, 2015, pp8–9; as written on Patagonia's website – Inside Patagonia – Environmental and Social Responsibility [accessed via: www.patagonia.com/eu/enGB/environmentalism (31.05.2016)]

50 Ibid

51 Patagonia, *Annual Benefit Corporation Report,* Patagonia, 2015, p6

52 Ibid, pp13–14

53 As written on Patagonia's website – Inside Patagonia – Environmental and Social Responsibility – Corporate Responsibility – Working With Factories [accessed via: www.patagonia.com/eu/enGB/patagonia.go?assetid=70733 (31.05.2016)]; and Patagonia's website – Inside Patagonia – Environmental and Social Responsibility – Corporate Responsibility – FAQ's [accessed via: www.patagonia.com/eu/enGB/patagonia.go?assetid=67516 (31.05.2016)]

54 NCVO website, Employer Supported volunteering [accessed via:http://blogs.ncvo.org.uk/2015/04/16/employer-supported-volunteering-what-can-research-tell-us-about-election-2015-policies/]

55 As written on the NCVO's website – Almanac 2016 – voluntary sector income [accessed via: https://data.ncvo.org.uk/wpcontent/uploads/2016/04/voluntary-sector-income-sources-types.png (20.05.2016)]

56 Figure calculated from the NCVO Almanac 2016 data [accessed via: https://data.ncvo.org.uk/wp-content/uploads/2016/04/voluntary-sector-income-sources-types.png (20.05.2016)]

57 Ibid (https://data.ncvo.org.uk/wp-content/uploads/2016/04/)

Traditionally, many companies have engaged with charities through one-off financial donations or one-off and practical voluntary activities.[58] These forms of engagement provide a short-term boost to the charities finances or short-term support. However, they do not usually maximise impact for either party. This is because having to rely on one-off donations makes it harder for charities to plan financially and while practical volunteering may be useful, it may not be the form of support that the business is best placed to give, that meets the needs of the business, or that add the most value to the charity. Rather, lending the unique skill-sets of their employee volunteers (whether in information technology, law, accountancy or anything else) may be of much more use.[59] It is worth noting that support aligned to the businesses strategy and goals may also help meet a business need. Further, more tailored, skills-based volunteering strategies may maximise the benefits of volunteering for the business, for example, by providing opportunities for employee development.[60]

Case study 5: Starbucks

With more than 30,000 wearing the Starbucks green apron in Europe, the company provides opportunity through employability programmes and jobs to young people and supports their progression through the business. No formal qualifications are required; instead the company hires employees (partners) on attitude. Starbucks believes its inclusive culture enriches the business as all of its partners, including those with disabilities, bring a diversity of talent to the business.

The Starbucks apprenticeship scheme launched in 2012 and has now recruited 1,500 apprentices. The most critical factor for Starbucks is that the retention rate within the apprentice population is over 80%. With 1 in 5 apprentices completing the programme promoted to a management role and many now in charge of their own stores. This support for progression shows that the apprenticeship programme has both currency and value – a vital proof point in attracting young people to the scheme.

At the start of 2016 Starbucks extended its commitment to another 1,000 places and announced higher level apprenticeships as well as professional qualifications enabling Starbucks partners to study to degree level, earning while they learn in disciplines such as management, digital and IT as well as in retail operations.

At the same time, Starbucks introduced the opportunity to learn literacy and numeracy and language skills to support progression and employability for partners. With a young workforce and high housing costs in cities where stores are based, the company introduced the 'Home Sweet Loan' Tenancy Deposit Loan in April 2016. The Scheme designed by Shelter offers Starbucks partners a loan to cover their rental deposit and is also supported by money management information provided by the Money Advice Service.

58 CIPD, Institute for Volunteering Research and NCVO, *On the Brink of a Game-changer? Building sustainable partnerships between companies and voluntary organisations,* London: CIPD, 2015

59 Ibid

60 Ibid; CIPD, *Volunteering to Learn: Employee development through community action,* London: CIPD, 2014; SMF, *More Than CV Points? The benefits of employee volunteering for business and individuals,* London: SMF, 2010

In 2015 the company committed to providing training opportunities to at least 100,000 'opportunity youth' by 2020 and is on track to meet this commitment. Starbucks partnership programmes with The Challenge (Headstart with Starbucks – since 2013) and UK Youth (Starbucks Youth Action – since 2010) have supported thousands of under-25 year-olds to get community projects or volunteering efforts off the ground, at the same time improving their skills and prospects for employment including into real jobs at Starbucks.

Case study 6: National Grid and City Year

National Grid is an international electricity and gas company based in the UK and the north-eastern US. Due to its belief that it has a responsibility to help build a more inclusive society, as well as the need of the energy industry to encourage more young people (and young women in particular) to pursue careers as engineers, National Grid supports a range of Science, Technology, Engineering and Mathematics (STEM) education courses.

One of the charities supported by National Grid in the UK is City Year, which aims to tackle educational inequality by training young people who are then sent into schools to support at-risk pupils through tutoring, mentoring and after-school clubs. One of the after-school programmes delivered is National Grid's STEM education course.

National Grid began supporting City Year in 2010 and since this time, more than 400,000 hours have been given by City Year teams supported by National Grid to help pupils achieve their potential. City Year also delivers national Grid's STEM education programme to over 8,000 primary school children in London each year.

1.3 Extent of social value varies between businesses

Across the areas outlined above, the extent to which businesses seek to generate social value is a spectrum, ranging from those that have limited or no regard for their social or environmental impact beyond the minimum legal requirements to those that have embedded a commitment to addressing social or environmental challenges at their heart. Visiting Fellow Ron Ainsbury and Prof David Grayson at Cranfield University have described this spectrum as comprising 5 stages:[61]

1. Denier – does not recognise responsibility for the businesses social, environmental and economic impacts;
2. Complier – follows laws and common business practices in dealing with social, environmental and economic impacts;
3. Risk mitigator – reduces negative social, environmental and economic impacts to reduce reputational, financial and other risks;

61 Ainsbury R and Grayson D, *Business Critical: Understanding a company's current and desired stages of corporate responsibility maturity,* Cranfield: Doughty Centre for Corporate Responsibility at Cranfield University, 2014

4. Opportunity maximiser – reduces negative impacts and seeks business opportunities from maximising positive impacts; and
5. Champion – embraces sustainability in own value-chain and collaborates with others to promote sustainable development.

Clearly, businesses in the 'denier' stage would be unlikely to exhibit any of the behaviours outlined above. Conversely, businesses in the 'opportunity maximiser' and 'champion' stages could be expected to have a clearly articulated social purpose-beyond profit, to be committed to their stakeholders and to have a sophisticated strategy in place in relation to their engagement with charities, focussed on maximising opportunities for both parties. To this, Ainsbury and Grayson add that businesses in the 'champion' stage should collaborate and share expertise with others to achieve maximum impact.

1.4 The scale of businesses efforts to generate social value is significant

Variation in the way and extent to which businesses are seeking to generate social value means that it is difficult to estimate the scale upon which these efforts are occurring. However, a sense can be gained from the following figures:

- There are 70,000 social enterprises in the UK contributing £24 billion to the UK economy (approximately 0.65% of businesses total contribution) and employing nearly a million people (representing 4.6% of the UK population employed by business).[62]
- Big Society Capital and Bridges Impact+ estimate that there are up to 250,000 businesses deliberately delivering social impact that remain outside the regulated social sector (defined as businesses that have adopted a social legal form, specifically a charity, co-operative, community benefit society or community interest company legal form – the latter was established for social enterprises in 2005).[63] These businesses employ over 2 million people (over 9% of the population employed by business) and have a combined turnover of £163 billion (over 4% of businesses total turnover).[64]
- 100 businesses in the UK have so far certified as B Corporations (for-profit companies that meet rigorous standards of social and environmental performance).[65] The total revenue of these businesses is £0.67 billion and they employ 4,200 people.[66]

62 Social Enterprise UK, *State of Social Enterprise Survey 2015,* London: Social Enterprise UK, 2015, p4. Percentages calculated using figures from: Department for Business, Innovation and Skills (BIS), *Private Sector Employment Indicator, Quarter 2 2015 (May 2015 to July 2015): Statistical Release,* London: BIS, 2015, p6; House of Commons Library, *Business Statistics,* London: House of Commons Library, p5

63 Big Society Capital and Bridges Impact+, *The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK,* London: Big Society Capital and Bridges Impact+, 2014, p6. Percentages calculated using figures from: Department for Business, Innovation and Skills (BIS), *Private Sector Employment Indicator, Quarter 2 2015 (May 2015 to July 2015): Statistical Release,* London: BIS, 2015, p6; House of Commons Library, *Business Statistics,* London: House of Commons Library, p5

64 Ibid

65 Evidence submitted to the CSJ by B Lab UK on 17 August 2016

66 Ibid

These figures show that the scale of business efforts to generate social value is significant, albeit small when placed in the context of the size of the UK economy as a whole. The potential for efforts to be pushed further and for the number of businesses embedding good practice to be increased is therefore substantial. This must be achieved if businesses potential to have a positive social impact is to be realised.

1.5 Businesses are protecting their social impact in a variety of ways

Businesses likely to have fallen into the 'opportunity maximiser' or 'champion' stages of Ainsbury and Grayson's spectrum above (henceforth referred to as 'impact-driven' businesses) are taking a range of steps to protect their impact. Broadly, there are three elements of impact that businesses may wish to protect:[67]

- Their social purpose/mission;
- Their performance against that social purpose, i.e. do they actually deliver the good intended; and
- The distribution of financial value.

Steps taken to protect these different elements of impact are known as mission locks, performance locks and asset locks respectively and each may be protected in a range of different ways. The table below illustrates some of the most well-known of these.

Table 1: Forms of impact protection available to UK businesses[68]

Element of impact to be protected	Steps taken to protect impact	Description
Mission lock	Articles of association	Social purpose/mission included in articles of association
	Golden shareholder	A golden shareholder is able to exercise a veto over changes to key social objectives
	Social certifier	An independent third-party certifier, with certification involving a social mission test, similar to the community interest test for CICs. The certifier could also have to approve any change to the businesses purpose/mission
Performance lock	Owner	An owner may be able to use their control to monitor and target social goals
	Social certifier	An independent third-party certifier, with certification involving a performance test, which could have to be re-taken at certain intervals. An example is the B Impact Assessment, in which all B Corporations have to achieve a minimum score of 80 every two years
Asset lock	Social regulator	A social regulator able to award or remove the businesses legal status if the asset lock is not adhered to. An example of a regulator able to do this is the CIC Regulator

67 Big Society Capital and Bridges Impact+, *The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK,* Big Society Capital and Bridges Impact+, 2014
68 Ibid

1.6 Impact-driven businesses are adopting innovative legal forms

Impact-driven businesses are also adopting a range of different legal forms and statuses that identify them as 'social' and protect their impact in different ways. These include:

- A social enterprise model;
- A co-operative or community benefit society model; and
- B Corporation status.

This section of the report will discuss these legal forms and statuses in more detail, before highlighting the large numbers of businesses seeking to have a positive social impact that are operating outside of these key forms.

1.6.1 Social enterprises

Social enterprises are businesses set up specifically to tackle social or environmental problems.[69] As outlined above, there are approximately 70,000 social enterprises in the UK contributing £24 billion to the economy and employing nearly a million people.[70] Their contribution to the UK economy is therefore substantial. Since social enterprises represent an increasing proportion of start-ups and are growing faster than mainstream small and medium sized enterprises (SMEs), with the turnover of 52% of social enterprises, compared to just 40% of mainstream SMEs growing over the last 12 months, their importance is also likely to increase.[71]

The positive social/environmental impact of social enterprises is significant. Social enterprises address a wide range of social and environmental issues (including health and wellbeing, social exclusion and education) and are frequently found in the most disadvantaged areas; 31% of social enterprises work in the 20% most deprived areas in the UK.[72] Social enterprises are also job creators. For example, 41% have increased their workforce in the last 12 months compared to 22% of mainstream SMEs.[73] Moreover, many of these jobs go to people who are disadvantaged in the labour market (for example, long-term unemployed, ex-offenders or people with a disability). 59% of social enterprises with two or more staff employ at least one person who would fall into this category and for 16% of social enterprises, people who are disadvantaged in the labour market comprise over 50% of their employees.[74] Therefore, as well as having a positive impact by addressing social and environmental issues, social enterprises are creating positive economic impacts by providing employment in deprived areas and to people who might otherwise require costly state support.

There is no strict definition of a social enterprise. However, it is essential that their social or environmental mission is core. To protect their mission, Social Enterprise UK states that social enterprises should:

69 Social Enterprise UK *What makes a social enterprise a social enterprise?* London: Social Enterprise UK, 2012
70 Social Enterprise *UK State of Social Enterprise Survey 2015*, London: Social Enterprise UK, 2015, p4
71 Ibid, p15
72 Ibid, pp.18 & 31
73 Ibid, p42
74 Ibid, p40

- Reinvest the majority of their profits (over 50%) in furthering their social or environmental mission; and
- Ensure that they are majority controlled in the interests of their mission (for example through a golden shareholder able to exercise a veto in some circumstances).

