Helping purpose-driven business thrive

June 2021

REGENERATE

About ReGenerate

ReGenerate is making it easier to start, grow and lead a purpose-driven business.

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

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

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

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

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

About the project

In May 2020, we established an expert Working Group and set out to answer the question: "What new reforms and other changes will help support and incentivise businesses and entrepreneurs to play their full part in helping the UK recover from Covid-19 in a way that supports people, especially the most disadvantaged, and the planet to flourish?"

This paper is our attempt to answer that question. Our approach has been systemic and collaborative by design and, further to the input of our Working Group, has received input from over 70 contributors from across the investment, government, established businesses and entrepreneurial communities.

We have also conducted a Survey of Purpose-driven Entrepreneurs (**see Annex A** for more details) and drawn on polling we conducted with both B Lab UK and the British Academy in 2020. This paper builds upon findings from What is holding purpose-driven business back?, ReGenerate, 2020.

While the paper is holistic in nature and includes some analysis of investors' role in supporting purpose-driven business, we made the decision to save a deep-dive into investment reforms for a later date.

Acknowledgements

ReGenerate would like to thank the many people and organisations that have so generously contributed their time, energy and wisdom to this report, and the reform ideas within it.

Over the past year, more than 70 people have kindly given us their time to understand the true problems faced by purpose-driven businesses, and the reforms that will help them to flourish in the UK and beyond. In particular we would like to thank our Working Group and Advisory Council for their detailed inputs, technical help and reviews.

While the accuracy of this paper is solely the responsibility of the authors, many of the reform ideas are inspired by the experiences or examples of those already working towards helping businesses on the ground.

We are especially grateful to the sponsors of this report: The Joseph Rowntree Foundation and the Department for Culture, Media and Sport, without whom this report would not have been possible.

The Working Group

This paper has been overseen by an expert research Working Group, with senior representatives from government, business, investment, and entrepreneurial communities. ReGenerate is hugely grateful to them for sharing their wisdom and time.

The authors

Mary Pizzey, Harry Brown and Ed Boyd bring together a wealth of experience of government policy development, corporate strategy consulting, leading small businesses and measuring complex socio-economic outcomes. The paper has been developed by drawing on each of these specialisms.

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Department for Digital, Culture, Media & Sport

The business community are uniting around a common vision

During our research, it became clear that so many of those working in and supporting purpose-driven companies shared a similar vision for the future of business.

To help aid collaboration within the ecosystem, we have attempted to articulate a common vision that sets out a future for business, and that resonates with the many conversations we have had over the course of our research.

It has been co-created with our research Working Group and is designed to reflect a common view that transcends the different worlds of established business, entrepreneurship, investment and government.

It is not just a vision for ReGenerate, but rather one that we hope reflects the ambition of many that are working towards purpose-driven business becoming the new normal.

Since its creation, this vision statement has been supported by over 70 leaders from across the government, business and investment communities and the wider purpose-ecosystem.

ReGenerate, alongside so many other individuals and organisations, is seeking to make this vision a reality through our work. The recommendations in this paper are our contribution to helping bring this vision to fruition.

A full list of supporters can be found on our website. If you would like to sign this vision, then please visit: re-generate.org/the-future-of-business

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A vision for the future of business

Being purpose-driven will be the standard and expected way of doing business in the UK and beyond. It will become the new normal. Businesses will increasingly be set up and run to benefit society and to solve the social and environmental problems the world faces. They will be conscious about the impact they have on all of their stakeholders whether they are consumers, employees, shareholders, or the public at large.

There will be greater clarity on which businesses are purpose-driven, and which are not. This will include both whether a business intends to benefit society and if they actually succeed in having a positive impact. This insight will be supported by making it easier for companies to understand, measure and report their impact in an accessible and comparable way, and by evolving the legal framework for businesses to make sure it is consistent with a purpose-driven approach.

This new level of transparency will unlock pent-up demand from investors, consumers and employees to increasingly choose to invest in, buy from and work for purpose-driven businesses, further strengthening the case that purpose and profit go hand in hand, incentivising more companies to operate in this fashion.

The growing momentum will be accompanied and accelerated by the maturing of the support systems surrounding purpose-driven business, from sustainable supply chains to rapid technological innovation that helps businesses measure and report impact. The end result being that entrepreneurs and business leaders will be well supported to set up, scale and run their businesses in a purpose-driven manner, by everyone from the education system through to investors.

As a result of this, businesses will be making their full contribution towards tackling the great social and environmental issues we face, and people's lives will be significantly improved.

Summary of the paper

The world is facing significant challenges

The UK, and wider world, is still reeling from the consequences of a pandemic that is unprecedented in recent times. While the UK economy is starting to open up, the lockdowns have scarred public finances, the business landscape, communities and families right across the country. For instance:

- Government debt is at its highest level since the 1960s.[1]
- The pandemic has exacerbated mental health issues, with an increase in the number of adults saying they had thoughts and feelings about suicide in the previous two weeks, increasing from 8% in April 2020 to 13% in February 2021.[2]
- While unemployment has not skyrocketed, it has been held in place by millions of jobs still being supported by the Coronavirus Job Retention Scheme.[3,4]

Recovering from the pandemic is not the only major challenge. If climate change continues apace, it risks rendering large parts of the world uninhabitable, causing significant social problems from rapid migration to disrupting vast swathes of food production.[5,6] In an effort to address this, the UK has committed to significantly reducing greenhouse gas emissions by 2035 and reaching net zero by 2050.[7] To give a sense of this challenge, achieving net zero will likely require up to 175 million tonnes of greenhouse gases to be removed from the atmosphere annually, including by technologies that do not yet exist.[8]

One of these challenges, by themselves, would be daunting. Recovering from the pandemic and tackling climate change together will be even more so and require new ways of thinking and rapid innovation if they are to be tackled successfully. This is especially true if they are to be tackled in a way that levels up the country and ensures that inequalities are not exacerbated in the process.

Businesses have a unique role to play

While there is much that can and must be done by governments and wider civil society, businesses have a unique contribution to make. When businesses' ability to innovate and scale is combined with a drive for positive impact, they have the potential to transform society and the planet. Something that is needed now, more than ever, if we are to effectively recover from covid, reach net zero and level up the UK.

The positive news is that the business community is increasingly orienting itself towards a 'purpose-driven' approach where they exist to benefit society and see generating profits and growth as integral to achieving that, whilst not being the only goal.

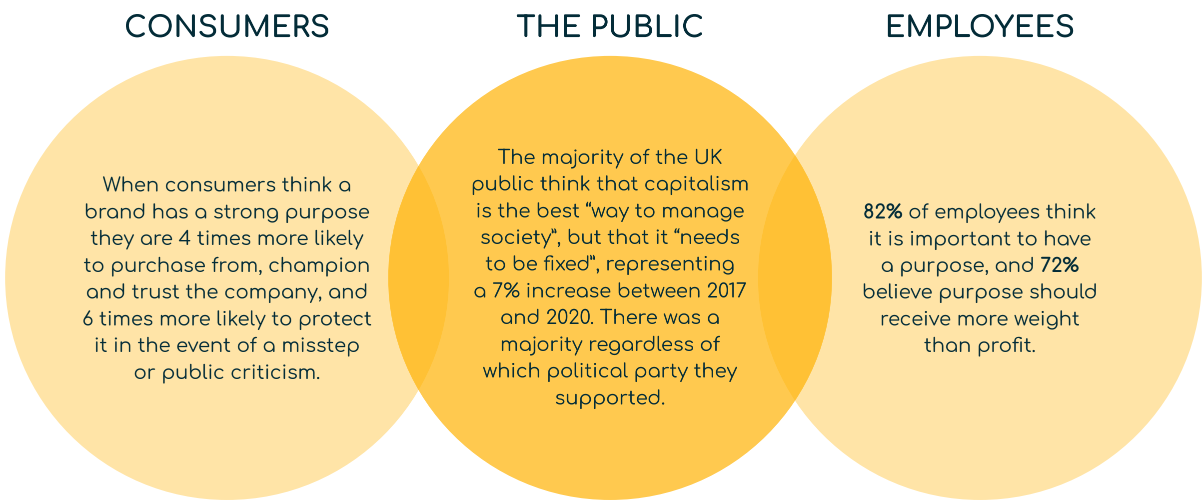
UK business leaders are now as likely to think the reason why businesses should exist is to be purpose-driven as they do to maximise shareholder value.[9] If this sounds remarkable, they are not alone. The UK public do not think businesses are upholding their responsibilities in helping tackle social and environmental issues, and a majority say they are in favour of Capitalism, but believe it needs 'fixing'.[10]

1 Covid response pushes UK borrowing to highest since second world war, Giles, C. and Strauss, D., Financial Times, April 2021
2 Wave 10: Late February 2021, Mental Health Foundation, February 2021
3 Coronavirus Job Retention Scheme statistics: 6 May 2021, Gov.uk, May 2021
4 Unemployment falls below 5% - but brutal cuts for the under 35s, English, S., Evening Standard, April 2021
5 Third of global food production at risk from climate crisis, Harvey, F., The Guardian, May 2021
6 The Great Climate Migration, Lustgarten, A., New York Times Magazine, July 2020
7 UK enshrines new target in law to slash emissions by 78% by 2035, Gov.uk, April 2021
8 Net zero and the different official measures of the UK's greenhouse gas emissions, Office for National Statistics, July 2019
9 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020
10 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020

Furthermore, investors are increasingly thinking the same, and Environmental Social and Governance (ESG) funds are now forecast to outnumber conventional funds by 2025.[11] This agenda is not about forcing businesses to do something they do not want to do, but rather enabling a growing community of business leaders who want to achieve profit through a purpose that benefits society, to do so.

There is a simple reason why a purpose-driven approach is becoming increasingly popular:: being purpose-driven is increasingly evidenced to be a more successful, resilient and sustainable way of doing business.[12] This superior performance that tends to follow purpose, is driven, in part, by powerful market forces. The customer, employee and public support that are the wind in the sails of any healthy business, or investment decision, are increasingly demanding a purpose-driven approach to business, see **Figure 1**. With this demand being strongest in younger generations, it is likely this trend will grow in strength in the coming years.[13]

Figure 1: Increasing demand for purpose-driven businesses



Sources:
Consumers: Unveiling The 2020 Zeno Strength of Purpose Study, Zeno Group, June 2020
The public: The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020
Employees: Purpose: shifting from why to how, McKinsey, 2020

The case for supporting purpose-driven business

Alongside the intrinsic contributions that businesses make, through their products and services, providing jobs and salaries, driving innovation and paying taxes, there are many examples of companies choosing a purpose-driven model that further benefit society. For instance, Anglian Water has deliberately created jobs in an area that needs them, Octopus Energy provides nearly 40% of the UK's large-scale solar generation, while Timpson and Recycling Lives provide jobs for people who have struggled with homelessness or due to a criminal record.[14,15]

However, our research has shown that businesses can often do this despite the system they operate in, rather than because of it.[16]