A recent development in the UK has been the introduction of community interest companies (CIC's), first established in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004.[75] The CIC legal form was created specifically for social enterprises and CIC's are required by law to take a number of steps to protect their social mission. Specifically, CIC's must:[76]

- Have provisions in their articles of association that enshrine their social purpose and that therefore lock in their social mission;
- Pass a 'community interest test', which requires them to show that they are run for the benefit of the community (a performance lock); and
- Impose an asset lock, which ensures that they can only use their assets and profits for the benefit of the community specified.[77, 78]

Since 2005, over 12,000 CIC's have been founded.[79]

Case study 7: Ninety

Ninety is a social enterprise seeking to bring about social change by generating £1 billion for charitable grants and social investment over a 30-year period.[80] To achieve this, Ninety comprises a CIC holding company and currently, four businesses (Ninety Consulting, Ninety Create, Ninety Technologies and Ninety Ventures), which are owned by Ninety CIC.[81] These businesses helping major brands adapt to a world of changing technology, innovation and disruption through agile digital transformation. Ninety aims to add more businesses and joint ventures over time.[82] Alongside this, Ninety has a charitable foundation. Ninety is named as such as it passes 90% of its distributable profits to the foundation.[83] The remaining 10% is distributed to staff and key partners.

Grants and investments made by Ninety's Foundation focus on economic development, education and health in developing countries.[84] Programmes supported include Sinapis (a charity training entrepreneurs in Africa), Oikocredit microfinance (which invests in microfinance, fair trade organisations, agricultural enterprises and renewable energy), Living Goods (sustainable community health programmes) and SHE (which creates employment and helps to keep girls in school).[85]

75 Department for Business, Innovation and Skills (BIS), *Office of the Regulator of Community Interest Companies: Information and guidance notes*, London: BIS, 2015
76 BIS, *A Guide to Legal Forms for Social Enterprise*, London: BIS, 2011, p3
77 Ibid; BIS, *Office of the Regulator of Community Interest Companies: Information and guidance notes*, London: BIS, 2015
78 For more information on how businesses may protect their social mission see: Big Society Capital and Bridges Impact+, *The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK*, Big Society Capital and Bridges Impact+, 2014
79 As written on the CIC Association's website [accessed via: www.cicassociation.org.uk/about/what-is-a-cic (31.05.2016)]
80 As written on Ninety's website – Our Vision [accessed via: www.ninety.co.uk/vision/ (31.05.2016)]
81 Evidence taken by the CSJ on April 7th 2016 from Dan White and Geoff Knott, Directors, Ninety
82 Ibid
83 Ibid
84 Ibid
85 Ibid

In addition to giving through the Foundation, Ninety seeks to engage staff and clients in choosing where funding goes- and encourages staff to volunteer with charities and consider creating their own businesses with social impact.[86] Ninety has also identified a social enterprise specialising in technology in Africa and is considering how to engage them as a supplier.[87]

Ninety protects its social mission through a mission-lock consisting of articles of association that include its 90%/10% profit distribution promise, a golden shareholder, and an independent Ethics Board that transparently holds it accountable. The Ethics Board and golden shareholder also act as a performance-lock. Finally, as a CIC, Ninety has an asset lock and obligations to the CIC Regulator.

Case study 8: Blue Sky Development

Blue Sky is an award-winning social enterprise that only employs ex-offenders.[88] Ex-offenders are recruited and employed for a six month fixed-term contract and placed into work with Blue Sky›s commercial and local authority clients.[89] Contract areas include: waste; recycling; ground maintenance and warehousing.[90] Blue Sky employees are also given access to support including training grants to enhance their job prospects and crisis loans to help them sustain employment (for example, to help with the cost of a deposit/rent for employees with a housing need).[91] In 2015, 200 ex-offenders secured jobs with Blue Sky and of these, 40% moved into permanent employment within 6 months of leaving (four times the rate of the Government's Work Programme for prison leavers).[92] Over a third of Blue Sky employees also report less use of mental health and substance misuse services and analysis by the Ministry of Justice data lab finds that the re-offending rate among Blue Sky employees is reduced by between 1 and 23%.[93] By providing ex-offenders with employment, Blue Sky hopes to break the cycle of re-offending and benefit society.

1.6.2 Co-operatives and community benefit societies

Co-operatives and community benefit societies are organisations owned and run by their members, with co-operatives run by their members for the benefit of their members and community benefit societies run by their members for the benefit of their community. Today, there are approximately 7,000 co-operatives and 3,000 community benefit societies in the UK.[94] Nearly 15 million people own the UK's co-operatives and co-operatives contribute £37 billion a year to the British economy, although it should be noted that many of these also identify as social enterprises and may therefore be included in the figures above.[95] As they are owned and controlled by their members, both co-operatives and community benefit societies may bring significant benefits. Member ownership and provisions in their governance structures serve to protect their objective of running for the benefit of their members/community.

86 Ibid
87 Ibid
88 Evidence taken by the CSJ between 19 February and 31 May 2016 from Blue Sky Development
89 Ibid
90 Ibid
91 Ibid
92 Ibid
93 Ibid
94 Big Society Capital and Bridges Impact+ *The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK*, London: Big Society Capital and Bridges Impact+, 2014, p5; Co-operatives UK *The co-operative economy 2015*, Manchester: Co-operatives UK, 2015, p8
95 Co-operatives UK *The co-operative economy 2015*, Manchester: Co-operatives UK, 2015, pp6–7

Case study 9: A Clean Sweep

A Clean Sweep is a cooperative based in Bristol, founded by and employing people with learning disabilities.[96] It currently employs 11 people who work for between 1 and 20 hours/week depending on their capability.[97] All employees are members of the cooperative and therefore have the ability to vote on decisions around recruitment, equipment and cleaning products used.[98] They are supported in the day-to-day running of A Clean Sweep by the learning disability charity Mencap.[99]

A Clean Sweep provides members with a variety of forms of support including training and retirement benefits and social events are held to tackle social isolation.[100] Adjustments to training and the day-to-day running of the business are also made for employees who struggle with reading or memory retention.[101] By providing employment for people with learning disabilities, making a range of adjustments to cater for their disability and adopting a cooperative model so that all employees have a say over the running of the business, A Clean Sweep provides opportunities for people with learning disabilities to gain and retain employment and empowers them to achieve greater independence and make their own choices.

1.6.3 B Corporations

As discussed above, the most common definitions of social enterprises stipulate that the organisations adopting this model must impose restrictions on the distribution of their profits, whilst co-operatives and community benefit societies must be owned and run by their members. However, there also exist a wide range of impact-driven businesses that do not wish to place restrictions on the distribution of profits to their owners/shareholders as they are concerned about the potential negative effect of such a restriction on capital raising or they wish to maintain flexibility.

The B Corporation movement was originally founded in the US in 2006 and launched in the UK in September 2015. For impact-driven businesses that do not want to impose restrictions on the distribution of their profits, this movement allows them to lock-in and protect their social mission by:

- Imposing a mission lock by incorporating their mission into their articles of association; and
- Imposing a performance lock in the form of the B Impact Assessment which measures the businesses social and environmental performance against a third party standard and must be re-taken every two years.

96 As written on A Clean Sweep's website [accessed via: www.acleansweep.org.uk (31.05.2016)]
97 Evidence taken by the CSJ on 18 February 2016
98 Ibid
99 Ibid
100 Ibid
101 Ibid

Since B Lab was launched in the US in 2006, 1,850 businesses have certified across more than 50 countries.[102] These businesses generate $28 billion of revenue and employ over 80,000 people.[103] Since launching in the UK in September 2015, 100 businesses with a total revenue of £0.67 billion and employing 4,200 people have certified.[104] Although small now, this figure is increasing by approximately 5 businesses a month.[105] Globally, certified B Corporations comprise not only small businesses, but also large ones including Patagonia, Ben & Jerry's and Method Products.[106] As increased numbers of businesses certify and many of those that have are scaling, the influence of the B Corporation movement will continue to grow.

Case study 10: Bridges Ventures

An example of a registered B Corporation is Bridges Ventures, a specialist fund manager dedicated to sustainable and impact investing.[107] Its strategy is to focus on opportunities that allow investors to generate strong financial returns whilst also helping to meet pressing social or environmental challenges.[108]

Since it was founded in 2002, Bridges Ventures has raised over £600 million across three types of funds: Bridges Sustainable Growth Funds provide capital for high-growth businesses that are creating a positive impact through what they do, how they do it or where they are located; Bridges Property Funds invest in regeneration areas, environmentally sustainable buildings and high quality care homes for the elderly; Bridges Social Sector Funds provide finance and support for high-impact charities and social enterprises.[109] Investments focus on four 'impact themes': health and wellbeing; education and skills; sustainable living; and underserved markets.[110] By providing capital that allows high-impact businesses and charities to grow, Bridges generates significant value for both investors and society.

As well as generating social value through its investments, Bridges has a charitable trust to which team members have committed to donate 10% of their own profits.[111] This exists to support philanthropic activities that cannot be funded through commercial investment.[112] It has also provided seed capital for early stage businesses that have the potential to have a significant positive impact and supports efforts to help build key social investment markets.[113]

102 Evidence submitted to the CSJ by B Lab UK on 17 August 2016
103 Ibid
104 Ibid
105 Evidence submitted to the CSJ by B Lab UK on 12 May 2016
106 B Corporation website [accessed via: www.bcorporation.net/ (19.07.2016)]
107 Evidence taken by the CSJ in a series of meetings between March 3 and April 8 2016
108 As written on Bridges Ventures' website – About Us [accessed via: http://bridgesventures.com/about-us/#aboutSection (31.05.2016); evidence taken by the CSJ in a series of meetings between March 3 and April 8 2016
109 As written on Bridges Ventures' website – Our Funds [accessed via: http://bridgesventures.com/our-funds/ (31.05.2016); evidence taken by the CSJ in a series of meetings between March 3 and April 8 2016
110 As written on Bridges Ventures' website – Our Approach [accessed via: http://bridgesventures.com/our-approach/ (31.05.2016)]; evidence taken by the CSJ in a series of meetings between March 3 and April 8 2016
111 As written on Bridges Ventures' website – Bridges Charitable Trust [accessed via: http://bridgesventures.com/bridges-charitable-trust/ (31.05.2016)]; evidence taken by the CSJ in a series of meetings between March 3 and April 8 2016
112 Ibid
113 Bridges Ventures, *The Bridges Charitable Trust: Trustees' Annual Report and Accounts,* London: Bridges Charitable Trust, 2015; evidence taken by the CSJ in a series of meetings between March 3 and April 8 2016

As a registered B Corporation, Bridges has formally incorporated its social mission into its articles of association and its social and environmental performance has been independently verified. Bridges has also protected its social purpose through Bridges Charitable Trust, which owns shares in the company.[114] These shares are non-voting shares except in certain situations, specifically regarding a change to Bridges' mission or in the event of a sale or wind up.[115]

Case study 11: Cook

COOK is also a certified B Corporation and makes food for the freezer using the same ingredients and techniques that you would at home so everything looks and tastes homemade.[116] Since its founding in 1997, COOK has sought to prioritise the needs of all its stakeholders (employees, suppliers, customers and communities) as well as its shareholders equally.[117] COOK's founders believe that 'business success is about more than just profits. It's about helping to create a society that enjoys shared and durable prosperity.'[118]

This belief is evidenced in the way in which COOK has been run as a business. For example, COOK's belief that everyone should share in their success led it to become an official living wage employer in July 2015 and introduce a 5% profit-sharing scheme for staff.[119] It has also led COOK to emphasise staff training and progression; in 2015, 485 staff (70% of all staff) received 10,458 hours of training and COOK made 70 internal promotions.[120] Another benefit provided to staff is COOK's 'dream academy', which helps staff to pursue their dreams.[121] This could involve anything from mending a relationship or getting finances under control, to going skydiving. Since May 2013, 91 COOK employees have received life coaching through the Dream Academy.[122]

COOK has also sought to support the communities in which it operates. Since 2007, COOK has sent its leftover ingredients to Caring Hands in Rochester, a church-based organisation helping vulnerable people through the delivery of meals, medical assistance, legal advice and clothing.[123] This partnership has led to a win-win for COOK, which has solved its waste food problem whilst also feeding 52 people a day (equivalent to 20,000 meals a year) at Caring Hands' drop-in centre.[124] COOK also supports its communities in a range of other ways. For example, it gives a 30% discount to local community groups catering for more than 20 people and every COOK employee can use 5 days per year to volunteer at the charity of their choice.[125]

114 Ibid
115 Ibid
116 As written on COOK's website – About Us [accessed via: www.cookfood.net/info/About-cook/ (31.05.2016)]
117 Evidence taken by the CSJ between March 11 and April 4 2016
118 As written on COOK's website – About Us – Bcorp [accessed via: www.cookfood.net/info/bcorp/ (31.05.2016)]
119 As written on COOK's website – About Us – Living Wage [accessed via: www.cookfood.net/info/jobs/Living-Wage/ (31.05.2016); evidence taken by the CSJ between March 11 and April 4 2016
120 Evidence taken by the CSJ between March 11 and April 4 2016
121 As written on COOK's website – About Us – Dream Academy [accessed via: www.cookfood.net/info/jobs/essential-ingredients/Dream-Academy/ (31.05.2016)]; evidence taken by the CSJ between March 11 and April 4 2016
122 Evidence taken by the CSJ between March 11 and April 4 2016
123 As written on COOK's website – About Us – Caring Hands [accessed via: www.cookfood.net/info/Caring-Hands/ (31.05.2016)]; evidence taken by the CSJ between March 11 and April 4 2016
124 Evidence taken by the CSJ between March 11 and April 4 2016
125 As written on COOK's website – About Us – Community Discount [accessed via: www.cookfood.net/info/Community-Kitchen/ (31.05.2016)]; evidence taken by the CSJ between March 11 and April 4 2016

1.6.4 Organisations without a kitemark

Increased numbers of businesses are adopting the business models discussed above. However, as demonstrated by Big Society Capital and Bridges Impact+ figures, which estimate that there are up to 250,000 businesses deliberately delivering social impact that remain outside the regulated social sector, it is likely that the majority of impact-driven businesses have not.[126] Rather, vast numbers are quietly delivering social value without any such identifying feature.

As discussed above, the extent to which businesses have embedded social and environmental goals also varies, from businesses that do not recognise any responsibility for their social and environmental impacts, all the way through to businesses that have embedded a commitment to a social purpose-beyond-profit and social and environmental goals at their heart. Many businesses are therefore also operating somewhere in the middle, with negative impacts but also a great many positive impacts. Examples of businesses that have not adopted one of the models above but that are nevertheless generating social value are given in the case studies below.

Case study 12: Close Brothers

Close Brothers is a leading merchant banking group providing lending, deposit taking, wealth management services and securities trading. It employs 2,900 people, principally in the UK and is listed on the London Stock Exchange.

Close Brothers has long been committed to supporting small and medium sized enterprises (SMEs), which it believes are the lifeblood of the UK economy and which form a core part of its business, with lending by Close Brothers to SMEs doubling since 2009. For this reason and in light of the cost barrier faced by SMEs seeking to take on apprentices and the skills gap that is threatening their success, Close Brothers has launched a SME Apprenticeship Programme in partnership with the Manufacturing Technologies Association (MTA). Under this scheme, Close Brothers is paying for 20 apprentices a year to learn their skills through a local trading centre. Close Brothers then funds half the apprentices' wages in the first year and a quarter in the second. Additionally, it invites the apprentices to join its in-house apprentices for team building and training days. Through this scheme, Close Brothers is therefore helping SMEs to take on an apprentice by ensuring that they don't have to bear the full cost of employing them before they are making a meaningful contribution to their business.

The first phase on the programme was launched in 2015 in conjunction with the University of Sheffield AMRC training centre. Phase two was launched in June 2016 with the manufacturer's organisation EEF, based in Birmingham. Phase three will launch in 2017. By this time, Close Brothers will be supporting up to 60 SMEs.

126 Big Society Capital and Bridges Impact+, *The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK*, London: Big Society Capital and Bridges Impact+, 2014, p6. Percentages calculated using figures from: Department for Business, Innovation and Skills (BIS), *Private Sector Employment Indicator, Quarter 2 2015 (May 2015 to July 2015): Statistical Release*, London: BIS, 2015, p6; House of Commons Library, *Business Statistics*, London: House of Commons Library, p5

Case study 13: Microsoft

Microsoft is a global technology company with over 5,000 employees in the UK. It is a platform company that relies on other companies to build on top of these platforms. Microsoft's broader partner ecosystem (99% of which are small and medium-sized enterprises) is therefore very important to its continued success.[127]

In 2010, Microsoft launched an apprenticeship scheme to help its partners address recruitment challenges and skills shortages, whilst also fulfilling Microsoft's mission to 'empower every person and organisation to achieve more.'[128] Since launching the programme, over 11,000 young people in the UK have been through the Microsoft Apprenticeship Scheme with over 5,000 Microsoft Partners.[129] The scheme has also successfully catered to the needs of both the businesses and the apprentices involved, with 81% of the businesses involved saying that the impact of the programme has been positive and 76% of apprentices report that the programme got them 'a great job.'[130] This has led to an estimated monetary value for the businesses involved of just under £12,000/ year.[131] 72% of businesses and 75% of apprentices agree that the Microsoft certification provides the core value of the programme.[132]

In addition to its apprenticeship programme, Microsoft also provides a variety of other forms of support for its suppliers and partners, including free mentoring and software support for start-ups.[133] Microsoft also invests in young people and skills beyond its apprenticeship programme through its 'Youth Spark' initiative, which aims to increase access to computer science education for young people.[134]

Case study 14: Peter's Pizzerias

Peter's Pizzeria's are two pizza restaurants, one in Loughborough and one in Leicester, with 40 employees spread across the two sites.[135] For several years, the manager has been seeking to help young people access employment by providing them with work experience, training, work-based mentoring and interview practice in the pizzeria's before helping them into permanent employment.[136]

Since the manager began doing this, 15 young people have been given work experience of 1–2 weeks in length and four have received longer work placements ranging from 3 to 18 months in length.[137] Given the importance of work experience for accessing employment, the impact of this and other similar initiatives is likely to be significant.[138]

127 Evidence taken by the CSJ on May 11 2016
128 Evidence taken by the CSJ on May 11 2016
129 Ibid
130 Edelman Berland *Microsoft Apprenticeship Programme Research*, 2015, p8
131 Ibid, p4
132 Ibid, p12
133 Evidence taken by the CSJ on May 11 2016
134 Ibid
135 Evidence taken by the CSJ on February 9 2016
136 Ibid
137 Ibid
138 CSJ, *The Journey to Work: Welfare reform for the next Parliament*, 2014

chapter two

Why business must engage with this agenda

As identified in the Introduction and the State of the Nation, the level of social value generation by business is significant. However, the majority of businesses are not yet maximising their potential positive impact and business still therefore possesses the potential to do much more. This section of the report considers why businesses should be seeking to maximise their impact. It focusses on four key arguments:

1. Business has social and environmental responsibilities;
2. The public expect business to play its part in addressing social and environmental challenges;
3. Embracing its responsibilities towards society reduces exposure to reputational, financial and litigation-related risks; and
4. Maximising their positive impact will benefit their business and ultimately their bottom-line.

2.1 Business already has natural social and environmental effects

In his 1962 book, Milton Friedman argued that 'there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits'.[139] Although this view did not go unchallenged, it was nevertheless widely accepted.

The problem with this argument is that it ignores the extent to which, as an intrinsic part of society, business impacts upon it. To give just a few examples, in 2015 the private sector: employed approximately 21.8 million people in England (62.4% of the working-age population and of those in employment and aged over 65);[140] paid nearly £48 billion in corporation tax and through the bank levy;[141] and released 88.5 $MtCO_2e$ of greenhouse gases.[142] This makes it clear that whether for better or for worse, the activities of business influence the world around it.

139 Friedman M, *Capitalism and Freedom*, Chicago: The University of Chicago Press, 1962, p133

140 BIS *Private Sector Employment Indicator, Quarter 2 2015* (May 2015 to July 2015): Statistical Release, London: BIS, p6

141 HM Revenue and Customs, *HMRC Tax and NIC Receipts: Monthly and Annual Historical Data*, HM Revenue and Customs, 2016, p8 [accessed via: www.gov.uk/government/uploads/system/uploads/attachment_data/file/532373/May16_Receipts_NS_Bulletin_Final2.pdf (05.07.2016)]

142 Department of Energy and Climate Change, *2014 UK Greenhouse Gas Emissions, Final Figures: Statistical Release*, Department of Energy and Climate Change, 2016, p12 [accessed via: www.gov.uk/government/uploads/system/uploads/attachment_data/file/496942/2014_Final_Emissions_Statistics_Release.pdf (11.07.2016)]

It is possible that had Friedman been writing today, particularly after the single-minded pursuit of profit led to the creation of bundled mortgage backed securities and the financial crisis, and at a time when the risks of human-induced effects of climate change are much better understood, he might have come up with a more nuanced assessment. A more holistic argument would also recognise that whilst business brings society huge benefits, society also benefits business, including through the provision of infrastructure, an educated workforce and a legal system that allows businesses to trade in a way that brings security.

It is the CSJ's belief that the extent to which businesses impact on society, as well as the scale of the benefits they accrue from it, give businesses responsibilities to account for these impacts (known as externalities) and to seek to mitigate their negative effects. It is notable that the Nobel Prize winning economist Joseph Stiglitz said that: 'Whenever there are "externalities" – where the actions of an individual have impacts on others for which they do not pay or for which they are not compensated – markets will not work well'.

2.2 The public expect business to play a social role

Both the UK and the world as a whole are now facing significant and serious challenges. For example, as early as age 5 a gap of nearly a year exists in the cognitive development of children in the poorest fifth of homes compared to children in the middle fifth of families by income and far from closing upon enrolment in mainstream education, this gap widens.[143] Levels of youth unemployment in Britain also remain stubbornly high[144] and the evidence suggests that unemployment during youth may leave a 'wage scar' of 12–15% in later life.[145] More widely, the world is seeing untenable levels of income inequality and there exists an escalating environmental crisis.

Increasingly, there exists an expectation among members of the public that businesses play a role in addressing these challenges. For example, a study of global consumers by Cone Communications and Ebiquity finds that 91% now expect companies to not only make a profit but to address social and environmental challenges as well.[146] This figure is even higher among the millennial generation of people born in the 1980's and 1990's.[147] As this generation makes up an increasing proportion of employees and consumers, the importance of these issues is likely to further increase.

It is notable that as well as having high expectations, consumers are also increasingly willing to act on their beliefs. For example, Cone Communications and Ebiquity find that 84% of consumers say they try to purchase products and services that are socially and environmentally responsible whenever possible.[148] 90% would also like to see a greater

143 Feinstein L, 'Inequality in the Early Cognitive Development of British Children in the 1970 Cohort', *Economica* Vol. 70, 2003, pp73–97; OECD *Pisa 2012 Results: Excellence Through Equity: Giving Every Student the Chance to Succeed (volume 2, chapter 2)*, Paris: OECD Publishing, 2013 [accessed via: www.keepeek.com/Digital-Asset-Management/oecd/education/pisa-2012-results-excellence-through-equity-volume-ii/equity-in-outcomes_9789264201132-7-en#page1 (03.06.2016)]

144 House of Commons Library, *Unemployment – National: Key Economic Indicators*, London: Parliament, 2016

145 Gregg P and Tominey E, 'The Wage Scar from Youth Unemployment' in *CMPO Working Paper Series No. 04/097*, 2004

146 Cone Communications and Ebiquity, *Global CSR Study, Boston: Cone Communications*, 2015, p7

147 Cone Communications, *Millennial CSR Study*, Boston: Cone Communications, 2015; Grayson D, McLaren M, Exter N and Turner C, *Combining Profit and Purpose: A new dialogue on the role of business in society*, Cranfield University School of Management, 2014

148 Cone Communications and Ebiquity, *Global CSR Study, Boston: Cone Communications*, 2015, p23

availability of responsible products and services. It is notable that 79% of people also consider a company's social and environmental commitments when thinking about jobs and 69% consider them when making investment decisions.[149]

Alongside these trends in public opinion, the internet and the rise of social media are creating increased levels of transparency around businesses strategies and actions. This will result in increased levels of scrutiny of business and make it harder for businesses seeking to hide poor practice. If businesses are to avoid reputational, financial and litigation-related risks (to be discussed further below), as well as capitalise on demand for responsible products as discussed above, they will need to respond by making genuine commitments to social and environmental goals and by embedding a purpose that serves all of society. The CSJ encourages business to embrace these trends and see them as an opportunity, rather than a threat.

2.3 Social value boosts reputation and reduces risk

In the aftermath of the global financial crisis, increased criticism of business has been seen and there have been calls for business to take its responsibilities towards society more seriously. In the UK, just 46% of the public trust business 'to do what is right'.[150] Further, 74% of the public believe that if there were no government regulations, big business would abuse its staff and 68% believe it would abuse its customers.[151] Given its interdependence with society as outlined above, business should be deeply concerned by these findings, which suggest a belief among the public that business is not fulfilling its obligations towards it. In the long-term, this could result in pressure being placed on the government to act through regulation. This appears to be recognised by CEO's, 55% of whom are concerned about low levels of public trust in business.[152]

Taking their wider impacts seriously is not only important if public trust in business is to be improved but also to avert the financial, litigation-related and reputational risks that could become apparent if poor practice is exposed. According to research by the University of Oxford and Arabesque Partners, the ten largest fines and settlements in corporate history together amounted to $45.5 billion.[153] Since May 2015 meanwhile, global banks have paid $9 billion in fines to US, UK and European Regulators.[154] This makes it clear that the financial and litigation-related risks of poor practice are severe, not to mention the reputational damage that may result.

149 Ibid, p11

150 Edelman, 2016 Edelman Trust Barometer: *Global Report*, 2016, p27 [accessed via: www.edelman.com/insights/intellectual-property/2016-edelman-trust-barometer/global-results (06.06.2016)]

151 YouGov survey on public opinions towards business, 2014, p6–7 [accessed via: http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/td238luxyb/StephanResults_141020_Toplines_W.pdf (06.06.2016)]

152 PricewaterhouseCoopers (PwC), *Redefining Business Success in a Changing World: CEO Survey*, London: PwC, 2016, p14 [accessed via: www.pwc.com/gx/en/ceo-survey/2016/landing-page/pwc-19th-annual-global-ceo-survey.pdf (06.06.2016)]

153 University of Oxford and Arabesque Partners, *From the Stockholder to the Stakeholder: How sustainability can drive financial outperformance*, 2016, p14

154 Council on Foreign Relations, *Understanding the Libor Scandal,* 2015

2.4 Social purpose can drive up the bottom line

A significant evidence base also exists to testify to the business benefits that may result from adopting a purpose-beyond-profit, aligning social, environmental and financial goals and supporting charities and local communities. As will be discussed below, these benefits include:

- Enhanced brand value and reputation;
- Improved talent recruitment and retention;
- Employee engagement and productivity;
- Customer satisfaction;
- Winning contracts;
- Innovation; and
- Ultimately, better financial performance.