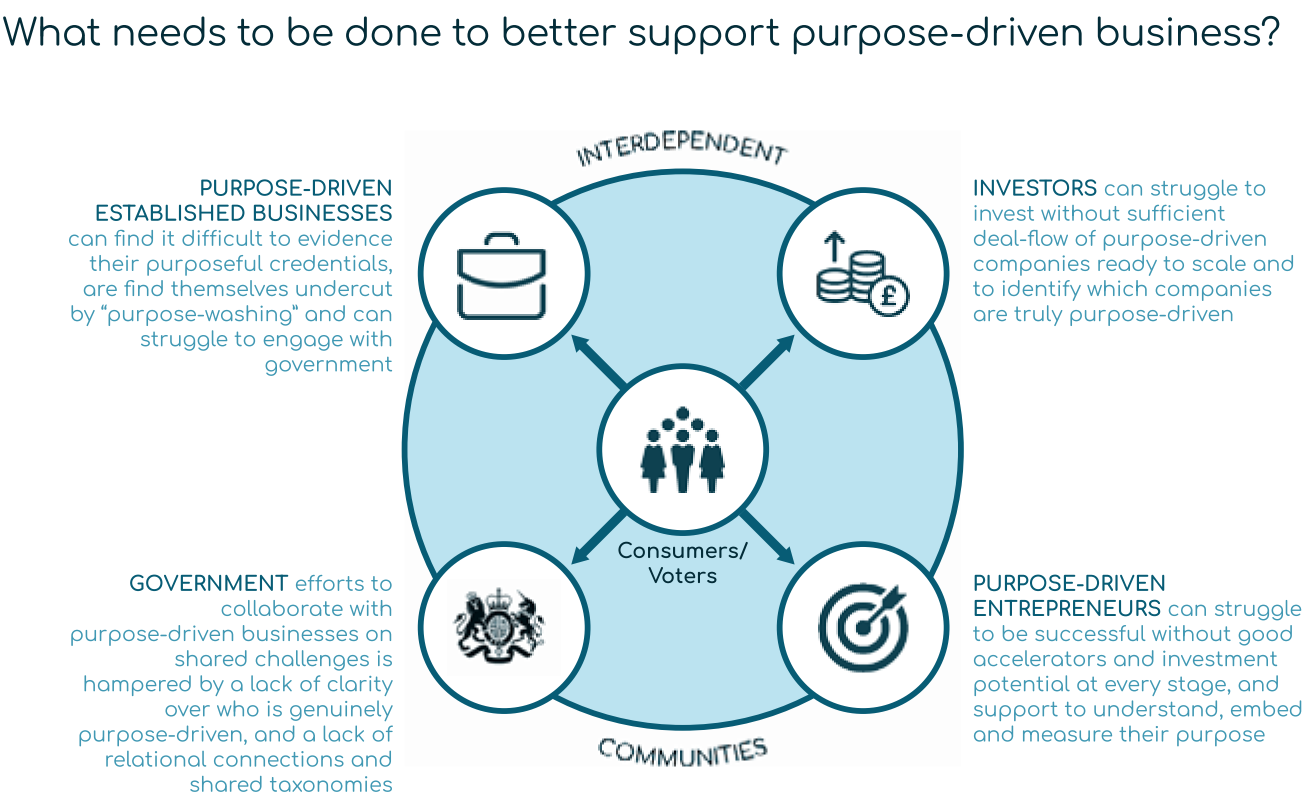
- It can be difficult to identify purpose-driven businesses.
- It is not clear how a company can be legally set up in a manner consistent with being purpose-driven.
- Purpose-driven companies can find it difficult to get purpose-aligned investment.
- It is hard for companies to prove to consumers and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

11 ESG funds forecast to outnumber conventional funds by 2025, Financial Times, October 2020
12 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020
13 Unveiling The 2020 Zeno Strength of Purpose Study, Zeno Group, June 2020
14 Octopus energy website, accessed 19th May 2021
15 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020
16 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020

It is not impossible to operate in a purpose-driven way, but it is not as simple and easy as it should be, given the benefits it brings to society. This presents the risk that we will miss out on more businesses operating successfully in a purpose-driven way, undermining chances of effectively recovering from the pandemic, addressing climate change and levelling up the UK.

The recommendations in this paper are designed to help ensure the purpose-driven movement grows in a healthy and sustainable way, and at the pace demanded by the challenges the world faces. At the heart of all our recommendations is the need for collaboration between everyone from the Government to business to investors, as **Figure 2** demonstrates, and a commitment to joint action.

Figure 2: Actors that require coordination to maximise the opportunity of purpose-driven business



In short, we argue:

- Businesses need a clearer and more accessible way of incorporating their business, that fully protects their purpose and signals it to the marketplace.
- Every effort should be made to make it cheaper and easier for companies to report their impact, and for this information to be comparable and accessible, to better guide investor and consumer decision-making.
- The ecosystem that supports businesses in their efforts to be purpose-driven needs to be turbo-charged to cope with growing demand and make the most of the momentum behind it.

We describe the specific reforms needed in our **Summary of recommendations**, which **Part Two** of this paper then expands upon. While each of the recommendations could have a positive impact by themselves, implementing them as a package, with everyone from the Government to incubators to impact standards agencies working together, could be profound.

Now is the time to act

While the momentum behind purpose-driven business is growing, there is a strong argument to accelerate its development. Without a rapid increase in the number and effectiveness of purpose-driven businesses, it is unlikely that we will be successful at recovering from Covid-19, becoming net zero by 2035 or levelling up the UK.

Now is also a good time to galvanize world-wide collaboration and action. The UK Government holds the Presidency of the G7, which meets in June 2021, and is hosting COP26 in November 2021. It will find strong allies with the USA, France and Canada and others who have already taken strides towards creating an environment that supports purpose-driven companies.[17,18,19,20] It is not, however, just up to the Government: everyone has a part to play.

We are at a moment in history where the challenges we face are significant, but so are the available resources to tackle them. Much of this resource is held in the innovative power of businesses. They are keen to play a bigger role in helping tackle the social and environmental challenges the world faces. It is time to let them.

17 Benefit Corporation, Accessed May 2021: Benefit Corp legislation has been passed in 38 states

18 When the Law Distinguishes Between the Enterprise and the Corporation: The Case of the New French Law on Corporate Purpose, Segrestin, B, Hatchuel, A, Levillain, K, January 2020

19 B.C.'s new legislation on benefit companies, Scott, T, MacDougall, A, Memon, S, June 2020

20 To B or not to B: Benefit companies arrive in Canada, Ortved, C., Lawson Lundell LLP, June 2019

Summary of problems and recommended solutions

1. MAKING THE LEGAL FRAMEWORK FIT FOR PURPOSE

THE PROBLEM: Incorporation options for purpose-driven businesses are convoluted, unclear and not entirely suitable. This contributes to business leaders' difficulties protecting their company's purpose and the resulting social and environmental impacts, and gaining the commercial benefits of being better identified as a purpose-driven business by customers, investors and government. Beyond making it an obvious and easy choice to incorporate in a purpose-driven way, a growing number of business leaders are suggesting all businesses should be mandated to align shareholder and wider stakeholder needs.

A. Provide a clear and accessible legal form for purpose-driven companies

1. Introduce purpose-driven model articles of association

2. Update and refine section 172(2) of the Companies Act 2006 to create a clear and accessible corporate form for purpose-driven companies

GOVERNMENT could introduce model articles that are fully consistent with a company being purpose-driven to provide new and existing companies with an easily accessible way of locking their purpose into their legal foundations.

GOVERNMENT could refine the Companies Act 2006, supporting guidance and the companies house incorporation interface to provide a clear and accessible incorporation option for purpose-driven businesses.

B. Review baseline incorporation legislation to ensure it is fit for purpose

GOVERNMENT could review whether a change to section 172(1) of the Companies Act 2006 is needed to require directors to align the interests of their shareholders with those of wider society and the environment. Businesses and investors could support the government by helping them understand how their sectors would likely respond to any reforms.

2. MAKING IT EASY TO UNDERSTAND COMPANIES' IMPACT

THE PROBLEM: The information that customers and investors rely on to support purpose-driven businesses is not sufficiently complete, comparable, robust or accessible. This causes businesses to miss out on market preference, alongside incurring cost and complexity when trying to 'do the right thing' by measuring their impact. Underlying causes are: the proliferation of WHAT impact standards companies and their stakeholders should use; gaps in WHO should report make it hard to understand progress and compare between companies; technology to assist HOW companies collect, report and analyse impact data is not widely and cheaply available; and it is hard to know WHERE impact data can be found.

C. WHAT: Accelerate the convergence of impact standards through government leadership on the international stage

GOVERNMENT could use its position as host of the G7 and COP26, and as a member of the G20, to support current momentum in the global accountancy governance structures and the impact measurement space. Part of this should include creating a clear policy goal to make the UK a centre of excellence for impact reporting, leveraging the headquartered organisations and infrastructure that position the UK well to do so. There is a particular opportunity to engage with efforts to address immaturity in social metrics.

D. WHO: Increase the number of companies required to report their impact

GOVERNMENT to map and improve understanding of what companies are currently required to report on what impact, both directly and indirectly, across legislation, regulation and investor requirements. As part of the current BEIS audit and corporate governance reforms, create a vision and roadmap for which companies will be required to report on their impact in the future, with a clear policy direction to require a wider pool of companies to begin reporting on their impact over time.

E. HOW: Provide better tooling and skills development for companies to report and understand their impact

Collaboration across sectors to stimulate a technological boom in the impact measurement space: **SOFTWARE PROVIDERS** could make impact measurement tools as accessible as possible to businesses, and challenge and convene developers; **INVESTORS** could fund and support the integration of impact reporting into business intelligence tools; **GOVERNMENT** could provide grants for developing impact measurement tools; and **BUSINESSES** could share learning and know-how with each other.

F. WHERE: Support the creation of a more centralised and open information architecture for impact metrics

GOVERNMENT could co-fund data centralisation initiatives with other G7/G20 countries to make impact data freely available and easy to access worldwide. Innovate UK grants could be used to promote development of specialist databases aimed at filling a clear gap in social metrics. **DATABASE PROVIDERS** could expedite development by following a common set of design principles, and using open architecture.

3. SUPPORTING AND IDENTIFYING PURPOSE-DRIVEN BUSINESSES

THE PROBLEM: The wealth of specialist know-how on running purpose-driven companies does not always reach businesses, particularly those outside of London. In parallel, demand for this support is rapidly accelerating as more businesses seek to operate in a purpose-driven way. Alongside this, businesses can miss out on preference by consumers because reliable information is not easily accessible at the point they are making decisions on where to shop and what to buy.

G. Make the wealth of know-how on running purpose-driven businesses accessible to all

The PURPOSE ECOSYSTEM could ensure specialist support for purpose-driven businesses is visible and accessible to all business leaders, including those based outside of London and those without access to accelerators. **GOVERNMENT** could accelerate this by ensuring the widest possible access through their approach to grant funding.

H. Support the public to identify purpose-driven companies more easily

The PURPOSE ECOSYSTEM could map the certifications and tools that help consumers identify the extent to which a business is purpose-driven, and to find synergies and opportunities to collaborate across them.

PART ONE: CONTEXT

What is a purpose-driven business?

Before making the case for purpose-driven businesses and the reforms that will help them thrive, it is worth clarifying the meaning of the term 'purpose-driven'.

One of the widely used definitions of purpose-driven business is that of Professor Colin Mayer, in his work with the British Academy.[21] He describes purpose-driven business as:

> "Profitably solving the problems of people and planet, and not profiting from creating problems."
>
> **- Professor Colin Mayer, The Future of the Corporation**

This is a helpful academic definition, and it is useful to explore it in more detail.

A purpose-driven business exists to benefit society while operating a profitable model

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

It is worth noting that businesses focused on maximising profits can, and often do, operate responsibly and deliver many benefits to society, for example through creating jobs, paying taxes, and running 'corporate social responsibility' initiatives.

The key difference between purpose-driven and profit-maximising businesses is that because a purpose-driven company is focused on and orientated around benefiting society through its core business activities, they are often more likely to maintain a positive social and environmental their impact. They are also proven to frequently generate more sustainable long term returns to investors as well.

Purpose can vary hugely

It is up to the company to determine its purpose. It may be something that has an impact on a global scale, such as Tesla whose "mission is to accelerate the world's transition to sustainable energy."[22] Equally, it may be something local such as Anglian Water whose purpose is to "bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop."

Moreover, while it is considered good practice to specifically spell out a clear purpose for the organisation and stakeholders to rally around, for some the purpose can simply be to generally benefit society.

It is a company's stakeholders, whether they are investors, consumers, employees, suppliers or others, who ultimately judge whether the purpose is something that endears them to that company or not. This is supported by purpose-driven companies reporting their impact on people and the planet in an accessible way.

21 Future of the Corporation website, The British Academy, accessed 19th May 2021
22 About Tesla, accessed 19th May 2021

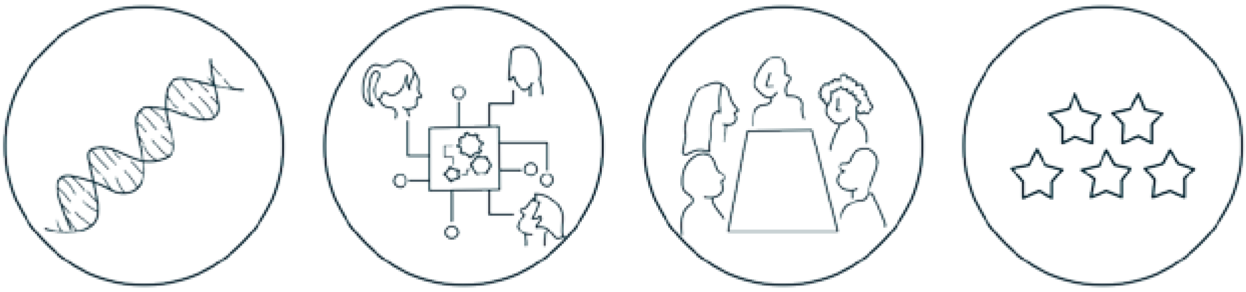
Purpose is embedded in a company's DNA

Being purpose-driven is more than having a flashy purpose statement. It is not a marketing campaign. It must go deeper into the culture of a company with the purpose being authentic, inspiring and rooted into its DNA, such that it affects how they treat the people they engage with stakeholders such as their employees, customers, local communities and suppliers.