2.4.1 Enhanced brand value and reputation

When companies embrace and communicate a purpose-beyond-profit, they raise awareness of their own values and mission. This is important because as was discussed above, the public are increasingly looking for businesses that seek not only to make a profit, but to address social and environmental challenges as well. Therefore, where businesses embrace purpose, are able to demonstrate that their purpose guides decision-making (sometimes leading to the alignment of social, environmental and financial goals) and are able to show that their purpose is not overridden by the pursuit of profit, they are likely to be more successful in inspiring confidence and trust.[155] As a result, their brand and reputation is also likely to be enhanced.[156] In a time of low levels of public trust in business, this is important if long-term success is to be ensured.

Case study 15: TOMS Shoes

TOMS Shoes is an American company launched in 2006. For every product purchased (shoes, eyewear or apparel), the company gives one away for free to someone in need.[157] So far, 60 million pairs of shoes have been given away to children in need in over 70 countries.[158] By demonstrating a social mission beyond profit and a positive social impact, TOMS has successfully garnered a significant amount of media attention and brand value.[159]

155 Deloitte, *Culture of Purpose – Building business confidence; driving growth*, Deloitte, 2014 [accessed via: www2.deloitte.com/content/dam/Deloitte/us/Documents/about-deloitte/us-leadership-2014-core-beliefs-culture-survey-040414.pdf (17.08.2016)]
156 Ibid
157 TOMS website [accessed via: www.toms.co.uk/ (10.06.2016)]
158 TOMS website – About TOMS – Company Overview [accessed via: www.toms.co.uk/about-toms#companyInfo (10.06.2016)]
159 E.g. Marketing Week, *How Footwear Brand Toms Engaged 3.5 million People in One Day Using Tribe Power*, 29 June 2016 [accessed via: www.marketingweek.com/2016/06/29/how-footwear-brand-toms-engaged-3-5-million-people-in-one-day-using-tribe-power/ (05.07.2016)]; Stamford Advocate, *How This Company Makes Money While Making a Difference*, 9 June 2016 [accessed via: www.stamfordadvocate.com/news/article/How-This-Company-Makes-Money-While-Making-a-7972796.php (10.06.2016)]; Triple Pundit, *Why Social Media and Sustainability Should Go Hand in Hand*, 8 June 2016 [accessed via: www.triplepundit.com/2016/06/social-media-sustainability-go-hand-hand/# (10.06.2016)]

2.4.2 Improved talent recruitment and employee productivity

As discussed above, social value generation by business is becoming increasingly important to employees. According to PricewaterhouseCoopers (PwC's) recent survey of 1,510 employees in the US, 83% ranked 'meaning in day-to-day work' as one of the three things most important to them.[160] Another survey carried out by Cone Communications and Ebiquity finds that 79% of people now consider a business's social and environmental commitments when thinking about jobs and 62% of people would accept a pay cut to work for a responsible employer.[161] This makes it clear that 'employees now want more from their employer than a paycheck. They want a sense of pride and fulfilment from their work, a purpose and importantly a company whose values match their own'.[162] As millennials make up a growing proportion of the workforce and generation Z begin to enter it, the importance of purpose and making a positive contribution to people and the planet will likely increase.[163]

> 'Now, more than ever, companies must cultivate the power of purpose if they are to succeed in a world where the opportunities – and responsibilities – of business have never been greater.'
>
> **PwC survey**

It would appear that these attitudes among employees are having real implications in practice with purpose and social value generation helping talent recruitment, retention and levels of employee engagement and productivity. For example, a study by Greening and Turban finds that businesses with good employee relations, that promote women and minorities, that have a reputation for high quality products and services and that minimise their negative environmental impact are perceived as more attractive employers by students and benefit from a competitive advantage in talent recruitment, with all of these variables influencing students job pursuit intentions and the likelihood of them accepting an offer.[164] The same study found that the relationship between business involvement in local communities or support for charities and talent recruitment was less important, albeit still positive.[165] Over the course of the CSJ's research for this project, senior business leaders frequently reported high proportions of graduates asking about their businesses' wider social and environmental impacts in interviews and cited their work to support charities and communities as important to recruitment strategies. This makes it clear that social value generation brings business benefits in talent recruitment. Recognition of this also appears to be increasingly widespread.

Evidence also suggests that purpose and social value generation may lead to improved rates of employee retention. For example, a study by Vitaliano finds that among businesses

160 PwC, *Putting Purpose to Work: A study of purpose in the workplace*, PwC, 2016, p7
161 Cone Communications and Ebiquity, *Global CSR Study*, Boston: Cone Communications, 2015, pp11,18
162 Meister J, 'Corporate Social Responsibility: A lever for employee attraction & engagement', *Forbes*, 2012 [accessed via: www.forbes.com/sites/jeannemeister/2012/06/07/corporate-social-responsibility-a-lever-for-employee-attraction-engagement/#7a8bd14b7511 (07.06.2016)]
163 Deloitte, *The 2016 Millennial Survey: Winning over the next generation of leaders*, Deloitte Touche Tohmatsu Limited, 2016; Net Impact, *Talent Report: What workers want in 2012, New Jersey: Rutgers, 2012*; Salt Communications Generation Z UK, 2015 [accessed via: http://salt-communications.com/blog/2015/05/generationz-uk/ (09.06.2016)]
164 Greening D W and Turban D B, 'Corporate Social Performance as a Competitive Advantage in Attracting a Quality Workforce', *Business and Society* Vol. 39, 2000, pp254–280
165 Ibid

that adopt policies that lead to them being rated by an external organisation as socially responsible, employee turnover is reduced (in this study by 25–30%).[166] This finding is also supported by other research. For example, the national employee benchmark survey in the US finds that 70% of employees with a favourable perception of their company's community commitments plan to stay with the company for the next two years. This compares to 50% of employees with a less positive view.[167] A survey by PwC meanwhile, finds that millennials are 5.3x more likely to stay with their current employer (and non-millennials 2.3x more likely) 'when they have a strong connection to their employer's purpose'.[168] These findings are important because research suggests that replacement costs range from 90% to 200% of the employee's annual salary.[169] Therefore, improving retention rates should bring financial savings.

Further research finds that purpose and social value generation in the form of stakeholder management are key drivers of employee engagement and productivity. For example, Gallup has found that 'the mission or purpose of my company' is one of the twelve best predictors of employee engagement and performance.[170] Other predictors include a supervisor or someone at work who 'seems to care about me as a person' and 'opportunities at work to learn and grow'.[171] Purpose, lived values and managers who care about their staff as people are also named as key drivers of employee engagement by the MacLeod report.[172] Evidence suggests that this is because purpose brings meaning to employees' work and in this way is an important motivator.[173] Happy employees are also more productive.[174] This evidence is particularly important in light of the UK's low levels of employee engagement, with just 17% of UK employees engaged at work.[175]

2.4.3 Customer satisfaction

Another way in which businesses may benefit from social value generation is through higher levels of customer satisfaction. This is because satisfied customers are more likely to be loyal customers. Loyal customers are in turn cheaper than one-off or short-term customers as there is a cost to attracting new customers and the cost of serving loyal customers may fall over time.[176] Therefore, customer loyalty is beneficial to the company and more loyal customers may lead to higher profits.

Happy customers may also benefit the company by becoming brand advocates; conversely, unhappy customers can easily damage brand value by posting negative reviews on social media and sharing negative information with people in their networks. It is notable that

166 Vitaliano D F, 'Corporate Social Responsibility and Labour Turnover', *Corporate Governance: The International Journal of Business in Society* Vol. 10, 2010, pp563–573

167 US national employee benchmark survey, 2001, cited in The Corporate Citizenship Company, *Good Companies, Better Employees: How community involvement and good corporate citizenship can enhance employee morale, motivation, commitment and performance*, London: The Corporate Citizenship Company, 2003, p25

168 PwC, *Putting Purpose to Work: A study of purpose in the workplace*, PwC, 2016, p11

169 Allen D G, *Retaining Talent: A Guide to Analysing and Managing Employee Turnover*, SHRM Foundation, 2008, p3

170 Gallup, *State of the Global Workplace: Employee engagement insights for business leaders worldwide*, Gallup Inc, 2013, p15

171 Ibid

172 MacLeod D and Clarke N, *Engaging for Success: Enhancing performance through employee engagement, London: Department for Business*, Innovation and Skills, 2013

173 Tomorrow's Company, *UK Business – What's Wrong? What's next? Creating value for shareholders and society through a focus on purpose, values, relationships and the long term*, London: Tomorrow's Company, 2016

174 Social Market Foundation (SMF), *Happiness and Productivity: Understanding the happy-productive worker*, London: SMF, 2015

175 Gallup, *State of the Global Workplace: Employee engagement insights for business leaders worldwide*, Gallup Inc, 2013, p91

176 Reichheld F F and Sasser W, 'Zero Defections: Quality comes to services' in the *Harvard Business Review*, 1990 [accessed via: https://hbr.org/1990/09/zero-defections-quality-comes-to-services/ar/1 (09.06.2016)]

the number of customers who engage in this way is significant: 34% use social media to share positive information about companies in relation to social and environmental issues and 25% also use social media to share negative information about companies in relation to social and environmental issues.[177] The potential for this to benefit or harm businesses is therefore significant.

2.4.4 Winning contracts

Generating social value may also help businesses win contracts, particularly if they trade with public sector bodies, which since the Social Value Act was introduced in January 2013 have been required to also consider how wider social, environmental and economic benefits can be secured through the commissioning of public services.[178] Although the recent government review of this legislation and research by Social Enterprise UK have found that the actual implementation of social value into procurements remains relatively low (according to Social Enterprise UK only 33% of councils 'routinely consider social value in their procurement and commissioning'), key barriers identified include awareness of the Act and understanding of how to apply it.[179] Therefore, as awareness and understanding of the increases over the coming years, it is likely that it will be applied to an increasing proportion of public contracts. It follows that the ability to demonstrate social impact will be important going forward for businesses for which the public sector is a key partner.

Case study 16: Wates Group

The Wates Group is a family owned construction, property services and development company employing over 4,000 people in the UK. Wates has a strong commitment to responsible business, set out in their 'Reshaping Tomorrow' programme, which is based on five commitments to health and safety, environmental impact, community investment, diversity and inclusion, and sustainable building design. As part of this, Wates engages with schools through their 'Business Class' and 'Build Yourself' programmes, runs its own 'Building Futures' pre-employment programme and is launching an industry first Social Enterprise Brokerage, which helps social enterprises to trade with Wates and the wider industry. Through these, Wates has supported over 40,000 young people across 10 school partnerships since 2009, helped over 1,000 people gain Level 1 qualifications in Construction through 'Building Futures' (with over 55% moving into employment) and traded over £8 million with social enterprises (a figure it aims to increase to £20 million by 2020).

Wates believes that these initiatives have helped them to win contracts, particularly with the public sector since the introduction of the Social Value Act. An example is a contract worth over £50 million per annum with Birmingham City Council, for which 20% of the tender was on social value. Wates' offer included working with HMP Oakwood on a construction programme with the social enterprise Bounceback. Their social value agenda was cited as one of the 'prime' reasons for them winning the contract.

177 Cone Communications and Ebiquity, *Global CSR Study,* Boston: Cone Communications, 2015, p33

178 Cabinet Office website – Guidance – Social Value Act: information and resources [accessed via: www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources (10.06.2016)]

179 Cabinet Office, *Social Value Act Review*, London: Cabinet Office, 2015 [accessed via: www.gov.uk/government/uploads/system/uploads/attachment_data/file/403748/Social_Value_Act_review_report_150212.pdf (18.08.2016)]; Social Enterprise UK, *Procuring for Good: How the Social Value Act is being used by local authorities*, London: Social Enterprise UK [accessed via: www.socialenterprise.org.uk/uploads/files/2016/05/procuringforgood1.pdf (18.08.2016)]

It is notable that Wates has also found that their social value agenda is one of the top three drivers of employee engagement in their business and that whilst helping people who are unemployed back into work, their Building Futures programme has brought them savings in recruitment costs. Wates also believe that their commitment to social value has enhanced their reputation. This is demonstrated by their recently securing the Queens Award for Enterprise: Sustainable Development and the BITC Community Mark for a second time.

2.4.5 Innovation

As outlined at the beginning of this chapter, unparalleled challenges (including inequalities in life chances, high levels of youth unemployment and an escalating environmental crisis) are being faced at global, national and local levels. Many of these challenges require new and scalable solutions and government and the voluntary sector cannot solve all these challenges alone. Therefore, they provide business with opportunities to come up with new and innovative solutions that will create shared value for both business and society as a whole.

‘Every single social and global issue of our day is a business opportunity in disguise.’

Peter Drucker

The State of the Nation described how some businesses have been seeking to seize these opportunities by adopting a purpose-beyond-profit that serves society in some way and by aligning social, environmental and financial goals. More businesses must be encouraged to do this if the benefits for business and society are to be maximised.

Case study 17: Interface

Interface is a global modular carpet manufacturer that was founded by Ray Anderson in 1973.[180] Having grown his business significantly over its first 15 years, Ray Anderson later recalled in his book *Mid-course Correction,* how in the 1990’s customers began asking what Interface was doing for the environment.[181] This led Interface’s research unit to bring together a task force to assess the company’s environmental position and to Ray Anderson, when preparing for his speech for the task force meeting, reading Paul Hawken’s ‘The Ecology of Commerce’.[182] He later described how a passage in this book on reindeer being wiped out on St Matthew’s Island led him to have an epiphany and set Interface on a new course towards sustainability.[183]

180 Interface website – Company – History [accessed via: www.interfaceglobal.com/Company/History.aspx (05.07.2016)]
181 The Economist, *Ray Anderson: The carpet-tile philosopher*, 10 September 2011 [accessed via: www.economist.com/node/21528583 (05.07.2016)]; Anderson R C, *Mid-course Correction: Towards a Sustainable Enterprise: The Interface Model*, Atlanta: The Peregrinzilla Press, 1998
182 Ibid
183 Ibid

In the years that followed this, Interface set out on a new mission to eliminate any negative impact it has on the environment by 2020.[184] This had led it to pioneer a whole new business model and new technologies to eliminate waste and emissions and move to a closed loop system.[185] Innovations that made significant steps towards doing this included those that enabled the recycling and re-use of end of life carpets and those that made steps towards eliminating the use petroleum-based fuels and materials (which the carpet industry was previously highly dependent on).[186] Since 1996 and as a result of these innovations, Interface has reduced its water usage at manufacturing sites by 87%, its greenhouse gas emissions at manufacturing sites by 96% and its energy efficiency at manufacturing sites has been improved by 45%.[187] In 2015, 50% of the raw materials it used were also either recycled or bio-based and most satisfyingly of all, these innovations have helped Interface to gain commercial success as well, attested by its status as the leading producer of soft-surfaced modular floor coverings.[188] This is because Interface has generated huge savings through reductions in energy and water use and between 1996 and 2012 it doubled its earnings through its sustainability programmes.[189]

2.4.6 Better financial performance

Good practice also brings financial rewards. This is because by enhancing businesses reputation, boosting talent recruitment, retention and employee engagement, and helping businesses to win contracts among other benefits, social impact drives the bottom-line.

For example, examining how the treatment of employees drives firm value, a study by Edmans finds that a value-weighted portfolio of the '100 Best Companies to Work for in America' earned an alpha of 3.5% in excess of the risk-free rate (or 2.1% when compared to industry benchmarks) per year between 1984 and 2009.[190] This finding is supported by research by Towers Perrin, which finds that businesses with high levels of employee engagement see a +2.06% change in net profit margin over a three-year period, whilst businesses with low levels of employee engagement see a -1.38% change in net profit margin over the same period.[191] Towers Perrin explain as resulting from the fact that engaged employees: show greater loyalty – leading to lower recruitment, training and development costs;[192] and are more productive and more willing to go the extra mile when necessary.[193] Additionally, Towers Perrin find that employees in customer-facing roles are more likely to treat customers in ways that positively influence customer satisfaction, which may in turn bring benefits as outlined above.[194]

184 Interface website – Sustainability – The Interface story [accessed via: www.interfaceglobal.com/Sustainability/Interface-Story.aspx (05.07.2016)]

185 Ibid

186 Lampikoski T, 'Green, Innovative and Profitable: A case study of managerial capabilities at Interface Inc.' in *Technology Innovation Management Review*, 2012 [accessed via: http://timreview.ca/article/624 (05.07.2016)]

187 Interface website – Sustainability – Environmental footprint – All metrics [accessed via: www.interfaceglobal.com/Sustainability/Our-Progress/AllMetrics.aspx (05.07.2016)]

188 Ibid; Interface website – Company – History [accessed via: www.interfaceglobal.com/Company/History.aspx (18.08.2016)]; Lampikoski T, 'Green, Innovative and Profitable: A case study of managerial capabilities at Interface Inc.' in *Technology Innovation Management Review*, 2012 [accessed via: http://timreview.ca/article/624 (05.07.2016)]

189 Lampikoski T, 'Green, Innovative and Profitable: A case study of managerial capabilities at Interface Inc.' in *Technology Innovation Management Review*, 2012 [accessed via: http://timreview.ca/article/624 (05.07.2016)]

190 Edmans A, 'Does the stock market fully value intangibles? Employee satisfaction and equity prices' in *Journal of Financial Economics* Vol. 101, 2011, pp621–640

191 Ibid

192 Towers Perrin-ISR, *Engaged Employees Drive the Bottom Line*, Towers Perrin-ISR [accessed via: http://twrcc.co.za/Engaged%20employees%20drive%20the%20bottom%20line.pdf (10.06.2016)]

193 Ibid

194 Ibid

Studies have also found other dimensions of stakeholder management to be key drivers of financial performance. For example, a study by Jiao finds that stakeholder management practices, particularly in relation to employees and the environment, have a positive impact on financial performance.[195] Specifically, Jiao finds that an increase of one in the stakeholder welfare score leads to an increase of 0.587 in Tobin's Q.[196] Another study by Hillman and Keim likewise finds that stakeholder management practices translate into higher shareholder value creation (in this instance operationalised as market-value added, or MVA).[197] However, in this study it is the business's relationship with communities that is found to be the primary driver of shareholder value creation.[198]

'Organisations that fail to engage their people fail to achieve their full potential.'

Towers Perrin

Regarding the impact of social value generation on financial performance more generally, research carried out by the IMD finds that 'a strong and well communicated Corporate Purpose can impact financial performance by up to 17%'[199] and research by Ipsos Mori finds that businesses that actively manage and measure their corporate responsibility recovered faster from the financial crisis, with shareholder returns an average of 10% higher in 2009.[200] Moreover, a meta-analysis by the University of Oxford of over 200 academic studies examines financial success in relation to a wide range of environmental, social and governance (ESG) factors.[201] This finds that 88% of the studies reviewed find that ESG practices result in better operational performance and 80% of the studies reviewed find that ESG practices positively influence stock price performance.[202]

Case study 18: M&S

M&S is a major British multinational retailer. In 2007, it launched its Plan A, which commits it to a wide range of ethical and environmental goals as part of its plan to become 'the world's most sustainable major retailer'.[203] Plan A commitments include: ensuring 'workforces and communities benefit in our supply chain'; and driving 'health and nutrition benefits across our product offer'.[204] Since Plan A was implemented in 2007, M&S reports that it has improved its succession planning to give more opportunities to employees to progress, raised £50 million for a range of national and local charities, and since 2013, provided 3,800 work placements to unemployed people aged 25 or under among other achievements.[205] At the same time, Plan A has brought M&S a net benefit of £625 million.[206]

195 Jiao Y 'Stakeholder welfare and firm value' in *Journal of Banking & Finance* Vol. 34, 2010, pp2549–2561
196 Ibid
197 Hillman A J and Keim G D 'Shareholder Value, Stakeholder Management, and Social Issues: What's the bottom line' in *Strategic Management Journal* Vol. 22, 2001, pp125–139
198 Ibid
199 IMD research, cited in Burson-Marsteller and IMD, *The Power of Purpose,* Brussels: Burson-Marsteller, p1
200 Ipsos Mori, *The Value of Responsible Business,* London: Business in the Community, 2010
201 Clark G L, Feiner A and Viehs M, *From the Stockholder to the Stakeholder: How sustainability can drive financial outperformance,* University of Oxford and Arabesque Partners, 2015
202 Ibid, p9
203 M&S, *Plan A Report 2015,* England: M&S, 2015, pp1&4
204 M&S, *Our Plan A Commitments 2015,* England: M&S [accessed via: http://corporate.marksandspencer.com/plan-a/85488c3c608e4f468d4a403f4ebbd628 (25.05.16)]
205 M&S, *Plan A Report 2015,* England: M&S, 2015, pp 4–9
206 Ibid, p5

chapter three

Barriers and policy recommendations

As identified in the first two chapters, businesses generate social value in a wide range of ways. What's more, the potential for businesses impact to be increased is significant and far from compromising financial returns, good practice brings financial rewards. This chapter of the report builds on these arguments by considering how businesses generation of social value can be increased.

The First part of the chapter explores the barriers preventing 'mainstream' businesses from increasing their impact. Key barriers identified over the course of this research include:

- A perception that a divide exists between social and financial value;
- Perceived fiduciary duties;
- Short-term pressures;
- Social and environmental costs and benefits that are not internalised;
- A lack of resources to build partnerships with charities and communities, particularly among small and medium sized enterprises (SMEs); and
- A lack of awareness of the needs of charities and communities.

These barriers are important because if businesses perceive there to be a trade-off between social and financial value generation and if business leaders and investors believe that their fiduciary duties don't allow them to take social and environmental considerations into account, even the most visionary among them won't succeed. The evidence suggests that short-term pressures also undermine both long-term economic and social value creation as they may lead to lower investment in social capital (including employee relations, local communities and environmental considerations).[207] This is because the stock market may take many years to recognise their full value.[208]

As already raised in this report, businesses have a wide range of 'externalities' – social, environmental and other consequences of their activities (both positive and negative) that impact upon a third party. It is important that these are taken into account both so that the wider value added by impact-driven businesses is recognised and so that businesses further down Ainsbury and Grayson's impact spectrum are incentivised to mitigate their negative effects and maximise their positive impacts.

207 Big Innovation Centre, *The Purposeful Company: Interim Report,* Big Innovation Centre, 2016, p103
208 Ibid

The final barriers are the lack of resources available to businesses of all sizes (but especially SMEs) to find and build partnerships with charities and communities and a lack of understanding of the needs of charities and communities, which is clearly essential if the benefits of partnerships are to be maximised. For all these barriers, the report explores policy options and makes recommendations in relation to how they may be overcome.

In the second part of the chapter, consideration is given to how those businesses that form part of the regulated social sector (including community interest companies, co-operatives and community benefit societies) and that have therefore embedded a commitment to social impact can be further supported to enable both their capability and capacity to increase. For impact-driven businesses that form part of the regulated social sector, evidence gathered over the course of the CSJ's research shows that whilst they are doing hugely positive work, many are lacking important business skills and are failing to scale, both of which are important if their impact is to increase. This is largely due to:

- A lack of support with business skills and for those wishing to take on investment, with impact and investment readiness;
- The availability of appropriate investment; and
- Difficulties competing for procurement contracts (crucial as the public sector is the second biggest source of income for social enterprises after private customers).

3.1 Encouraging the mainstream to increase its impact

Evidently, discussion of social sector businesses forms an essential part of any research looking at how the positive impact of business can be increased. However, as identified in the State of the Nation, the majority of the UK's 5.4 million businesses do not fall into this group.[209] It is therefore essential that how mainstream businesses can be encouraged and supported to increase their impact is also considered.

Over the course of the CSJ's research for this report, a number of barriers emerged hindering businesses operating outside the social sector from increasing their impact. These include:

- A perception that a divide exists between social and financial value;
- Perceived fiduciary duties;
- Short-term pressures;
- Social and environmental costs and benefits that are not internalised;
- A lack of resources to build partnerships with charities and communities, particularly among SMEs; and
- A lack of awareness of the needs of charities and communities.

As identified in the Introduction and Chapter 2, public trust in business is low. Both the UK and the world as a whole are also now facing significant challenges, which the public expect business to play a role in addressing. Furthermore, good practice may bring financial returns and increased numbers of businesses are seeking to address social and environmental issues. However, too often they are being hindered by the unnecessary

209 Figure from: House of Commons Library, *Business Statistics,* London: House of Commons Library, 2015

challenges outlined above. For all these reasons and others, it is essential that these barriers are overcome and addressed. This section of the report aims to identify how this could be done.

3.1.1 Building the evidence base and changing the narrative

Despite the evidence outlined in chapter 2 and the fact that some businesses (including large corporates such as Unilever and M&S) are now demonstrating that it is possible to be successful and solve social and environmental challenges, many of the business leaders met over the course of the CSJ's research perceived there to be a trade-off to be made between social and financial returns. More work therefore needs to be done to build awareness of this evidence base and of the companies that are successfully aligning social and financial goals. Since the root cause of this concern is the assumption that the role of business is to maximise profit, there is also a need to build an alternative view of business as having a role beyond this – profit should be viewed as an outcome of businesses purpose and activities, not as its sole aim. In relation to this, it is therefore necessary to shift the discourse about business and the dominant assumptions upon which much of business is based.

The solution: Government and the businesses that are pioneering the adoption of a purpose-beyond-profit and the alignment of social, environmental and financial goals must lead from the front in articulating the role of business in a changing world. They must also work to raise awareness of the evidence base and of the success that businesses such as Unilever are having and support further research.

CSJ Recommendation 1: Government must make a purpose declaration a requirement of incorporation to signal its belief that the role of business extends beyond profit maximisation.