As such, it must be embedded in their business model, governance and reporting, as set out **Figure 3**:

Figure 3: How to spot a purpose-driven company

If a company is purpose-driven it will be reflected in all that they do. Here are four helpful questions to ask when you are trying to spot one.



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

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

GOVERNANCE AND OPERATIONS — Does the business care about people and consider all of its stakeholders in decision making?

MEASUREMENT — Does the business measure and seek to understand impact?

Source: What is a purpose-driven business?, Boyd, E., ReGenerate, June 2020

Purpose-driven companies are profitable companies

Far from being niche, a purpose-driven approach to business is increasingly widespread. Half of business leaders think the role of business is to be purpose-driven, rather than pursuing the maximisation of profit.[23]

They are also profitable companies. As set out in Professor Mayer's definition, they 'profitably solve problems', not just 'solve problems'. They are unique in their ability to combine social and understand their impact with the capital that is necessary to innovate and scale. This is possible because they have identified market-based solutions to the problems of people and the planet. In fact, a growing evidence base shows that purpose-driven businesses are often more commercially successful than their more profit-focused counterparts, as people want to invest in, work for and buy from them.[24]

It is this combination of both an authentic, deeply held purpose and a profitable model that sets purpose-driven businesses apart from other organisational models such as charities and social enterprises, all of which play a crucial role in society.

There is some overlap between purpose-driven businesses and both social enterprises and profit-maximising businesses, as it is essentially a new categorisation that is emerging between them, such that a company that has previously been operating as a social enterprise or profit-driven business, could easily be described as a purpose-driven business if it exists to benefit society while operating a profitable model. (see **figure 4**).

23 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020
24 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, 2020

Figure 4: The similarities and differences between purpose-driven business and other organisational models

	Charity	Social enterprise	Purpose-driven business	Profit-driven business
What	Addressing social / environmental issues through programmes	Addressing social / environmental issues through programmes and business activity	Addressing social / environmental issues and delivering profit to investors through business activity	Deliver profit to financial owners through business activity
Funding	Grants and philanthropy	Grants, philanthropy and commercial returns	Commercial returns	Commercial returns
Number	168,000 (England and Wales only)	471,000	Circa 123,000	Circa 5.9 million
Turnover	£79 billion (England and Wales only)	£59 billion	Circa £165 billion	Circa £4,150 billion
Legal model	Not for profit	Not for profit, Not for profit with for profit trading arm, CIC, Co-operative, Mutual, Industrial and provident society	For-profit company (No special legal form created)	For-profit company

Source: What is a purpose-driven business?, Boyd, E., ReGenerate, June 2020

What is the case for purpose-driven business?

This paper focuses on reforms to support companies wishing to operate in a purpose-driven way, and helping companies on a journey towards this model. Some are straightforward, while others will require concerted effort. It is, therefore, worth reaffirming why it is worth the effort. Our research has identified three main areas:

- Being purpose-driven is increasingly proving to be a better way of doing business.
- Purpose-driven businesses have a significant role to play in tackling social and environmental issues.
- Being a good place for purpose-driven business is beneficial for any country's business-friendly credentials.

To explore this further, we recommend reading The Case for Purpose-driven Business, ReGenerate, 2020 and Grow the Pie, Alex Edmans, 2020.[25,26]

Being purpose-driven is increasingly proving to be a better way of doing business

Running a company in a purpose-driven way is increasingly proving to be a great way of ensuring a business is sustainable and successful. Professor Alex Edmans of the London Business School found in his book, Grow the Pie (2020) that:

> "Profits and externalities are much more aligned than commonly believed, actions to create value for society often ultimately increases profits through unexpected ways."

- Professor Alex Edmans, London Business School

While it is far from exhaustive, **Figure 5** summarises the direct and indirect evidence of the business case for running a business in a purpose-driven way.

This superior performance that tends to follow purpose is driven, in part, by powerful market forces. The customer, employee and public support that are the wind in the sails of any healthy business, or investment decision, are increasingly demanding a purpose-driven approach to business. With this sentiment being strongest in younger generations, it is likely this trend will grow in strength in the coming years.[27]

This increasingly strong case for purpose-driven business has been a key factor in persuading many mainstream businesses to operate their companies in this fashion, as shown in **Box 1**. The rise of ESG investing also shows that the impact businesses have on people and the planet is now at the heart of investor decisions too.[28] This is being spurred on by public demand through campaigns such as Make My Money Matter.

25 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020
26 Grow the Pie, Alex Edmans, 2020
27 Unveiling The 2020 Zeno Strength of Purpose Study, Zeno Group, June 2020
28 Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. Though ESG investing is not a direct proxy for purpose-driven business, its rise shows the extent to which social and environmental externalities are very quickly becoming central to the thinking of mainstream investors. (for more information please see investopedia: Environmental, Social, and Governance (ESG) Criteria Definition). It is distinct from Impact Investing, which is investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return. The Impact Investing Institute is a helpful source of the latest information on impact investing in the UK.

Figure 5: Summary of evidence supporting purpose-driven business

Business leaders and investors INCREASINGLY FAVOUR purpose-driven models

BUSINESS LEADERS want to run purpose-driven businesses

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

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

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

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

INVESTORS want to invest responsibly

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

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

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

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

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

DIRECT EVIDENCE

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

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

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

INDIRECT EVIDENCE

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

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

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

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

Superior performance is driven by POWERFUL MARKET FORCES that are growing

GENERAL PUBLIC

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

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

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

CUSTOMERS

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

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

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

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

EMPLOYEES

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

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

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

Sources:

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

:

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

Box 1: Views of business leaders

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

- Chris Hulatt, Co-founder, Octopus

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

- James Timpson, Chief Executive, Timpson

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

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

> "Purpose can focus minds, money and machinery on society's big problems and turn them into opportunities."

- Helge Lund, BP, Chairman[B]

> "There's been a lot of talk about purpose, and now is the moment for businesses to show who actually means it."

- Neil Higgins, Barclays Bank, Group Chairman[C]

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

- Alison Rose, Natwest, CEO[D]

Sources:

A. Open Letter to the Prime Minister, COVID Recovery Commission, February 2021

B. Annual Webinar 2021 highlights, Investor Forum, January 2021

C. How CEOs see the role of business in a COVID-19 world, Bitar, M., Ernst & Young LLP, June 2020

D. A Blueprint for Better Business: Home, A Blueprint for Better Business, May 2021

Purpose-driven businesses have a significant role to play in tackling social and environmental issues

The UK and wider world face a number of intractable social and environmental issues, such as recovering from Covid-19, tackling climate change and levelling up the UK to improve living standards and spread opportunity across the country. It is unlikely that they will be successfully tackled if businesses do not play a central role. In our evidence gathering, Danny Kruger MP, author of 'Levelling up our communities: proposals for a new social covenant', summarised it well:[29]

> "Our work has shown the importance of civic society to the Covid recovery. Yet we are under no illusions that the future prosperity and wellbeing of the UK is utterly dependent on a strong business contribution that seeks to tackle, head on, the issues that plague society. It is, in our view, no longer enough for businesses to care solely about shareholders and hope that society benefits. We need them to be deliberate."

- Danny Kruger MBE, Member of Parliament

To illustrate this point, we have included below three examples of how purpose-driven businesses are already making a difference and the opportunity to go further:

- Reaching net zero
- Creating jobs that support levelling up and greater equality of opportunity
- Tackling poor mental and physical health

29 Levelling up our communities: proposals for a new social covenant, Kruger, D., September 2020

Reaching net zero

The UK has committed to a 78% domestic reduction of emissions by 2035 and to reach net zero emissions by 2050.[30]

Key challenges

- Fossil fuels & industry created 9 out of 10 CO_2 emissions.[31]
- The planet's average surface temperature has risen about 2.12 degrees Fahrenheit since the late 19th century, a change driven largely by increased carbon dioxide emissions into the atmosphere and other human activities.[32]
- Achieving net zero will likely require up to 175 million tonnes of greenhouse gases to be removed annually by carbon capture and storage technology alone.[33]

How businesses can contribute

Businesses are finding innovative solutions to climate change, such as decarbonising the energy and transport networks, improving the energy efficiency of homes and buildings and capturing excess carbon. They also create huge levels of greenhouse gas emissions, but can choose to become net zero.

Examples

OCTOPUS

Octopus Energy and Octopus Renewables were set up in 2016 "to disrupt the status quo with energy that's good for the planet, good for your wallet, and, honestly, good for your soul."[34]

- Rather than offsetting through carbon reduction projects, they create the same level of green energy that is used by their customers.
- Octopus Investments is the UK's largest investor in solar power, responsible for nearly 40% of the UK's large-scale solar generation.
- They provide renewable electricity to customers for £222 per annum less than the average 'Big Six' energy provider variable tariff.

ENERGIESPRONG

Energiesprong aims to bring about desirable, viable net zero energy home refurbishment to the mass market.

- In a pilot in Nottingham, energy bills halved for tenants, while in the Netherlands there has been an average 60% reduction in bills.
- The model removes the need for government subsidies for improving the energy efficiency of homes.
- 11 million UK homes are suitable for Energiesprong retrofits. This includes 2.3 million social homes and seven million privately owned homes in England alone.

30 UK enshrines new target in law to slash emissions by 78% by 2035, Gov.uk, April 2021
31 7 Fossil fuels and climate change: the facts, Client Earth, Dec 2019
32 The Anthropocene equation, Gaffney, O., Steffen, W., The Anthropocene Review (Volume 4, Issue 1), April 2017)
33 Net zero and the different official measures of the UK's greenhouse gas emissions, Office for National Statistics, July 2019
34 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020

Creating jobs that support levelling up and greater equality of opportunity

Lack of good work is a leading driver of poverty and disadvantage.[35] While Covid-19 has increased unemployment and the threat of it for many, it can be particularly difficult for those who face structural barriers between them and the chance of a good job. This can happen for many reasons, including someone's immutable characteristics, their background or where they live.[36]

Key challenges

- Some regions in the UK have only half as many available jobs as people of working age.[37]
- Black graduates are twice as likely to be unemployed as white graduates in the UK.[38]
- Only 17% of people were in PAYE employment a year after leaving prison.[39]

How businesses can contribute:

Businesses are choosing to create jobs in places and for people that are often excluded from the opportunity that work brings, including adoption of inclusive approaches to recruitment and leadership, and providing access to training.

Examples

ANGLIAN WATER

In 2013 Anglian Water focused on providing jobs to those not in employment, education or training (NEET) in the town of Wisbech.[40]

- They helped secure the lease of a disused school building and transformed it into a community hub. 76 different services and groups are now delivering directly out of the hub, including a weekly jobs cafe offering advice on CV improvement, applications and interviews, and annual jobs fair. Through it they have helped over 2,000 people and secured 300 jobs.
- They worked with the College of West Anglia to develop two new courses, with students guaranteed an interview with a @one Alliance partner on completion. By September 2017, they had 50 apprentices across two courses.

APPLIED

Applied seeks to make recruitment smart, fair and easy by baking the best research on predictive, bias-free hiring into tech.

- They have processed over 300,000 applications in five years and 60% of the successful hires would never have been hired through a typical CV sift, and they were statistically more likely to come from underrepresented groups.
- Recruits have a 96% first year retention rate, compared with 82% as an average.
- They have 2-3x the hiring rate when placing ethnically diverse candidates into STEM organisations.

35 Is work good for your health and well-being, Waddell G. and Burton A, 2006
36 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020
37 Left behind? Understanding communities on the edge, Local Trust, August 2019
38 Black Graduates Twice As Likely To Be Unemployed, Forbes, June 2020
39 Employing prisoners and ex-offenders, Ministry of Justice, October 2020
40 A guide to community regeneration in Wisbech, Anglian Water, February 2019

Tackling poor mental and physical health

The wellbeing of its people, their comfort, health and happiness, is critical to a prosperous and flourishing society. It is also critical if a business is to prosper.

Key challenges

- Around a quarter of people experience a mental health problem each year in the UK.[41]
- The pandemic has exacerbated mental health issues, with an increase in the number of adults saying they had thoughts and feelings about suicide in the previous two weeks increasing from 8% in April 2020 to 13% in February 2021.[42]
- 28% of adults in England are obese and a further 36% are overweight.[43]

How businesses can contribute

People spend a third of their lives at work, so it makes a big difference when businesses support mental and physical wellbeing. Alongside the many businesses implementing policies to support employee mental health and wellbeing, some have specifically set out to create helpful products and services that tackle issues of poor mental and physical health.

Examples

TOGETHERALL

Togetherall provides a 24/7 digital mental health service through its online platform, and access to a supportive network of peers and mental health professionals.[44]

- With a covered population of over 20 million people, Togetherall has helped 300,000 people, with around 10,000 signing up each month. Next year they estimate they will help 120,000 people.
- Seven in ten members join for immediate access, demonstrating the power of 'always on' mental health support. 3 in 4 users experience a mental health wellness gain with over half feeling less isolated after using the service.
- The pandemic increased their demand significantly, with twice as many sign-ups and 4 times more activity on the platform.

DIABETES DIGITAL MEDIA

Diabetes Digital Media provides scalable, engaging and effective digital solutions with peer-reviewed, published health and engagement outcomes.

- Proven, peer-reviewed outcomes of their Low Carb Program demonstrate half reduce diabetes medications and a quarter achieve Type 2 diabetes remission in a year.
- Contributed to the discovery that Type 2 diabetes can go into remission, through data collection and use of AI on their Diabetes.co.uk platform.
- GPs can now provide higher quality monitoring more efficiently, through a dashboard. A doctor can review how someone is progressing and suggest timings for adjustments based on two-way data sharing.

41 Mental health facts and statistics, Mind, accessed May 2021
42 Wave 10: Late February 2021, Mental Health Foundation, February 2021
43 Obesity Statistics (parliament.uk), House of Commons Library, January 2021
44 Facts supplied by Togetherall, May 2021

Being a good place for purpose-driven business is vital for any country's business-friendly credentials

As momentum behind purpose-driven business grows, it is increasingly important for any country's business credentials that they are a welcoming home for purpose-driven companies and investors.

There are a growing number of countries creating new legal forms that support purpose-driven business. For example, distinct incorporation types for purpose-driven business models now exist in the US, France and Canada, and there is movement from the European Commission to not only encourage but require responsible business practices.[45,46,47,48,49]

To truly be a great place to do business in general, the UK will need to be a great place for purpose-driven businesses. The UK is already Europe's leading start-up hub, with London rated the joint second most attractive start-up ecosystem in the world.[50,51] To maintain this position, it is likely the UK will need to think carefully about how it is attractive to purpose-driven companies, as case **Box 2** demonstrates.

Box 2: Case study on Neonatal-Bionatural Solutions

Neonatal-Bionatural Solutions' (BNS) mission is to develop solutions that generate a positive impact on the environment and society, from the reuse of organic waste. One of their patented innovations, Life Cover, is an edible, organic spray based on tropical fruit skins which increases the shelf life of fruits, with a reduction in rotten fruit of 55-60%. They are choosing to move their headquarters to the UK, with help from the Department for International Trade's Global Entrepreneurs Programme, specifically because the UK's consumer market for environmentally friendly products is so much more advanced than elsewhere in the world.

Source: BNS, in conversation with ReGenerate, May 2021

This is also true if the UK wants to become a technology superpower, given the recent surge for 'tech for good'. Between 2014 and 2019 funding for 'tech for good' startups increased 9.5 times in the UK.[52] These startups have raised €1.4bn so far this year with cleantech and climate tech firms raising the most capital.[53] Tech investment from overseas is also increasing: 63% of investment into UK tech came from overseas in 2020, up from 50% in 2016.[54]

> "The global tech start-up community increasingly wants to combine the pursuit of profits with purposes that are linked to solving the world's greatest global challenges. We see this in our portfolios, new technologies springing up to tackle climate change, reduce isolation or tackle endemic poverty issues. If the UK is to stay at the forefront of being business friendly, we need to make sure we have the very best legal and investment regulatory structure for these sorts of companies. They are the future as we all transition to a green economy."

- Gerard Grech, Tech Nation, Founding Chief Executive

It will be vital, too, for the Government to hit its net zero goals and enable a Green Industrial Revolution. Companies that are profitably innovating solutions to environmental problems are often by definition purpose-driven. Highlighting that purpose-driven companies are encouraged could increase the number of companies choosing to bring their green innovation and jobs to the UK. This will be vital if the Government is to hit their target of creating a further 2 million green jobs by 2030.[55]

45 Benefit Corporation, Accessed May 2021: Benefit Corp legislation has been passed in 38 states
46 When the Law Distinguishes Between the Enterprise and the Corporation: The Case of the New French Law on Corporate Purpose, Segrestin, B, Hatchuel, A, Levillain, K, January 2020
47 B.C.'s new legislation on benefit companies, Scott, T, MacDougall, A, Memon, S, June 2020
48 To B or not to B: Benefit companies arrive in Canada, Ortved, C., Lawson Lundell LLP, June 2019
49 Questions and Answers: Corporate Sustainability Reporting Directive proposal, European Commission, April 2021
50 Europe's biggest startup hubs in 2020, EU-Startups, November 2020
51 The Global Startup Ecosystem Report 2020, Startup Genome, May 2021
52 Investment into UK 'tech for good' surges amid climate crisis, Carrick, A., CityA.M., October 2020
53 Ibid.
54 "The future UK tech built": Tech Nation Report 2021, Tech Nation, May 2021
55 UK government launches taskforce to support drive for 2 million green jobs by 2030, Gov.UK, November 2020

Conclusion

The case for purpose-driven business is strong. They help tackle endemic issues the world faces and are often more profitable than their less-purposeful competitors. Perhaps unsurprisingly business leaders, their investors, consumers and employees are increasingly keen on them acting in this way. It is the new vanguard of business.

While it is possible to operate in a purpose-driven way in the UK, it is not as easy as it could or should be, and some businesses find themselves doing so despite the system they operate in, rather than because of it. In **Part Two**, we set out the reforms that are necessary to better support businesses to operate in this way, and thereby help create greater value for everyone in society, including shareholders.

PART TWO: REFORMS TO SUPPORT PURPOSE-DRIVEN BUSINESSES

Introduction to the reforms

Momentum behind purpose-driven business is growing. As explored in part one, half of business leaders think the role of business is to be purpose-driven.[56] With this sentiment being strongest in younger generations, it is likely a trend that will grow in strength in the coming decades.[57]

This does not mean, however, that nothing is needed to help them thrive. Too many purpose-driven businesses are held back or blocked from having the full positive impact they could. It is vital that this momentum is maintained and grown, and translates into positive impacts for both people and the planet. That is what this package of reforms seeks to achieve.

In particular, there are three overarching reform areas:

- Businesses need a clearer and more accessible way of incorporating their business, that fully protects their purpose and signals it to the marketplace.
- Every effort should be made to make it cheaper and easier for companies to report their impact, and for this information to be comparable and accessible, to better guide investor and consumer decision-making.
- The ecosystem that supports businesses in their efforts to be purpose-driven and to help consumers identify them needs to be turbo-charged to cope with growing demand, and make the most of the momentum behind it.

Please note that while we touch on reforms related to investment, this is not a core theme in the paper, as we will be addressing this in a subsequent project.

While each of the recommendations could have a positive impact by themselves, the implementation of them as a package, with everyone from government to incubators to impact standards agencies working together, could be profound.

They are designed to work towards the shared vision presented at the start of this paper. In particular, there are four main outcomes we hope they will help achieve:

- Being purpose-driven will be the standard and expected way of doing business in the UK and beyond.
- There will be greater clarity on the extent to which businesses are purpose-driven and are having positive or negative impacts.
- This new level of transparency will unlock pent-up demand.
- The growing momentum will be accompanied and accelerated by the maturing of the support systems surrounding purpose-driven business.

The recommendations are deliberately designed as pragmatic next steps towards these outcomes and, while they will not achieve them alone, we believe their implementation would make a significant difference to helping purpose-driven business thrive in the UK.

56 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., ReGenerate, October 2020
57 Unveiling The 2020 Zeno Strength of Purpose Study, Zeno Group, June 2020

1. Making the legal framework fit for purpose

There is a growing case for improving both the guidance and the current legal options for the incorporation of companies to better serve purpose-driven businesses.

While it is possible to operate a purpose-driven company under current company legislation, it is not as easy as it could be and there is a lack of clarity and poor guidance surrounding the available options.

In this section we explore two potential changes that would help purpose-driven businesses flourish.

First, we set out why a clearer, more accessible option is helpful to those businesses that choose to operate in a purpose-driven way. This includes both creating new articles of association and making them prominant on Companies House to support businesses to be set up with their purpose at their legal core, and updating current company law and guidance to create a clear corporate form for those companies committed to a purpose-driven approach.

Second, we look at whether there is a need to go further. We suggest that the Government review the request from a growing movement of companies to require all companies to align the interests of their stakeholders, and move away from a default corporate form that prioritises the needs of shareholders.

Making sure that the UK is a great place for purpose-driven businesses is important for the UK's business credentials. There is a global race going on to become a good home for purpose-driven companies, especially to attract ESG inflows to the UK which are forecast to dominate financial markets in the coming years.[58] These recommendations are an essential part of seizing this opportunity.

While updating guidance and the law is only a small part of what is needed to help purpose-driven companies thrive, the law does play a crucial role in setting out, at its core, why a company exists. It is important to get this bedrock right, and make sure it is well understood and fully supportive of a purpose-driven approach to business.

58 ESG funds forecast to outnumber conventional funds by 2025, Riding, S., Financial Times, October 2020

A. Provide a clear and accessible legal form for purpose-driven companies

SUMMARY OF RECOMMENDATIONS: The Government could introduce model articles that are fully consistent with a company being purpose-driven to provide new and existing companies with an easily accessible way of locking their purpose into their legal foundations. The Government could refine the Companies Act 2006, supporting guidance and the Companies House incorporation interface to provide a clear and accessible incorporation option for purpose-driven businesses.

Context

The current legal framework is unclear and difficult to apply for purpose-driven businesses, and there is demand from business leaders for change.

Current company law is unclear

The majority of UK companies incorporate under section 172(1) of the Companies Act 2006, which is orientated around creating shareholder value while having due regard for other stakeholders.[59] It is possible for a business under this incorporation type to operate in a purpose-driven manner, where the pursuit of a company's purpose is fully aligned with the interests of shareholders, which is often the case (see **Part One**).

It is not, however, as clear, simple or easy as it could be. The first issue is that there is a lack of clarity and understanding of what is possible under the current law. This can create undue pressure on directors to focus exclusively on the needs of shareholders, sometimes at the expense of their purpose and wider stakeholders. This is often most acute when directors' motivations and shareholder demands are focused around short-term profit generation.

Second, should the directors of a company wish to undertake actions they believe to be crucial to advancing the purpose of the company, but there is insufficient evidence of alignment with shareholder interest (or if there is evidence to the contrary), then it is not clear that directors are protected under the standard provisions in section 172(1) of the Companies Act, in exercising balanced judgements for the long term success of the business. For example, this might be because they want to embark on a quicker transition towards becoming net zero or end a product line that, while profitable, relies upon business practices that cause harm to people or the planet.

> "The problem this [the standard incorporation option] creates is that it does not permit directors to further interests of stakeholders at the expense of shareholders and it does not provide protection to companies that promote purposes beyond shareholder value."[60]

- Professor Colin Mayer, The Future of the Corporation

59 In 2019-20, 71% of new company incorporations were set up in this way, using model articles provided by Companies House, rather than writing their purpose into bespoke articles. Details of this analysis can be found in: What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020

60 Principles for Purposeful Business, Mayer C., The British Academy, 2019

In addition to the most commonly used incorporation option, the Companies Act 2006 includes a provision, section 172(2), that was designed for companies whose purpose takes precedence over the interests of their shareholders. It has not, however, been successful at becoming an effective home for purpose-driven companies. Firstly, this option is not obvious at the point of incorporation, and requires extra hassle and expense to adopt. Secondly, the guidance suggests it should be used only in exceptional circumstances, for 'altruistic companies', where the purpose takes precedence over shareholders, rather than the purpose-driven approach of aligning all stakeholders' needs, including shareholders.[61]

It is difficult for new companies to embed their purpose into their legal setup

The predominance of the shareholder focused approach has meant new companies can struggle to set up in a purpose-driven manner.