CSJ Recommendation 2: We call on the Government to request that business schools make purpose, and the evidence base in relation to the business benefits of stakeholder management and embedding social and environmental considerations, a part of their curricula. This would ensure that both the evidence base for good practice and the debates around the role of business are well understood by the business leaders of the future.

CSJ Recommendation 3: Business leaders who have embedded social and environmental goals must speak openly about their experiences to raise awareness of their efforts and build a community of leaders seeking to do the same.

3.1.2 Encouraging directors to place a greater emphasis on stakeholder, as well as shareholder interests

Alongside efforts to change the discourse in relation the purpose of business, efforts must be made to encourage directors to change their behaviour. Clearly, building the evidence base in relation to the business benefits of good practice is a part of this. However, efforts also need to go further.

According to section 172 of the Companies Act (2006), directors of a company are obliged to 'promote the success of the company for the success of its members as a whole' and in doing so, have regard for the interests of its employees, customers, suppliers, the community and the environment, as well as the long-term consequences of decisions.[210] This is important. However unfortunately, despite the introduction of the Companies Act, the narrow focus on shareholder returns has largely remained. This appears to be because:

- The interests of the companies 'members' i.e. shareholders take primacy; and
- Although consideration of the interests of broader stakeholders is mandatory, companies must only 'have regard' for their interests. What constitutes having regard for their interests is left to the directors' discretion and is highly subjective.

As a result of this, the perception that beyond minimum compliance with the law, the primary duty of director's is to maximise shareholder returns, continues to exist.

The solution: It has now been ten years since the Companies Act was introduced and although it makes important provisions in relation the interests of stakeholders, the 'have regard' provision is so weak that in reality it has resulted in little change in behaviour. There is therefore a strong argument that says that it is time that the Government reviews the Companies Act, with a view to strengthening this provision and putting shareholder and stakeholder interests on a more level footing.

CSJ Recommendation 4: We recommend the Government review section 172 of the Companies Act with a view to strengthening its wording.

3.1.3 Encouraging companies to make decisions for the long-term

Many commentators now accept that there may be a tension in businesses, especially public companies, between short-term profit maximisation and long-term investment and value creation.[211] This is not only a problem in the UK – in a study by Graham et al. surveying 401 CFO's in the US and interviewing an additional 20, 80% stated that they would reduce discretionary expenditure on R&D, advertising and maintenance and 55% said they would delay beginning a new project to meet an earnings target.[212] Moreover, the study found that 'Managers are willing to make small or moderate sacrifices in economic value to meet the earnings expectations of analysts and investors'.[213] Managers were prepared to do this to avoid the severe stock market reactions that may result from failing to meet earnings targets.[214] It is concerning that manager compensation is also frequently tied to short-term earnings.[215]

210 Companies Act 2006, section 172

211 For example: Kay J, *The Kay Review of UK Equity Markets and Long-term Decision Making: Final Report,* London: HM Government, 2012; Tomorrow's Company, *UK Business: What's wrong? What's next? Creating value for shareholders and society through a focus on purpose, values, relationships and the long term,* London: Centre for Tomorrow's Company, 2016; Big Innovation Centre, *The Purposeful Company: Interim Report,* London: Big Innovation Centre, 2016

212 Graham J R, Harvey C R and Rajgopal S, *The Economic Implications of Corporate Financial Reporting,* 2005, p15–16 [accessed via: https://faculty.fuqua.duke.edu/~charvey/Research/Working_Papers/W73_The_economic_implications.pdf (16.06.2016)]

213 Ibid, p1

214 Graham J R, Harvey C R and Rajgopal S, *The Economic Implications of Corporate Financial Reporting,* 2005 [accessed via: https://faculty.fuqua.duke.edu/~charvey/Research/Working_Papers/W73_The_economic_implications.pdf (16.06.2016)]

215 Big Innovation Centre, *The Purposeful Company Report,* Big Innovation Centre, 2016

It is likely that over a period of time, the trade-offs between short-term pressures to meet earnings targets and long-term investment (both in intangibles and social capital) may lead to reduced economic value and shareholder returns. Graham et al.'s study finds that directors recognise this, yet are willing to make this sacrifice to avoid short-term difficulties.[216] That this is a problem is also recognised by a recent report by the Big Innovation Centre, which states that: 'The increasing importance of intangibles poses a particular challenge for investment, since the stock market takes many years to recognise the full value of intangible assets. Thus, managers pressured to maximise short-term earnings … may underinvest'.[217]

As well as undermining long-term value creation, lower investment in intangibles and social capital (including in employee relations and local communities), is also undermining value creation for society more broadly. To protect the social, as well as the economic value generated by business, it is therefore important that steps are taken to counter this trend.

The solution: Important steps have been made to encourage the adoption of a longer-term approach by both companies and their investors already. These include:

- The abolishing of the requirement to publish quarterly financial information – this was abolished through the EU Transparency Directive Amending Directive in 2013 and the UK's amendment to the Disclosure and Transparency Rules in 2014;[218]
- The provisions made in the UK Corporate Governance Code stating that: 'Executive directors' remuneration could be designed to promote the long-term success of the company' and asserting that 'in normal circumstances' where remuneration is share-based, share options 'should not be exercisable in less than three years'.[219] The Code also states that remuneration policies should include provisions on clawback so that sums paid can be recovered;[220]
- The introduction of the Stewardship Code in 2010 to encourage investors to engage with the companies they invest in; and
- The Kay Review in 2012 and the subsequent establishment of an Investors Forum to enable the collective engagement of investors with issues in relation to both individual companies and more broadly in 2014.[221]

However, despite these developments, concerns continue to be seen. Therefore, work to encourage a longer-term approach must continue.

216 Graham J R, Harvey C R and Rajgopal S, *The Economic Implications of Corporate Financial Reporting,* 2005 [accessed via: https://faculty.fuqua.duke.edu/~charvey/Research/Working_Papers/W73_The_economic_implications.pdf (16.06.2016)]

217 Big Innovation Centre, *The Purposeful Company Report,* Big Innovation Centre, 2016, p117

218 European Commission, *Revised Directive on Transparency Requirements for Listed Companies (Transparency Directive) – frequently asked questions,* Brussels: European Commission, 2013 [accessed via: http://europa.eu/rapid/press-release_MEMO-13-544_en.htm (28.06.2016)]; HM Treasury and Financial Conduct Authority, *Implementation of the Transparency Directive Amending Directive (2013/50/EU) and Other Disclosure Rule and Transparency Rule Changes,* London: Financial Conduct Authority, 2015

219 Financial Reporting Council, *The UK Corporate Governance Code,* London: The Financial Reporting Council, 2016, p24

220 Ibid, p20

221 Kay J, *The Kay Review of UK Equity Markets and Long-term Decision Making: Final Report,* London: HM Government, 2012, pp50–51; The Investor Forum, *Investor Forum Brochure,* London: The Investor Forum, 2015, p6 [accessed via: http://media.wix.com/ugd/1cf1e4_7eabfcd9f6be40898351a4286dd908ac.pdf (18.06.2016)]. For more information about the Investor Forum, see the Investor Forum website: www.investorforum.org.uk

CSJ Recommendation 5: The UK Corporate Governance Code continues to be strengthened with the time period over which share options should not be exercisable, for example, pushed to five years.

CSJ Recommendation 6: The invoking of malus and clawback provisions be monitored to ensure that this is done where warranted.

CSJ Recommendation 7: Fund manager remuneration to be aligned for the long-term. This could be achieved through the greater use of deferred payments and also by subjecting payments to malus and clawback provisions.

CSJ Recommendation 8: Company directors could consider what kind of shareholders they want and actively seek them out.

CSJ Recommendation 9: Introduce loyalty shares that enable long-term shareholders to purchase additional shares at a discounted rate to incentivise longer-term investment.

3.1.4 Increasing recognition and management of social and environmental impacts

Businesses have a wide range of 'externalities' – social, environmental and other consequences of their activities (both positive and negative) that impact upon a third party. Another barrier hindering work to mitigate negative impacts or the adoption of positive social and environmental goals by mainstream businesses is the lack of recognition of these externalities. Such recognition is important both so that the wider value added by impact-driven businesses is appreciated and so that businesses with a less positive impact are incentivised to mitigate their negative effects and maximise their positive impacts.

The solution: An important part of achieving this recognition is measurement. Measurement of non-financial metrics has been increasing over time and since the mid-1990's, a range of impact assessment methodologies and frameworks (including B Labs GIIRS, the Global Reporting Initiatives G4 and the UN's Principles for Responsible Investing), have also been launched. However, issues remain around the content, quality, comparability and transparency of many of these impact metrics and reports. Measurement and reporting of social and environmental impacts is also rarely integrated with measurement and reporting of financial accounts. There is therefore a need for greater standardisation and verification of such reporting and for reporting to be more integrated.

CSJ Recommendation 10: We recommend the introduction of a system of socisal accounting – standardised reporting on a wider range of metrics, such as employee training, employee health, supply-chain practices and environmental impacts. This reporting should be independently audited.

CSJ Recommendation 11: The findings of this audited report should be made publicly available.

Alongside measurement, as identified above, the 'internalisation' of externalities must be increased. This has already been done in the UK in some areas, with the introduction of a wide range of environmental taxes, including the climate change levy and landfill tax. The evidence suggests that these have been effective at reducing environmental impacts, whilst they have also generated additional tax revenues for Government, with Landfill Tax, the Climate Change Levy, the Aggregates Levy and the Carbon Price Floor raising over £3 billion in 2015–16.222 Taxes such as these should be pushed further to encourage businesses to also internalise the other costs and benefits of their activities.

CSJ Recommendation 12: Increase efforts to recognise externalities in the tax system (through both taxes and subsidies) and push further to incorporate a wider range of social and environmental impacts and with businesses taxed at different rates according to their impacts.

3.1.5 Building partnerships with charities and communities

As discussed in the State of the Nation, as well as having a positive impact through their core activities, many businesses also have a significant impact through the provision of support to charities and communities. Unfortunately however, many businesses, particularly SMEs, struggle to build partnerships with charities and communities as they have limited resources to invest in finding and building such partnerships. As a result, many businesses that would like to provide support are unable to do so.

The solution: Brokerage organisations are a valuable resource to both businesses and charities interested in partnership work. This is because of their unique knowledge of local charity and community needs, as well as of local and regional as well as national businesses and the type of support they are willing to offer. As a result of this knowledge, brokers may play a valuable role in helping businesses and charities alike to find suitable partners.

Case study 19: BITC's business connectors

BITC's business connector programme is based on a model of long-term secondments of business people to BITC to work in deprived communities in the UK. When in these communities, business connectors seek to identify problems and opportunities and then establish enduring business-charity relationships that help to meet these needs. To date, 192 Business Connectors have worked in 100 communities and have been seconded from businesses including Lloyds Banking Group, Fujitsu and M&S. According to their latest programme update, for every £1 spent Business Connectors have leveraged £9.54 into communities.[223]

222 Green Fiscal Commission, *How Effective are Green Taxes?* London: Green Fiscal Commission, 2009; HM Revenue and Customs, *HMRC Tax and NIC Receipts: Monthly and annual historical data,* London: HM Revenue and Customs, 2016, p17

223 Business in the Community website – Programmes – Business Connectors [accessed via: www.bitc.org.uk/programmes/business-connectors (20.08.2016)]

CSJ Recommendation 13: The capacity of existing brokerage organisations must be increased. Given the substantial benefits businesses may accrue from successful partnerships (discussed in chapter 2) and the ability of brokers to increase the quality and quantity of business support, both business and Government should play a role in providing this support.

3.1.6 Increasing the quality of partnerships with charities and communities

Where partnerships between businesses and charities and communities are established, and support is provided well with a clear understanding of the charities needs and recognition of the resources partnerships demand from charities, the potential for shared value creation is significant. Too often, however, this potential has not been realised due to frequent changes in CSR policies leading to successful partnerships being terminated, an unwillingness to fund core costs and a greater interest in mass team building activities than in lending employee skill sets, which charities often find more useful. It is important that these challenges are overcome if the potential for business to promote a stronger third sector and more unified communities is to be realised.

The solution: In addition to their role finding and establishing partnerships, brokers may also help charities and businesses to manage partnerships (including through the education of businesses about charity needs) and to overcome challenges where problems are experienced. The recommendation made above is also therefore applicable to increasing the quality of partnerships.

3.1.7 Celebrating good practice

Further celebration of good practice could also encourage businesses to increase their positive impact. A number of initiatives have been established to do this, including Business in the Community's (BITC's) Responsible Business Awards, Third Sector's Business Charity Awards and the All-Party Parliamentary Corporate Responsibility Group's (APCRG's) Responsible Business Champions Scheme. However, it was clearly felt by some businesses over the course of this research that more still needs to be done.

Case study 20: BITC Responsible Business Awards

BITC's Responsible Business Awards seek to capture and communicate inspiring stories of business as a positive force for change. They are open to businesses of any size or sector and as well as having an overall winner, include a range of categories such as 'championing an ageing workforce', 'employment for excluded groups' and 'environmental leadership'. The 2016 overall winner was Veolia for its work to integrate the circular economy and resource efficiency throughout its business.