While there are three model articles of association available on Companies House, none support companies to embed their purpose and the alignment of stakeholder needs into their articles of association.[62] A director, their lawyer or accountant can set up the company using bespoke articles, however this is more expensive and time-consuming and therefore it is rarely done.

This is not serving purpose-driven entrepreneurs well. Despite half of business leaders think the role of business is to be purpose-driven, of the 360 companies that set up every day, only a very small fraction ever set themselves up legally in this manner.[63] Failing to incorporate under articles which protect a company's purpose risks such good intentions being eroded over time. Changing articles later can also prove difficult as it requires 75% of shareholders to agree.

> "On incorporating my business, I was hoping to do so in line with the B Corp framework through Companies House. I incorporated through an intermediary and asked them if it was possible to use the suggested B Corp wording within the Articles. They could only offer incorporation with the standard, shareholder-focused Model Articles. I incorporated accordingly and then sought legal advice & expertise on amending the Model Articles to include the B Corp wording. This process took a couple of months and I believe it could so easily be resolved if business owners had a little more flexibility, at incorporation"

- Nick Stoop, Pangea Impact Investments, Founder

Business leaders would welcome a clear, accessible legal form

In a review, commissioned by former Cabinet Secretary, Sir Mark Sedwell, over 50 senior business leaders were interviewed on what a new deal between government and business might look like, in the wake of Covid-19.[64] The leaders included people such as the CEOs or Chairmen of Capita, Co-op Group, Deloitte, Wates Group and Nationwide Building Society. Richard Collier-Keywood, co-author of the report, told us:

> "Over the last few months, it has been exciting to hear so many businesses talk about their passion for operating in a purpose-driven way. While they could do this under current legislation, many did not feel that this reflected the reasons why they were in business in the first place. There is a clear opportunity for the UK to take the lead on attracting and retaining purpose driven businesses. Key to this is a far clearer corporate form that could be a home for purpose-driven businesses that care about how they impact all of their stakeholders."

- Richard Collier-Keywood, Co-author of Building Back Better with Business, Co-founder Business at its Best[65]

61 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., ReGenerate, October 2020
62 The current model articles can be viewed on the Companies House Website, accessed May 2021
63 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., ReGenerate, October 2020
64 Building back better with business, Woods, N., Collier-Keywood, R., Blavatnik School of Government, April 2021
65 Business at its Best - UK home, PWC, accessed May 2021

The desire for a clearer corporate form for purpose-driven companies was echoed by many of the business leaders we spoke to as part of this review.

> "I like the idea of a clear corporate form for those who commit to a purpose-driven way of doing business. It is a great way of making sure everyone from investors to the public can identify them"
>
> **- Chris Hulatt, Octopus, Co-founder**

> "It would be helpful if there was an obvious legal form for companies like mine that are set up to benefit society, not just maximise profit. It would be a great signal to everyone from our employees to our customers that we have committed to operate in a purpose-driven way."
>
> **- James Timpson, Timpson Ltd, CEO**

A clear corporate form would help people to better identify purpose-driven businesses

Efforts to create a clear and accessible legal form for companies could, as well as protecting the companies' purpose, help people to better identify purpose-driven companies, and thereby help unlock the pent-up demand from people to invest in, work for and buy from them.

This would be a useful supplement to the growing number of initiatives helping people identify the extent to which a company is purpose-driven, which currently range from around 600 ESG ratings and rankings that provide a service to investors, to B Corporations and The Good Business Charter which are more focused on informing consumers and employees.[66] We explore this further in **Section 3**.

Recommendations

In order to create a clear and accessible legal form for purpose-driven companies, we make two recommendations to the Government:

1. Introduce purpose-driven model articles of association on Companies House that are visible, accessible and user-friendly.
2. Update and refine section 172(2) of the Companies Act 2006, and associated guidance, to create a clear corporate form for purpose-driven companies. Section 172(1) guidance could also be updated to clarify what is permissible under this provision.

These recommendations are connected, with the articles helping companies set up, or convert to, legal articles that are consistent with a purpose-driven corporate form. They are designed to be applicable for both new and existing companies. It is crucial to recognise, however, that any existing company transferring to this approach would need at least 75% of shareholders to agree to it.[67] We look at each one in turn.

1. Introduce purpose-driven model articles of association

We recommend that the Government introduce model articles that are consistent with a company being purpose-driven, alongside the three that already exist in Companies House. A proposed set of articles have been drafted by Bates Wells law firm, based on those used by Anglian Water. Their articles are publicly available, and a model set of articles based upon them is available on request.[68]

It would be helpful if these articles were visible, accessible and user-friendly as this ease of use will maximise uptake. To that end, we recommend that the new articles are made prominent and obvious on Companies House. One way of achieving this could be to integrate the Purposely tool into the online

66 Rate the Raters 2020, Wong, C., Petroy, E., Sustainability, accessed May 2021
67 Make changes to your private limited company, Gov.UK, accessd on 19th May 2021
68 Anglian Water becomes first water company to embed public interest at its core, Anglian Water, July 2019

incorporation process.[69] The tool guides companies through a series of questions to help them select from a number of different model articles of association. It could also be included on the Gov.uk website on how to set up a company.[70] Intermediaries such as banks, lawyers and accountants could also be encouraged to make entrepreneurs aware of the option.

Similarly, we propose making it easier for companies who are currently incorporated under shareholder focused articles to transition to purpose-driven articles. This would be important as, given the urgency of tackling the mounting environmental and social issues we face, there is a need to engage fully with the existing stock of UK companies. In practice, this could be achieved through a partnership between Companies House and Purposely. Investors would also have a crucial role to play in indicating their support for such a move.

In our survey of purpose-driven entrepreneurs, over half said it would help their company if there was "An easier way to 'lock-in' the purpose of my company, for example by providing ready made model articles on the Companies House website that reflect a commitment to all stakeholders", increasing to three quarters for seed-stage respondents. This points to a decent likelihood of adoption.

> "We changed our articles to reflect our purpose-driven approach and we are really glad we did. It has been key in driving our conversations at board level, with our shareholders and with staff. It makes it plain for all to see what drives us as an organisation and the basis upon which we make decisions."
>
> **- Chris Hulatt, Octopus, Co-founder**

2. Update and refine section 172(2) of the Companies Act 2006 to create a clear and accessible corporate form for purpose-driven companies

The Government could update and refine section 172(2) of the Companies Act 2006, and associated guidance, to create a distinct corporate form for purpose-driven companies. Specifically, we recommend that it clearly requires three things from companies:

1. **State their purpose.** The default would be a general purpose to benefit society (which includes all of a company's stakeholders), with the option of stating a specific purpose that resonated with that company's reason for existing.
2. **Align the interests of all stakeholders**, including shareholders, and see them as aligned rather than automatically prioritising the needs of one stakeholder above the others.
3. **Commit to reporting their social and environmental impact,** in a way that is proportionate to their size and material to their business. If a company has stated a specific purpose, they would be further encouraged to report on it. The company's impact reports and its purpose, where it has put one in its articles, could be visible on the Companies House register.

To ensure robustness, this incorporation type would be overseen by a designated government body, with one option being to include it in the remit of the newly formed Auditing, Reporting and Governance Authority (ARGA).[71] This could also provide the opportunity for smaller audit firms to develop specialisms in this type of audit as part of increasing their market share, per one of the objectives of the ongoing Department for Business, Energy and Industrial Strategy (BEIS) audit reform programme.

The reform idea is not new, but rather has been tried and tested. For instance, Patagonia and Kickstarter are incorporated under similar Benefit Corporation legislation in the United States. France has recently created a similar form called a Societé à Mission, which has been signed up to by Danone. There is also an opportunity for the Government to build on the corporate form, as set out in **Box 3**.

69 Purposely, accessed on 19th May 2021
70 Set up a private limited company: Register your company, Gov.UK, accessed on 19th May 2021
71 What is ARGA? Brydon makes recommendations for stronger audit regulator, Jewers, C., Accountancy Age, January 2020

In addition, to help provide clarity to those companies operating under the incorporation provision of section 172(1) of the Companies Act 2006, the guidance could be updated to clarify what is, and what is not, permissible.

In our survey of purpose-driven entrepreneurs, over three quarters said that the creation of a "new incorporation type specifically for purpose-driven businesses, which helps people identify them and potentially has a preferential tax treatment", would help them. Over half said it would help their company a lot.[72]

Box 3: How could the Government build on the corporate form in the future?

One of the benefits of creating a clear corporate form is that it helps the Government know which companies have definitely committed to a purpose-driven approach, as well as to report on their impact above and beyond regulator requirements (which is especially notable for SMEs), that sits within the machinery of government. This creates an interesting opportunity for the Government to encourage and incentivise purpose-driven companies that were helping achieve social and environmental goals such as reaching net zero or levelling up the UK.

The Government could more easily identify and prefer purpose-driven companies in procurement. Government contracts are game-changers for the companies that win them, directly influencing which companies get to scale up, hire more people and confidently develop their social and environmental policies.

In our survey of purpose-driven entrepreneurs, 64% of micro businesses stated that preferring purpose-led businesses in public procurement would help them a lot, compared to 45% for small and 29% for medium and large businesses.[A]

In January 2021, a new social value model for public procurement was rolled out across government.[73] Under the new guidance, social and environmental contribution will make up 10% of the score when assessing bids for government contracts.[B] Mechanisms for identifying purpose-driven businesses that are reliable and easy to apply for government procurement professionals, are directly supportive of this effort.

The Government could also consider adapting tax policy for purpose-driven business. The Government currently employs numerous tax reliefs to incentivise behaviours, such as the Social Investment Tax Relief (SITR) to increase investment into social enterprises and the Enterprise Investment Scheme (EIS) to incentivise investment into entrepreneurs. There is an argument to consider how these tax structures could evolve, or new ones be created, to encourage more purpose-driven businesses in the UK.

Sources:

A. Preliminary results from the ReGenerate National Purpose-driven Entrepreneurs Survey, February 2021

B. Guide to using the social value model, Gov.uk, December 2020

Benefits

Creating a clear and accessible legal form for purpose-driven businesses would help strengthen the UK's business credentials around the world, and would provide a number of specific benefits to everyone from businesses to investors:

- UK purpose-driven businesses will have a clear and accessible corporate form that enables them to be incorporated around their purpose.
- Everyone from investors to consumers will have another signal as to which companies are purpose-driven and having a positive or negative impact.
- New companies would be supported to set themselves up in a purpose-driven manner and lock in their purpose, if they wished to.
- More new companies would be prompted to set up in a purpose-driven way, increasing the chance that this approach is normalised over time.

72 Preliminary results from the ReGenerate National Purpose-driven Entrepreneurs Survey, February 2021

73 New measures to deliver value to society through public procurement, Gov.UK, September 2020

B. Review baseline incorporation legislation to ensure it is fit for purpose

SUMMARY OF RECOMMENDATIONS: The Government could review whether a change to section 172(1) of the Companies Act 2006 is needed to require directors to align the interests of their shareholders with those of wider society and the environment. Businesses and investors could support the Government by helping them understand how their sectors would likely respond to any reforms.

Context

Some business leaders are calling for a mandatory change for all companies, whereby shareholders would no longer have primacy over other stakeholders, making it a legal requirement for directors to "align the long-term interests of people, planet and profit."[74]

This movement, represented by the Better Business Act (BBA), has now been signed by over 500 businesses including John Lewis, Iceland, Bulb, Danone and Brewdog, and has the support of the Institute of Directors.

Specifically, the BBA campaign is basing the asks on four tenets:

1. **Aligned interests:** The interests of shareholders should be advanced alongside those of wider society and the environment, establishing a new principle of fiduciary duty within Section 172 of the Companies Act 2006.
2. **Empowering directors:** The change should empower directors to exercise their judgement in weighing up and advancing the interests of all stakeholders.
3. **Default change:** The change should apply to all businesses by default, and it should no longer be an option for companies to prioritise shareholders above other stakeholders.
4. **Reflected in reporting:** Large businesses should report on how they balance people, planet and profit in a strategic report or impact report, where one is currently required.[75]

A key motivating factor for many is the growing requirement for businesses to think differently on climate change, if they are to play their required role in reducing emissions by 78% by 2035.[76]

> "We are facing a climate emergency, and it is so important that businesses play a leading role in helping deal with it. While the law will not solve everything, it plays a crucial role in setting the foundations of a company. By moving from the status quo to what I would call a sustainable shareholder value approach, we are more likely to see businesses take this challenge seriously."

- Luke Fletcher, Bates Wells, Partner

74 Better Business Act, April 2021

75 Note that practically, this means if a business does not satisfy at least two of these criteria: Turnover of not more than £36 million, a balance sheet total of not more than £18 million; and not more than 250 employees.

76 UK enshrines new target in law to slash emissions by 78% by 2035, Gov.UK, April 2021

Recommendations

We recommend that the Government conduct a review as to whether the current wording of section 172(1) of the Companies Act 2006 is a strong enough baseline, or whether all directors should be required to align the interests of their shareholders with those of wider society and the environment, as set out in the Better Business Act campaign.

There are some important questions about how it would be seen by the totality of business leaders and investors, especially in light of Covid-19 as businesses recover and the UK seeks to attract investment inflows. We are suggesting a rapid review, rather than immediate action, given the change would be mandatory for all UK companies, and to ensure some important questions are fully considered before the Government enacted any change. Some questions that the review could explore include:

- What is the current majority view of business and investment leaders, and what is the pace and direction of travel of business and investment leaders' perspectives?
- If this change happened, what would the material impact on businesses be?
- What impact could this change have on investors' perceptions of the UK market? Would it make it more or less attractive?
- To what extent would the UK be exposed by being the only country to make this change or whether it would strengthen the UK's business credentials by leading the way? Is there an opportunity for multilateral movement with international partners?
- What would be the impact over the short, medium and long term on society and the planet for introducing this change to company law?
- If this were to go ahead, what would the best timing of it be, relative to other influences on business, such as Covid-19 and the drive to become net zero by 2050?

Benefits

The benefit of conducting the review is straightforward: the Government will have a clear picture as to whether or not to upweight the baseline expectations of all UK companies. It will put it in a clear position to decide whether or not this will help the UK lead the world in working with business to solve social and environmental challenges, whether businesses and investors would welcome it and, if it were to go ahead, the best timing and approach.

2. Making it easy to understand companies' impact

Many businesses are developing business models that are designed to reduce harm, to proactively benefit society and to solve major issues of our time. In tandem, investors and customers want to prefer purpose-driven businesses. Yet there is a lack of information about the true impact of business on society and the environment which has created a market inefficiency, and has not served purpose-driven businesses well.

The gap in transparent, trustworthy and accessible impact information leaves businesses' stakeholders struggling to tell the difference between purpose-washers and those who are following through on their stated intentions. The implications are suboptimal for all involved, with investors and customers sometimes facing surprising revelations. In a recent survey of investors, over half said that "poor quality/availability of data and analytics" was one of the biggest challenges to adopting sustainable investing.[77] Meanwhile, those businesses with genuine intent for positive impact can face an uneven playing field where peers cut corners and the difference is not visible to customers.

The public are also keen on greater transparency: 76% think "social and environmental information should either be made available in a company's accounts or be included in the calculation of [its] overall profitability."[78] This information can relate to both societal impacts that directly affect the success of the company and those that don't, as described in **Box 4**.

Box 4: The growing importance of double materiality when considering impact

While it is a technical topic, it is important to consider the growing importance of 'double materiality' which is shaping thinking on impact measurement.

There are two types of impact that a company can have:

- Impacts that affect society and directly affect the success of a company (sometimes known as or their 'enterprise value', or 'inward materiality').
- Impacts that affect society, and do not affect the success of the company (also called their 'outward materiality').

While some actors in the system surrounding businesses may have preference towards one or the other, they are not necessarily mutually exclusive, and power can come when the two are combined. There is growing consensus that both are important which is known as 'double materiality').[A,B]

This has come about, in part, because some externalities that were previously seen as hard or impossible to measure and therefore omitted from company ledgers, are increasingly being able to be measured and are now understood to be material to businesses' success. This is becoming particularly important as policies driving towards net zero and levelling up gather pace, leading companies to consider not just their impact on the environment and society, but also those impacts can flow back and affect their business, risk and resilience models.

Sources:

A. Questions and Answers: Corporate Sustainability Reporting Directive proposal, European Commission, April 2021

B. Here's why companies should assess double materiality, Harrison, D., Bancilhon, C., Greenbiz, February 2021

77 Sustainability goes mainstream: 2020 Global Sustainable Investing Survey, Blackrock, 2020

78 Social and Environmental Impact Should Affect Financial Profits – Help Us Achieve This, Social Value UK and YouGov, May 2019

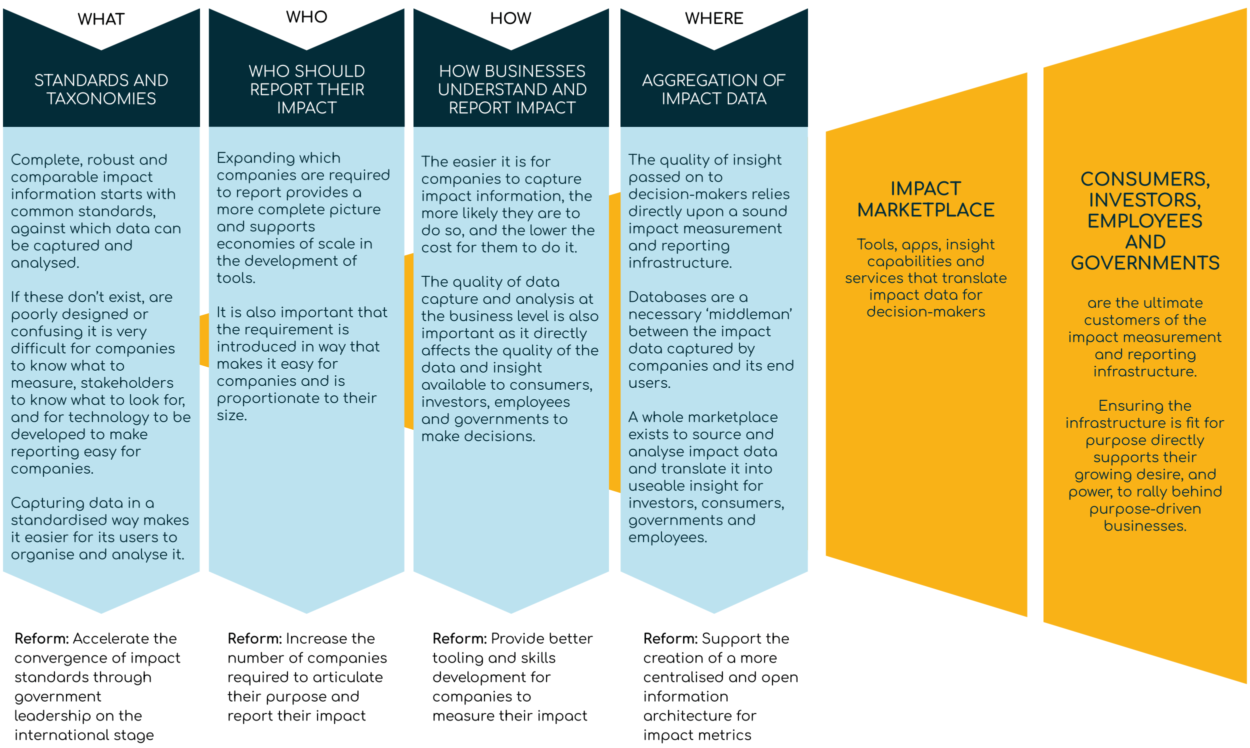
Encouragingly, there is growing momentum in the ecosystem that supports companies to report their impacts. Over the course of our research, there has been an enormous acceleration in the scale and pace of efforts to address this lack of transparency, with major new announcements made every few weeks.

Our recommendations relating to impact measurement build upon this existing momentum and focus on four pillars based on the simple framework 'What, who, how and where':

- **WHAT should be reported?** Accelerate the convergence of impact standards through government leadership on the international stage.
- **WHO should report?** Increase the number of companies required to articulate their purpose and report their impact.
- **HOW can businesses be supported to report?** Provide better tooling and skills development for companies to measure their impact.
- **WHERE should the data be held?** Support the creation of a more centralised and open information architecture for impact metrics.

Together, these four pillars will strengthen, accelerate and shape the supply of impact measurement data on which consumers, investors, employees and governments increasingly rely as they rally behind purpose-driven businesses (see **Figure 6**).

Figure 6: A summary of the recommendations



As the changes are made, it is important that they are done in a manner that works for businesses. It is important that there is clear signalling from the Government of future intent with timelines, to allow businesses to prepare. We also acknowledge that these recommendations are merely the starting steps that need to be taken, they are not the destination and there is a long journey ahead.

> "As the UK government has committed to get to net zero by 2050, it is only a matter of time before companies are going to be required to make the same commitment. Having consistent impact reporting in place will be a vital part of encouraging companies to reach their targets"

- Blavatnik School of Government, April 2021[79]

This agenda is vital for purpose-driven businesses. Not only will greater transparency enable them to showcase the positive and negative impact they are having, but it will also provide valuable feedback loops that help them to further understand and improve their performance over time. It may also prompt more companies who are not already consciously thinking about social and environmental issues to understand their impact, and nudge them to operate in a purpose-driven way. In turn, this will attract the public and investors who want to prefer those who are having a positive impact on the world.

> "Why is impact transparency a powerful driver of change? Because it creates a race to the top among companies, not for limitless profit regardless of damage, but to improve our society and planet. As companies realize that investors, consumers, and talent are shifting to make decisions based on profit and impact, they will strive to achieve both. In doing so, businesses will begin to play a new, helpful role alongside governments in meeting our challenges, rather than creating damage that governments will have to remedy with tax dollars. Impact transparency will stimulate business innovation, too."

- Sir Ronald Cohen, Global Steering Group for Impact Investment, Chair[80]

79 Building back better with business, Woods, N., Collier-Keywood, R., Blavatnik School of Government, April 2021
80 How Biden Can Make Corporate Impact a Force for Good, Cohen, R., Barron's, February 2021

C. WHAT: Accelerate the convergence of impact standards through government leadership on the international stage

SUMMARY OF RECOMMENDATIONS: The Government could use its position as host of the G7 and COP26, and as a member of the G20, to support current momentum in the global accountancy governance structures and the impact measurement space. Part of this could include creating a clear policy goal to make the UK a centre of excellence for impact reporting, leveraging the UK-based organisations and infrastructure that position the UK well to do so. There is a particular opportunity to engage with efforts to address immaturity in social metrics.

Context

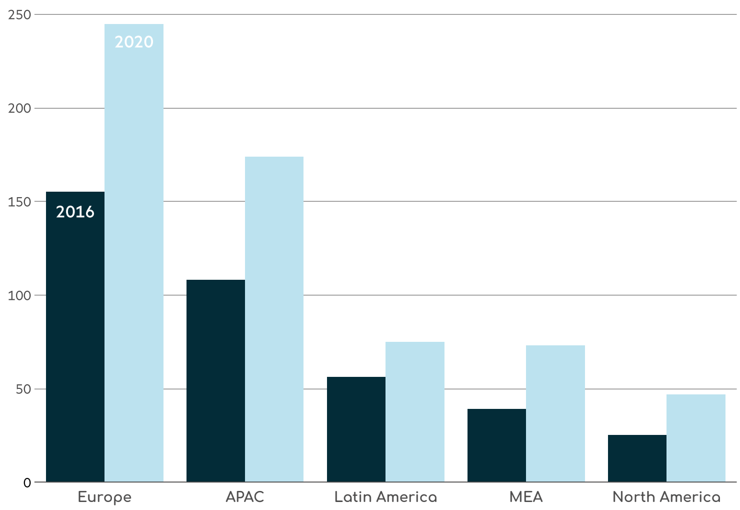
In some cases businesses' efforts to report their impact are held back by the complexity and proliferation of impact standards that exist. Those who do seek to report their impact can easily be overwhelmed, sometimes causing a paralysis of inaction or indecision.

In other cases the decision on 'whether to' and 'what to' report can be taken out of businesses' hands, with multiple stakeholders, such as investors and accreditors requesting different information, in different formats. The growing wave of sustainable and impact funds will likely add to the volume of these requirements. This can be an expensive distraction for both businesses and those using their data.

In a webinar hosted by The British Academy, Elena Flor, Head of Corporate Social Responsibility at Intesa Sanpaolo, said that in order to meet the requirements of multiple audiences, each requiring data to be presented in a specific standard, they produce a 200 page report with over 50 pages of indicators.[81] This is further illustrated by **Figure 7**.