Case study 21: APCRG Responsible Business Champions Scheme

APCRG's Responsible Business Champions Scheme is a relatively new initiative, having been launched in January 2015. It is distinct from other business awards schemes because only MPs can nominate companies and companies are nominated on the basis of their impact at a constituency level. All the Constituency Champions nominated by MPs are then considered against criteria set by the APCRG each year and a Parliamentary judging panel selects one National Responsible Business Champion. The purpose of the scheme is to encourage MPs to consider how responsibly businesses are operating in their constituencies and to celebrate the achievements of the very best. In 2016 the national award was won by Alun Griffiths (Contractors) Ltd for its efforts around inclusion and diversity in its workforce.

Efforts should be made to raise the profile of these awards, which by recognising businesses having a positive impact, have the potential to serve as an important means of encouragement.

CSJ Recommendation 14: Business and media must look for jointly beneficial partnerships on these awards programmes to increase their profile and levels of awareness.

3.2 Supporting social sector businesses to build capabilities and scale

As discussed in the State of the Nation, social sector businesses make a significant contribution to the economy and create substantial social value. For example:

- There are approximately 70,000 social enterprises in the UK contributing £24 billion to the economy and employing nearly a million people;[224]
- Social enterprises address a wide range of social and environmental issues (including health and wellbeing, social exclusion and education);
- They are frequently found in the most disadvantaged areas – 31% of social enterprises work in the 20% most deprived areas in the UK;[225] and
- A large proportion of their workforce comprises people who are disadvantaged in the labour market (for example, long-term unemployed, ex-offenders or people with a disability) – 59% of social enterprises with two or more staff employ at least one person who would fall into this category and for 16% of social enterprises, people who are disadvantaged in the labour market comprise between 51% and 100% of their employees.[226]

224 Social Enterprise UK *State of Social Enterprise Survey 2015,* London: Social Enterprise UK, 2015, p4
225 Ibid, pp.18 & 31
226 Ibid, p40

The potential for this sector of the economy to increase in size is also significant. Social enterprises represent an increasing proportion of start-ups and are growing faster than mainstream SMEs – over the last 12 months the turnover of 52% of social enterprises (compared to just 40% of mainstream SMEs) grew.[227]

However, whilst this is all very positive, evidence suggests that many rate their business capabilities in key areas as poor. For example, Social Enterprise UK's annual survey finds that 20% rate their branding, marketing and PR skills and 17% rate their ability to react to regulation and tax issues as poor.[228] Evidence also suggests that very few social enterprises are successfully reaching scale: just 16% turnover more than £1 million per year compared to 47% turning over less than £100,000.[229] The small numbers operating at scale are not for lack of trying. According to a report by ClearlySo, New Philanthropy Capital and the Big Lottery Fund, conversion rates between organisations engaging with investors and successfully securing deals appear to sit between just 5% and 15%.[230] It is important that these issues relating to social enterprises capabilities and ability to scale are overcome if their impact is to be increased.

3.2.1 Social sector businesses face a number of barriers in seeking to achieve this

Evidence gathered over the course of the CSJ's research finds that a number of barriers are hindering the ability of social sector businesses to improve their capability, scale and therefore impact. These include:

- A lack of support with business skills, and for those wishing to take on investment with impact and investment readiness;
- The availability of appropriate investment; and
- Difficulties competing for procurement contracts (crucial as the public sector is the second biggest source of income for social enterprises after private customers).

Recent years have seen large numbers of initiatives to support social enterprises and other social sector businesses (some of which are outlined in the table below). Many of these have been very successful. However, more still needs to be done if their potential is to be realised.

227 Ibid, p15
228 Ibid, p53
229 Ibid, p13
230 Gregory D, Hill K, Joy I and Keen S, *Investment Readiness in the UK,* ClearlySo, New Philanthropy Capital and Big Lottery Fund, 2012, p9

Table 2: Initiatives to support social enterprises and other impact-driven businesses

Year	Initiative
1997	School for Social Entrepreneurs founded. This provides courses to help people start, run and scale social enterprises, charities and community projects. 1,500 social entrepreneurs so far have taken part in the school's courses.[231]
2000	Establishment of the Social Investment Taskforce by HM Treasury.[232] This aimed to assess how the UK could improve its capacity to create wealth, economic growth and employment in its poorest communities.[233] It made five key recommendations including the introduction of matching finance to set up the first Community Development Venture Fund to finance and support entrepreneurs in these poor communities.[234]
2002	Establishment of UnLtd, which aims to support social entrepreneurs through a combination of grants, advice and networking support.[235] Since it was founded in 2002, UnLtd has given over 13,000 awards, either directly or with partners.[236]
2002	Bridges Ventures founded. Bridges is a specialist fund manager that invests in social enterprises and other impact-driven businesses that have the potential to generate strong financial, as well as social or environmental returns.[237] Bridges is based in the UK and the US and manages almost £600 million across its funds.[238]
2003	Ethex set up. Ethex is an online platform offering a range of social investment opportunities in charities, community organisations and impact-driven businesses.[239] £45 million of social investment has so far been raised through the platform.[240]
2012	Creation of Big Society Capital. Big Society Capital aims to help grow the social investment market in the UK by investing in intermediaries and helping to increase awareness of social investment.[241]
2012	Establishment of the Investment and Contract Readiness Fund. This was a £10 million fund that aimed to help charities, social enterprises, co-operatives and other impact-driven businesses access new forms of investment and compete for public service contracts.[242]

231 School for Social Entrepreneurs website – About us [accessed via: www.the-sse.org/about-school-for-social-entrepreneurs/ (27.06.2016)]

232 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board, 2014; Social Investment Taskforce, *Enterprising Communities: Wealth Beyond Welfare*, London: UK Social Investment Forum, New Economics Foundation and Development Trusts Association, p2

233 Ibid

234 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board, 2014; Social Investment Taskforce, *Enterprising Communities: Wealth Beyond Welfare*, London: UK Social Investment Forum, New Economics Foundation and Development Trusts Association, pp4–5

235 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board, 2014; UnLtd website [accessed via: https://unltd.org.uk/ (21.06.2016)

236 UnLtd website – About us – Our strategy [accessed via: https://unltd.org.uk/strategy/ (27.06.2016)]

237 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board, 2014; Bridges Ventures website – About Us [accessed via: http://bridgesventures.com/about-us/ (21.06.2016)]

238 Bridges Ventures, *Annual Impact Report 2015: The value of impact*, London: Bridges Ventures, 2015, p8

239 Ethex website [accessed via: www.ethex.org.uk (29.06.2016)]

240 Ethex website – News - £40 million now raised on Ethex to make money do good (29.06.2016)]

241 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board, 2014; Big Society Capital website – What We Do [accessed via: www.bigsocietycapital.com/what-we-do (21.06.2016)]

242 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board, 2014; Investment and Contract Readiness Fund website [accessed via: www.beinvestmentready.org.uk/ (21.06.2016)]

Year	Initiative
2013	Introduction of the Social Value Act. This requires commissioners of public services to think about how they can also secure wider social, environmental and economic benefits through the procurement process.[243]
2013	Launching of the Social Stock Exchange. This is a regulated stock exchange for businesses and investors seeking a positive social or environmental impact.[244]
2014	Establishment of Big Potential, which has £20 million of funding to help voluntary, community and social enterprise organisations increase their sustainability, capacity and scale.[245]
2014	Introduction of Social Investment Tax relief.[246] This allows individuals making eligible investments in charities, community interest companies (CICs) or community benefit societies to deduct 30% of the cost of their investment from their income tax liability and to defer their capital gains tax liability if they have chargeable gains in that tax year and if they invest their gain in a qualifying social investment.[247]
2015	Creation of Access. This has £60 million to spend over 10 years supporting charities and social enterprises with investment readiness and providing them with smaller sized social investment.[248]

3.2.1.1 Business skills and impact and investment readiness

The initiatives outlined above include support for social enterprises with business skill development and with impact and investment readiness, with arguably the greatest emphasis having been placed hitherto on investment readiness for those organisations wishing to take on external finance. Early evidence suggests that where this support has been provided, it has successfully helped the recipient organisations to secure investment. For example, ClearlySo, New Philanthropy Capital and the Big Lottery Fund's survey of 1,255 voluntary, community and social enterprise organisations in 2012 finds that 42% of organisations that successfully secured social investment received external investment readiness support compared to 23% of those that did not.[249]

However, despite the initiatives that have been undertaken and their apparent usefulness where provided, a widespread lack of impact and investment readiness continues to be seen. As outlined above, this is leading to low conversion rates between organisations engaging with investors and successfully securing deals.[250] This appears to be due to a combination of:

243 Cabinet Office website – Guidance: Social Value Act: Information and Resources [accessed via: www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources (23.06.2016)]
244 Big Society Capital website – What we do – As an investor – Our investments [accessed via: www.bigsocietycapital.com/what-we-do/investor/investments/social-stock-exchange (27.06.2016)]
245 Big Potential website – Apply – About Big Potential [accessed via: www.bigpotential.org.uk/about-big-potential (21.06.2016)]
246 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board, 2014; Government website – Guidance: Social Investment Tax Relief [accessed via: www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief (21.06.2016)]
247 Government website – Guidance: Social Investment Tax Relief [accessed via: www.gov.uk/government/publications/social-investment-tax-relief-factsheet/social-investment-tax-relief (27.06.2016)]
248 Evidence taken by the CSJ on 19.05.2016; Access website [accessed via: http://access-socialinvestment.org.uk/ (21.06.2016)]
249 Gregory D, Hill K, Joy I and Keen S, *Investment Readiness in the UK,* ClearlySo, New Philanthropy Capital and Big Lottery Fund, 2012, p37
250 Ibid, p9

- The fragmented provision of the support available, with considerable differences in the level of support for social enterprises in different areas;[251]
- Variations in the quality and effectiveness of this support;[252]
- A lack of signposting to support services;[253] and
- Little availability of diagnostic tools examining the appropriateness of different types of investment.[254]

As noted above, the level of support available for organisations not wishing to take on investment and for organisations wishing to take on investment with impact readiness also appears to be lower.[255] Further work is therefore needed to ensure sufficient provision, comprehensive coverage and signposting to all these forms of support. Work must also take place to ensure that the support is appropriate and of high quality if social enterprises are to be able to reliably deliver their social mission and scale.

The solution: To overcome these challenges, the CSJ recommends that a two-part approach is taken. The first of these parts comprises a strategy for ensuring more comprehensive coverage of general support and better signposting to more tailored support services through Local Enterprise Partnerships (LEPs) and their Business Growth Hubs. Growth hubs are the main form of business support with comprehensive coverage (across the whole of England) and their role is to help businesses access the support they need. They are therefore ideally placed to provide this support. Additionally, social enterprises have significant potential to grow, creating jobs and boosting economic growth, while also generating wider social returns. They therefore fit well with LEPs aims to create local jobs and boost economic growth and it makes sense to include them in LEP strategies.

CSJ Recommendation 15: We propose that the Government emphasise the importance of social enterprises within the remit of LEPs and place support for them with business skills and advice within the remit of Business Growth Hubs. Business Growth Hubs should also play a role in signposting social enterprises to more tailored forms of support where necessary.

Nevertheless, budgets are tight. Government has committed to providing up to £12 million of funding for the 39 Business Growth Hubs in 2016–17 and £12 million in 2017–18 whilst Growth Hubs continue to be embedded in LEPs.[256] However, this money will only go so far and no assurances have been provided about the level of funding that will be made available after this period. Additional funding should be made available and greater assurances given to enable LEPs to provide this support.

251 Lyon F and Ramsden M, 'Developing Fledgling Social Enterprises? A study of the support required and means of delivering it' in Social Enterprise Journal vol. 2/1, pp27–41, 2006; Gregory D, Hill K, Joy I and Keen S, *Investment Readiness in the UK*, ClearlySo, New Philanthropy Capital and Big Lottery Fund, 2012

252 Gregory D, Hill K, Joy I and Keen S, *Investment Readiness in the UK*, ClearlySo, New Philanthropy Capital and Big Lottery Fund, 2012

253 Ibid

254 Ibid

255 Impetus PEF, *Building the Capacity for Impact: A report on the capacities needed by the social sector to deliver the aims of the social investment market,* Impetus – The Private Equity Foundation, 2014

256 Evidence submitted to the CSJ by the Department for Business, Energy and Industrial Strategy on 17 August 2016

CSJ Recommendation 16: Additional funding highlighted in the Autumn Statement must be made quickly available for LEPs and Business Growth Hubs to enable them to support social enterprises and other impact-driven businesses.

The second part of the approach that should be adopted to help social sector businesses with business skills development and impact and investment readiness comprises a strategy to build the evidence base regarding the effectiveness of different forms of support. Given the variation in the quality of the support available and the fact that very little information exists in relation to the value of different forms of support, increasing levels of knowledge about the key ingredients for success is very important.

The CSJ recommends that this be done by building on the pre-existing network of What Works Centres, which aim to support public services by providing robust evidence on 'what works' to help guide decision-makers. These centres have been both popular and successful and the What Works Centre for Local Economic Growth has already undertaken research into the role of business advice in improving firm performance.[257] Therefore, building on the existing network (and on this centre specifically) is sensible.

CSJ Recommendation 17: The remit of the What Works Centre for Local Economic Growth should be broadened to include the evaluation of different forms of business skills support for social enterprises and their level of success.