Figure 7: Companies are dealing with hundreds of different ESG regulations, codes and standards around the world

Number of ESG reporting provisions by region



Source: Measuring what matters, Murray, S., Financial Times Moral Money Forum, May 2021.

81 Beyond ESG: Measuring corporate purpose webinar, British Academy, March 2021

This overwhelming landscape of standards carries real costs and distraction for those running businesses, lack of clarity for investors, and thwarts effective policy making to truly harness the power of business to tackle societal challenges (see **Figure 8**).

Figure 8: How a lack of clear impact information can affect decision makers

COMPANY DIRECTORS	COMPANY BOARDS	INVESTORS	REGULATORS	POLICY MAKERS
Company directors lack crucial information for running their business effectively, including spotting and eliminating harms, and seizing opportunities for innovation to boost impact.	Company boards missing insight on how social and environmental factors affect the resilience, strategic performance, alignment with societally conscious investor expectations, and delivery of the company's purpose.	Investors struggle to compare and benchmark across organisations, and sort true intent and impact from purpose-washing.	Regulators are less able to hold businesses to account.	Policy makers face a lack clarity on which categories of businesses are contributing positively or negatively to priority issues such as net zero and levelling up, and spotting pockets of innovation and progress that can be learned from.

Source: Measuring Purpose: An Integrated Framework, Barby C. et al, February 2021

Lack of standardisation and the impact on ESG

Though ESG is not a direct proxy for purpose-driven, it is the most widespread marketplace for company-level impact data and so it is worth understanding its maturity.

The proliferation of standards has meant that there is no common benchmark for judging the impact of companies. This has undermined the robustness of ESG aggregators in their attempts to understand the impact of companies.

For instance, a study into the divergence of just five ESG aggregators showed that correlation was only around 0.3, in contrast with the correlation between ratings by S&P and Moodys which is 0.99.[82] The main differences are caused by: 1) Definitions: where there are the same attributes but with different indicators, 2) Scope: where different attributes are measured, and 3) Weight: where different importance is placed on attributes.

The result is multiple versions of the truth, which creates the challenge of selecting which version of the truth should be used. The real-world significance of this is important. In 2020, Boohoo had a AA rating by MSCI for above average labour standards, meaning they were present in many ESG investment portfolios. Trust in this rating was undermined when evidence of exploitation in their supply chain was uncovered.[83,84]

82 Aggregate Confusion: The Divergence of ESG Ratings, Berg, F., Kölbel, J., Rigobon, R., 2020
83 Boohoo's sweatshop suppliers: 'They only exploit us. They make huge profits and pay us peanuts', Matety, V., The Times, July 2020
84 Boohoo issues highlight ESG 'minefield' for advisers, Tew, I., The FT Advisor, August 2020

A fresh understanding of what social and environmental factors are material to businesses, and improved ability to measure them means that standards are needed for a wider range of factors than ever before. This trend is likely to continue.

A convergence of standards has begun

Significant efforts are ongoing to address this issue through collaborations, and even mergers, within the Impact Management Project's structured network towards a convergence of impact standards. Although work is ongoing, many of the relevant standard setters and governing bodies appear to be moving in a collective and positive direction, with a noticeable increase in announcements of intent and collaboration made before the 2021 G7 and COP26 summits (see **Figure 9**).

> "All stakeholders share a common message: there is an urgent need to improve the consistency and comparability in sustainability reporting. A set of comparable and consistent standards will allow businesses to build public trust through greater transparency of their sustainability initiatives, which will be helpful to investors and an even broader audience in a context in which society is demanding initiatives to combat climate change."[85]

- IFRS Consultation Paper on Sustainability Reporting, December 2021

It is important that social impact does not get left behind

The integration of social impact factors into business law and regulation is longstanding, from the minimum wage and working conditions, to more recent strides in customer treatment and tackling modern slavery. Despite this, when it comes to reporting, it is acknowledged that the 'E' in the ESG has dominated in recent years.[86] There is growing recognition that social impact and reporting standards require better definition, with nearly half of investors saying that social factors are the hardest to analyse and integrate, leading to demand for clarity from businesses who must respond to their scrutiny.[87] Initiatives to address this are relatively nascent compared with the recent surge in clarity around environmental issues.

Integrating financial and non-financial information

Alongside efforts to address this 'acronym soup' of standards, work is ongoing to determine how impact information should be reported in relation to financial information, for example the Impact-Weighted Accounts methodology amongst others.[88,89] This relationship between financial and impact information is becoming increasingly important to business leaders and investors, and would be facilitated by greater standardisation of reporting.

> "While progress is being made, the challenges to effective impact reporting practice are great. Without significant action from progressive keystone players, the rate of change in impact reporting practice will be insufficient to meet society's global challenges including the climate emergency."

- Impact Investing Institute, January 2020[90]

The success of these standards in helping us understand businesses' social and environmental progress now depends upon their visible, enthusiastic, and widespread adoption, and a common approach to showing the interrelationships between financial and impact information.

85 Consultation Paper on Sustainability Reporting, International Financial Reporting Standards Foundation, September 2020

86 'Social Washing' Is Becoming Growing Headache for ESG Investors, Marsh, A., Bloomberg, April 2020

87 The ESG Global Survey 2019, BNP Paribas, April 2019

88 Impact-Weighted Accounts, Harvard Business School, May 2021
The Impact-Weighted Accounts methodology, developed at the Harvard Business School, seeks to quantify and express all positive and negative social and environmental impacts as a net evaluation of a company's profit in respect of other impacts. It is possible that, due to its ability to create comparability between companies, that it could provoke a movement away from current financial inclusion criteria towards companies that are 'impact positive'. More than a dozen multinational corporations and global financial investors are applying the impact-weighted accounts methodology today. The method appears to be gaining traction with some key actors within the impact measurement movement.

89 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020

90 Technology enabled impact reporting practice across the investment chain, Social Impact Investing Implementation Taskforce, January 2020

Figure 9: Recent announcements relating to a possible convergence of standards

The following are a subset of the recent announcements made by some of the many key actors in the impact management and accounting governing bodies.

2020

11th September: Some major standard setters within the Impact Management Projects structured network (CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Counci (IIRC) and Sustainability Accounting Standards Board (SASB)) announced that they will be working towards a single, global coherent set of impact standards. Since then SASB and IIRC have announced that they will merge to form the Value Reporting Foundation.[A,B]

30th September: The International Financial Reporting Standards (IFRS) Foundation launched a consultation on the intended formation of a Sustainability Standards Board (SSB) to accelerate convergence in global sustainability reporting standards, focused on enterprise value.[C]

22nd September: The 'Big Four' audit firms (Deloitte, EY, KPMG and PWC) have, with the World Economic Forum (WEF) and the International Business Council (IBC), produced a white paper with a suggested minimum standard of 21 core and 34 expanded metrics and disclosures built upon existing standards, that could be adopted, covering Governance, Planet, People and Prosperity.[D]

2021

24th February: International Organization of Securities Commissions (IOSCO) endorsed and offered to support the IFRS initiative. "IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation."[E]

8th March: The IFRS Foundation announced that the SSB will initially focus on sustainability issues relating to climate change, taking the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Trustees of the IFRS Foundation also agreed to consider the work of CDP, CDSB, GRI, IIRC and SASB, allowing the possibility to incorporate the standard setters work and address other sustainability issues with their 'building blocks' concept.[F]

8th March The European Financial Advisory Group (EFRAG) produced their final report presenting proposals for a relevant and dynamic EU sustainability reporting standard setting. [G]

21st April: In response to the EFRAG recommendations, the European Commission proposed the Corporate Sustainability Reporting Directive, which would provide possibly the most comprehensive package of reforms to date. Some key points include 1) Coverage of more companies, 2) Adapting standards for SMEs, 3) introduction of Double Materiality, 4) Support for the IFRS Foundation and 'the group of five' standard setters, 5) Increasing digitisation, and 6) The goal to incorporate sustainability information into the European Single Access Point database.[H]

Sources:

A. Statement of intent to work together towards comprehensive corporate reporting, Impact Management Project, September 2020

B. IIRC and SASB announce intent to merge in major step towards simplifying the corporate reporting system, Integrated Reporting, November 2020

C. Consultation Paper on Sustainability Reporting, International Financial Reporting Standards Foundation, September 2020

D. Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, World Economic Forum, September 2020

E. IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces it, International Organisation of Securities Commissions, February 2021

F. IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation, International Financial Reporting Standards Foundation, March 2021

G. Proposals for a relevant and dynamic EU sustainability reporting standard, European Financial Reporting Advisory Group, February 2021

H. Questions and Answers: Corporate Sustainability Reporting Directive proposal, European Commission, April 2021

Recommendations

We recommend that the UK Government use its position as host of the G7 and COP26, and a member of the G20, to offer public support to the current momentum in the impact measurement space, and seize a unique opportunity to ensure nation states are working together and doing all they can to accelerate the convergence of standards.

There is a particular opportunity to create a global centre of excellence of impact measurement in the UK that will accelerate the convergence of standards.

Specifically, the Government could:

- Publicly support the convergence of standard setters under the coordination of the Impact Measurement Project, following the precedence of having already endorsed the IFRS Foundation proposal to create the SSB.[91]
- Rally other nation states to do the same, with a view to agreeing on a joint communique across the G7.
- Create a policy goal to make the UK a global centre of excellence for impact measurement and reporting, leveraging the current strong UK presence of global financial institutions, accounting and measurement bodies, software providers and academic research focused on purpose and impact. This policy would be directly supportive of the Green Industrial Revolution and Tech Superpower policy agendas.
- Review the success of the TCFD initiative in agreeing common standards and a framework for companies to report on them, and seek opportunities to replicate the framework across other areas of social and environmental impact measurement.[92]
- Map and engage with initiatives to address immaturity in social impact standards and reporting, and provide funding to accelerate them.
- Engage with the impact measurement movement and commit to playing an active, leading role in the ongoing global conversation on both the evolution of the standards themselves, and how they are applied.

> "There is strong resonance with the Global Steering Group's G7 Impact Task Force. Harmonisation of standards, taxonomies, reporting and transparency requirements are all central to the work we are engaged with on the G7 presidency and also on G20. It's not an easy challenge, but it is vital for all our futures."
>
> **- Cliff Prior, Global Steering Group for Impact Investment**

Benefits

Implementing these recommendations should make it easier for companies to report their impact by making it simpler, easier and less confusing to do so. Specifically, they will:

- Improve the consistency and comparability of impact metrics.
- Bring workforce, social and other environmental impact reporting to the same level as greenhouse gas reporting.
- Support the efforts of everyone from investors to governments who have a stake in seeing businesses deliver social and environmental impact.
- Help ensure that, once the SSB is created and starts addressing climate change, it will not be considered as 'job done' but rather efforts will move on to address other major social and environmental agendas.
- Help position the UK as a leader in impact measurement, and fuel growth of the associated digitisation, tech innovation and professional services sectors.

91 Initial response to IFRS Foundation Trustees consultation, Gov.UK, November 2020

92 Reporting against TCFD guidelines has become the defacto when making statements relating to carbon emissions within the financial sector. For example, in May 2021, Glasgow Finance Alliance for Net Zero (GFANZ), a group of asset owners with more than $73tn in assets, said their portfolios will be net zero by 2050 according to TCFD guidelines, and to have transparent reporting and accounting by 2030. The announcement can be accessed via: New Financial Alliance for Net Zero Emissions Launches

D. WHO: Increase the number of companies required to report their impact

SUMMARY OF RECOMMENDATIONS: The Government could map and improve understanding of what companies are currently required to report on what impact, both directly and indirectly, across legislation, regulation and investor requirements. As part of the current BEIS audit and corporate governance reforms, create a vision and roadmap for which companies will be required to report on their impact in the future, with a clear policy direction to require a wider pool of companies to begin reporting on their impact over time.

Context

If purpose-driven companies cannot demonstrate their impact on society, they risk missing out on the benefits of being preferred by everyone from customers to investors.

This risk is growing, as regulators and investors are increasingly requiring large companies to report both their impact and that of their supply chains, which indirectly places requirements on smaller companies too. Put simply, if companies of all sizes do not report their impact, they increasingly risk getting left behind.