3.2.1.2 Access to appropriate investment

If social sector businesses are to scale and increase their impact, access to appropriate investment is also important. Due to the imposition of restrictions on the distribution of profits by social sector businesses, these businesses are rarely able to offer 'risk adjusted' returns to investors. The interventions outlined in table 2 at the beginning of this chapter have therefore been required to match the supply of social investment, which helps these businesses to raise the capital they need without compromising their social mission, with demand for it.

As a result of the initiatives outlined above, the supply of both social investment and investable propositions is increasing. This has enabled many social sector businesses to scale without compromising social objectives. The UK has achieved a status as a leader in the field of social investment internationally.[258]

However, although the work that has been done is positive, the overall size of the social investment market remains small and investment by specialist social investment and lending intermediaries into charities and social enterprises is estimated to be just

257 What Works Centre for Local Economic Growth website – Policies – Business advice [accessed via: www.whatworksgrowth.org/policy-reviews/business-advice/ (21.08.2016)]

258 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board to the Social Impact Investment Taskforce, 2014

£202 million per year.[259] Government funds and Big Society Capital also dominate much of the supply of social investment.[260] There is therefore a need both to grow the supply of social investment and promote greater retail and institutional investor participation.

'Twenty-eight years ago, we recognised that supporting business enterprise in London was a natural fit with Deutsche Bank's business strategy. To this day our partnership with the London Small Business Centre provides individuals the funding, skills and support they need to achieve success in their chosen field.'

Lareena Hilton, Deutsche Bank's Global Head of Brand Communications & CSR

The solution: In recent years, increased interest has been seen among many corporates in the social investment market in recognition of its ability to enable them to both meet business objectives and engage with social causes.[261] A range of initiatives have been undertaken in this regard – for example, corporates including Deutsche Bank, Centrica, JP Morgan, Danone and Barclays have established corporate social funds that combine financial performance with social impact goals.[262] Other corporates (including Google and Patagonia) have established venture funds to support the acquisition of impact-driven firms that align with the core business of the company.[263] Some such as Telefonica and Nestle have set up incubators or accelerators to help impact-driven businesses scale.[264] In a relatively new industry, the potential for corporates to add value, both through the supply of investment and help with investment readiness (discussed above), is significant.

Case study 22: Deutsche Bank

For over 28 years Deutsche Bank has supported fledgling small businesses in London through an endowment fund set up with the London Small Business Centre. Since 1988, the £250,000 loan fund has been lent to almost 130 small businesses aiming to grow but unable to access finance from commercial lenders, and has been recycled over five times, to the value of £1.32m. Initiatives like this form part of its global enterprise for social good programme, *Made for Good*, which seeks to help early-stage, impact-driven businesses become investment ready through the provision of advice and support, networking opportunities and funding.

Deutsche Bank's employees play a key role in this programme by acting as business mentors, non-executive directors, trustees and workshop facilitators. A further UK example is the *Deutsche Bank Awards for Creative Enterprise* which have kick-started the careers of aspiring creative entrepreneurs for almost 25 years. Winners receive start-up capital, business training and mentoring from Deutsche Bank professionals to steer them through their first year in business and beyond.

259 GHK, 'Growing Social Investment: Landscape and economic impact', 2013 in UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK experience*, UK National Advisory Board, 2014, p6. It should be noted that this figure does not include lending by traditional commercial banking intermediaries into social sector organisations or investment into impact-driven businesses without an asset-lock

260 UK National Advisory Board to the Social Impact Investment Taskforce, *Building a Social Impact Investment Market: The UK Experience*, UK National Advisory Board to the Social Impact Investment Taskforce, 2014

261 Oliver Wyman and Big Society Capital, *Corporate Social Investment: Gaining traction*, Oliver Wyman, 2016

262 Ibid

263 Ibid

264 Ibid

In 2011, Deutsche Bank also launched its £10 million Impact Investment Fund I. This seeks to generate both social impact and financial returns by investing, via intermediaries, in social enterprises aligned with key investment themes: education, training and employment; community sustainability; and social and financial inclusion – £6 million of the fund has been invested to date. Deutsche Bank is also seeking to play a role in supporting the development of the social investment market more widely. For this reason, it has supported a number of initiatives including the 'Inspiring Impact' industry initiative to standardise social impact measurement and the Cabinet Office's Investment and Contract Readiness Fund.

Case study 23: Social Business Trust

The Social Business Trust (SBT) was founded in 2010 to support high-growth potential social enterprises to scale up their impact.[265] It does this with the close support of its partners: Bain & Company; British Gas; Clifford Chance; Credit Suisse; EY; Permira; and Thomson Reuters, which provide cash grants and business expertise to help these social enterprises build their capacity.[266] In 2014/15 the Social Business Trust supported 13 social enterprises with £4 million of cash and in-kind support.[267] Social enterprises supported include: London Early Years Foundation, which provides high quality care and education for young children across London and which SBT has supported with strategy development, legal advice and financial modelling (as well as other support); and Bikeworks, which aims to change lives through bikes and cycling (including through the provision of employment and training for disadvantaged groups and schools cycle training) and which SBT has supported with cash flow modelling and retail marketing and branding.

CSJ Recommendation 18: Corporates must embrace the opportunity social investment provides to align social and financial goals by beginning or scaling up social investment activities.

The introduction of pension auto-enrolment also presents an opportunity to increase the supply of social investment. In 2010, defined contribution pension funds totalled approximately £275 billion.[268] By 2030, it is estimated that this figure will increase to £497 billion.[269]

In their report *Good Pensions,* the Social Market Foundation and Big Society Capital explore the opportunity presented by pensions auto-enrolment and examine the extent to which such a vehicle could be based on the Solidarity Pension Fund in France. This vehicle

265 Evidence given to the CSJ on 15.07.2016
266 Social Business Trust website – About Us [accessed via: www.socialbusinesstrust.org/about-us/ (24.07.2016)]
267 Social Business Trust, *Impact Report 2014/15,* 2015 [accessed via: www.socialbusinesstrust.org/wp-content/uploads/SBT-REPORT-2015-LANDSCAPE-INTERACTIVE-OPT.pdf (24.07.2016)], p3
268 Keohane N and Rowell S, *Good Pensions: Introducing social pension funds to the UK,* London: Social Market Foundation, p9
269 Ibid

has been hugely successful and now has over a million individual investors and €4.6 billion under management (compared to €478 million as recently as 2008).[270] The Social Market Foundation and Big Society Capital argue that were this model to be introduced into the UK, its potential to channel large amounts of finance into the social investment market is significant.

Case study 24: The Solidarity Investment Fund, France

The Solidarity Investment Fund in France was developed with the aim of increasing the supply of capital for France's social economy.[271] It aims to place approximately 90% of funds in 'mainstream' investments that are ethically screened according to ESG criteria and the remaining 10% in positively 'social' investments, which include investments in charities and social enterprises.[272] This structure allows problems around scale, liquidity, the potential lack of enough investable social organisations and potentially higher management fees to be avoided.[273]

Since 2001, it has been mandatory for employers and pension providers to offer the Solidarity Investment Fund as an option to employees.[274] The fund has been hugely successful and now has over one million individual investors.[275]

CSJ Recommendation 19: A social pension fund could be established along the lines suggested by the Social Market Foundation and Big Society Capital. To encourage take-up by employees auto-enrolled into pension schemes, the Government should make the offering of a social pension option by employers mandatory for all employees in defined contribution pension schemes.

3.2.1.3 Government commissioning and procurement

27% of social enterprises cite trade with the public sector as their main source of income and 59% of social enterprises do some trade with the public sector.[276] The public sector is a key source of income and the ability of social enterprises to compete for public sector contracts is therefore essential for their continued sustainability and growth – something that was repeatedly raised over the course of the CSJ's research.

Unfortunately, for many social enterprises (and this is also applicable to other impact-driven businesses operating outside the regulated social sector), the process of public sector commissioning has historically been unsatisfactory. This is because it has too frequently been focussed on securing contracts for the lowest possible price, failing to recognise the knowledge, expertise and bespoke understanding of their clients that social enterprises and other impact-driven businesses may bring.

270 Ibid, p21
271 Ibid, p20
272 Ibid
273 Ibid, pp21–24
274 Ibid, p20
275 Ibid, p21
276 Social Enterprise UK *State of Social Enterprise Survey 2015,* London: Social Enterprise UK, 2015, p25

The introduction of the Social Value Act in 2012, which requires commissioners of public services to consider how they may also secure wider social and environmental value when they choose suppliers, therefore represented an important development.[277] However, as identified by a Government review of the Social Value Act in 2015 and a recent survey of its use by English councils between February and April 2016 by Social Enterprise UK, its incorporation into procurements by number and value remains low – according to Social Enterprise UK, only 33% of councils routinely consider social value in their procurement and commissioning.[278] The Government's review identifies a number of reasons for this including: low levels of awareness of the Act; a lack of understanding of how to apply the Act; and a lack of knowledge of how to measure social value.[279] The wording of the Act so that commissioners have to only 'consider' how they can secure wider benefits and the application of the Social Value Act only to services over a certain threshold and therefore not to goods and works or services under this threshold, is also limiting its implementation.

The solution: In the Government review of the Act, Lord Young recommends that the Cabinet Office promote better awareness and take-up of the Act and a better understanding of how to apply it.[280] However, he rejects calls to extend its reach until these issues have been overcome.[281] The CSJ recognises his concerns. However, statutory guidance from the Department for Communities and Local Government has not been sufficient. For this reason, the CSJ would advocate further information and training for commissioners, combined with legislative change. Guidance is helpful. However, it will not shift behaviour alone.

CSJ Recommendation 20: Provide further information and training for public sector commissioners and procurement teams to promote better awareness of the Social Value Act 2012 and the opportunities it brings, and to increase understanding of how to apply it.

CSJ Recommendation 21: The scope of the Act be extended to apply to goods and works and service contracts of a lower value.

CSJ Recommendation 22: The term 'consider' must be strengthened to promote the inclusion of social value in all contracts as normal practice. Social value should be given as much clout as financial given the links between the two.

277 Cabinet Office website – Guidance: Social Value Act: Information and Resources [accessed via: www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources (23.06.2016)]

278 Cabinet Office, *Social Value Act Review,* London: Cabinet Office, 2015; Social Enterprise UK, *Procuring for Good: How the Social Value Act is being used by local authorities,* London: Social Enterprise UK, 2016, p3

279 Cabinet Office, *Social Value Act Review,* London: Cabinet Office, 2015

280 Ibid

281 Ibid

Conclusion

The reality that the mere existence of a business adds social value to the nation should be a given. But the power and potential of businesses to have an even greater positive social impact is significant. They are not just wealth creators but also organisations with the ability to transform lives and drive environmental change. What's more, good practice does not have to compromise the bottom-line and actually provides exciting opportunities for financial reward.

There has been notable progress in recent years. The B Corporation movement, as well as businesses such as Unilever and Danone, are leading the way by demonstrating that it is possible for businesses to be successful and solve social and environmental challenges as well.

However, the pace of change remains too slow. If businesses are to meet the rising expectations of consumers and help capitalism to fulfil its promise of shared and sustainable prosperity for all, more need to be bold enough to follow suit.

The aim of this report is to help catalyse this change by showing businesses how they can be part of a better future, why it makes sense for them to embrace this, how those businesses leading the charge can be better supported and how others can be incentivised to follow. The CSJ urges business and government to heed our calls for reform by implementing our recommendations, which we believe would go a long way towards achieving this.

Glossary

B Corporation: An impact-driven business that has incorporated its purpose into its articles of association and that has been certified by the non-profit B Lab as meeting rigorous standards of social and environmental performance. Unlike social enterprises, B Corporations do not impose any restrictions on the distribution of their profits.

Clawback: The repayment of cash, stock or other assets previously paid to an employee when certain circumstances occur.

Community benefit society: Organisations set up and run by their members for the benefit of their community. They may or may not be established as charities depending on their objectives.

Co-operative: Businesses owned and run by their members for the benefit of their members.

Externality: The social, environmental and other consequences of business activities (both positive and negative) that affect other parties who did not choose to incur that cost or benefit.

Fiduciary duties: The duties owed by fiduciaries to their principals, including duties that arise from the exercising of power.

Golden shareholder: A charity of beneficiary able to protect a business's social mission by exercising a veto over changes to key social objectives.

Impact-driven business: A business that has adopted a social purpose-beyond-profit and that has embedded social and environmental goals.

Impact readiness: The ability of an organisation able to reliably deliver social outcomes and demonstrate this through robust measurement.

Investment readiness: The possession by an organisation of the business skills and attributes needed to take on external investment (including a detailed business plan).

Malus: The reduction of a variable pay award in specified circumstances before the award has been paid.

Shareholder: An owner of shares in a company.

Social enterprise: A trading organisation that has a clear social mission (enshrined in either its legal status or its articles of association) and that re-invests the majority of its profits.

Social investment: Investment that seeks to achieve social or environmental, as well as financial returns and that measures the achievement of both.

Social sector businesses: Businesses that have adopted a social legal form, including a charity, co-operative, community benefit society and community interest company legal form (the latter of which was established in 2005 for social enterprises). In its definition of social sector businesses this report also often includes social enterprises that have adopted a company limited by guarantee or company limited by shares legal form but that as social enterprises have a social or environmental mission and reinvest the majority of their profits.

Stakeholder: Groups without the support of whom the organisation would be unable to exist (including employees, customers, suppliers, shareholders, communities and the environment).

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