Today, only a few businesses are required through legislation and regulation to report their social and environmental impacts, and current plans to increase this are not particularly ambitious. A recent consultation by BEIS proposes an increase in the number of companies required to report, but it is relatively modest: as it does not include SMEs, we believe that it would still be less than 1% of UK businesses required to report.[93,94] It is also less ambitious than the European Commission's direction of travel who, through their recent Corporate Sustainability Reporting Directive (CSRD) are paving the way for expanding the scope of which businesses should report.[95,96]

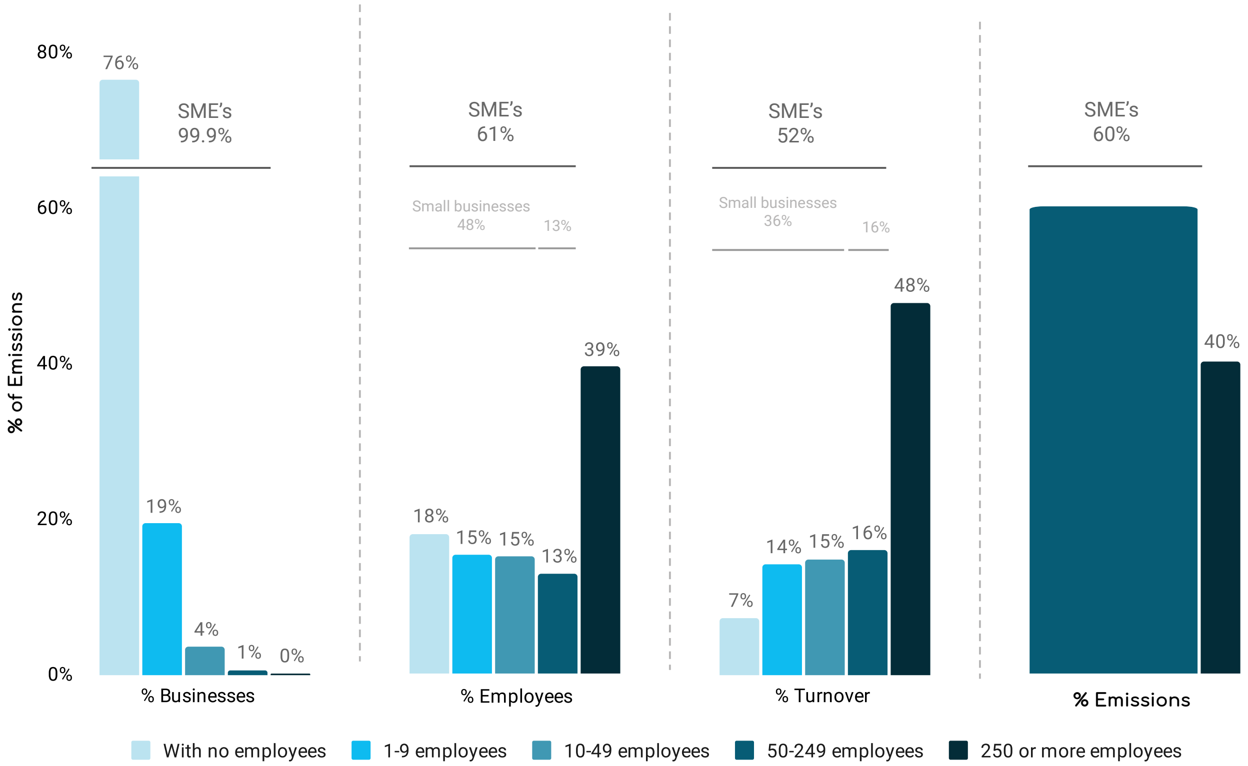
While it is crucial that any reporting requirements are proportionate to the size of companies, and that the bureaucratic burden of reporting is kept to a minimum), there are a few compelling reasons why a greater requirement to report through legislation and regulation may be in the best interests of everyone, including business.

First, it would make a significant difference towards efforts to level up the UK and reduce emissions by 78% by 2035. The 99% of registered businesses, who are not required to report their impact, account for around 60% of all emissions and 61% of employees, as shown in **Figure 10**. It is hard for stakeholders to reward and help scale those companies that are making the biggest difference to social and environmental goals without sufficient transparency.

93 Restoring trust in audit and corporate governance, Department for Business, Energy and Industrial Strategy, March 2021
94 Business population estimates for the UK and Regions 2020: Statistical release, BEIS, October 2020
95 Proposals for a relevant and dynamic EU sustainability standard-setting, European Financial Reporting Advisory Group, February 2021
96 Questions and Answers: Corporate Sustainability Reporting Directive proposal, European Commission, April 2021

Figure 10: SMEs account for over 99% of all businesses and over 60% of emissions

Percentage of businesses, employees, turnover and estimate emissions by business size



Sources:
Business population estimates for the UK and Regions 2020: Statistical release, BEIS, October 2020
SMEs and the environment in the European Union, Publications Office of the EU, 2014

Secondly, the requirement to report is increasingly being placed on business anyway, without due consideration and support. Instead of through legislation and regulation, it is increasingly being driven by compliance demanded by other stakeholders, especially investors and fund managers responding to their customers. When requirements come in this manner it often happens without the lead time, clarity and support that formal regulation brings. For example:

- The EU Sustainable Finance Disclosure Regulation (SFDR) governs which funds can be classed as ESG, requiring additional due diligence on social and environmental factors by fund managers. Though this was not adopted by the UK, it is common for investors expect it to be applied anyway, with the reporting burden passed on to businesses.[97,98]
- The Glasgow Finance Alliance for Net Zero (GFANZ) has over $70tn of assets and has committed to reducing and eventually arriving at net zero emissions in their portfolios.[99] They are placing the requirement to measure and disclose emissions to all companies in their portfolios, which will flow down to their value chains. See **Box 5** for an illustration of how this can be complex in practice.

97 SFDR, the final countdown to compliance, Coates, J., Patterson, J., Harvey, B., February 2021
98 Will the Sustainable Finance Disclosures Regulation (SFDR) apply to UK firms?, Manson, I., Stoakes, J., Duff & Phelps, January 2021
99 New Financial Alliance for Net Zero Emissions Launches, United Nations Framework Convention on Climate Change, April 2021

Box 5: How 'scope three' reporting on Greenhouse Gas emissions extend reporting/disclosure requirements through a company's value chain.

A growing number of companies are committing to measure the indirect, as well as direct, Greenhouse Gas (GHG) emissions, which are known as Scope 3 emissions. This means their value chains are increasingly being asked to measure their impact in this area.

For example, Sainsbury's has committed to reduce its Scope 3 GHG emissions by 30% by 2030. This represents the bulk of their emissions and includes the goods and services from suppliers and the direct use of the items they sell. Considering the scale and diversity of Sainsburys supply chain, which ranges from farmers to clothing manufacturers, this is no mean feat and requires considerable partnership and support given to suppliers.

Source
Sainsbury's announces ambitious science-based targets for Scope 1, 2 and 3 as part of journey to net zero, Sainsbury's, February 2021

Finally, an unlevel playing field exists between companies that choose to incur the costs of properly understanding and reporting their impact, and those who choose not to. This problem is exacerbated when the latter tap into consumer demand for ethical products through spurious claims in their marketing and packaging, without robustly substantiating them through impact measurement. Gaps in requirements for businesses to report on their impact leads to lack of transparency and accountability, which facilitates this 'purpose-washing', leading to purpose-driven businesses losing out. The 2020 annual impact investor survey by the Global Impact Investing Network (GIIN) found that impact-washing was seen as the biggest challenge facing investors over the next five years.[100]

> "We are at a disadvantage because the playing field is not level. We compete against profit driven businesses that talk a good game, hijack conscious consumers, and then deliver nothing. This is distinct from purpose-driven businesses being hard to identify. We genuinely need legislation to level the playing field."
>
> **- Kresse Wesling, Elvis & Kresse, Co-founder**

Recommendations

The Government could make the requirement for more companies to report on their impact a clear policy goal in the UK, proportionately adjusted for company size and sector, and attached to a roadmap that gives businesses a clear direction and time to plan. Specifically, we recommend:

- Improve understanding of what reporting is currently required. Map which businesses are currently facing requirements to report on what impacts, including those not directly falling under regulatory requirements, for example SMEs in the supply chains of large companies. Work carried out by Deloitte is both a helpful starting point and an illustration of the complexity of and need for this exercise.[101,102]
- As part of the immediate BEIS audit and corporate governance reforms, require a wider pool of companies to report their impact on social and environmental stakeholders, with particular consideration of alignment with incoming international standards that they might fall subject to anyway.
- Create a vision and roadmap for which companies should report in the future, to give businesses the time to plan. This should include checks and balances, to ensure that the impact market was sufficiently developed, which would in turn ensure that companies, and especially SMEs, were well supported to report in a non-bureaucratic manner.

100 2020 Annual Impact Investor Survey, Global Impact Investing Network, June 2020
101 New 2019 reporting requirements for large private companies – a reminder, Deloitte, October 2019
102 Corporate Governance Disclosure Checklist (For periods commencing on or after 1 January 2019), Deloitte, December 2019

Determining which companies should report, and at what point such regulation should become effective, is not trivial. Recognising the complex and rigorous analysis underway by the BEIS consultation, Financial Reporting Council, Impact Investing Institute and others, we do not propose a specific threshold.

Benefits

Having more companies report on their impact would help investors, employees and consumers identify the positive and negative impacts that companies have on society and the environment, and understand whether purpose-driven companies are successfully outworking their purpose. A higher number of companies reporting would also lead to economies of scale and cheaper reporting solutions. It would enable companies to better understand and benchmark the impact they are having in relation to their peers, increasing the likelihood of a 'race to the top'.

Specific benefits include:

- Growth in the impact measurement, reporting and management marketplace, could create a whole new service sector that would drive innovation and job creation, helping the UK to become a leading technology hub.
- An increase in the information coverage of company impacts, meaning a more complete picture of the impact of businesses, which also supports full value-chain reporting.
- Clear regulation will help SMEs to begin preparing for potential supply chain reporting requirements in the future.
- Attract more internal and overseas investment as there are trends of increasing demands within global ESG portfolios. This could encourage a race to the top for businesses of all sizes.
- Increased demand for impact measurement services is likely to decrease their cost, making them more accessible to businesses.

E. HOW: Provide better tooling and skills development for companies to report and understand their impact

SUMMARY OF RECOMMENDATIONS: Collaboration is needed across sectors to stimulate a technological boom in the impact measurement space: **Software providers** could make impact measurement tools as accessible as possible to businesses, and challenge and convene developers; **Investors** could fund and support the integration of impact reporting into business intelligence tools; **The Government** could provide grants for developing impact measurement tools; and **Businesses** could share learning and know-how with each other.

Context

A number of market shifts are occurring that are likely to increase the number of businesses, including SMEs, that wish or need to report on their social and environmental impact. We discuss this more fully in **Recommendation D**.

The effectiveness of this shift relies upon reducing the administrative burden, cost and complexity to businesses of reporting their impact, especially for SMEs. The convergence of standards (**Recommendation C**) makes progress towards this through defining what impacts should be measured and how to calculate metrics, but more is needed to help businesses operationalise impact measurement and reporting, and then understand the information that is generated.

For many businesses, especially smaller ones, the cost and distraction of implementing impact measurement, reporting and management can be hard to justify. In some cases it is felt that there is a trade off between focusing on activities that actually have a benefit to society rather than the act of measuring and reporting it.

> "We're all spending an inordinate amount of time navigating reporting standards and the constant stream of different ESG measures and frameworks and data requirements externally. It's getting to the point where it's having an adverse effect. While the increased emphasis on ESG standards is important, consolidation is necessary now. It's in danger of taking away from what we should be focusing on: where's our material impact? What are we doing about it? Are we investing in the right things?

- Kirsty Britz, Natwest Group, Director of Sustainable Banking

Many business leaders speak of struggling to know where to start. SMEs in particular can lack access to niche systems and impact reporting expertise, and can hardly afford the distraction of implementing them.

> "Business in the Community works closely with its member organisations all sizes, but we're particularly pleased to see small and medium sized business across the UK increasingly stepping up to their social and environmental responsibilities alongside some of their larger counterparts. We are acutely aware there is a real and growing need for SMEs to justify costs and time spent

> on driving responsible business practice and to ensure that any time dedicated to this is as impactful as possible. This can only be demonstrated by effectively measuring and reporting on activities and impact, allowing SMEs to identify areas for growth and improvement. We know that what gets measured gets managed, but the challenge is often where to start and where to go for help when businesses are time and resource constrained, with expertise internally also limited."

- Kieran Harding, Business in the Community, Managing Director

> "We are in daily conversations with businesses, from major banks to start-ups, where reducing their carbon footprint has shot to the top of the agenda over the last year. The people tasked with understanding and delivering these impact goals often don't know where to start, and face a steep and fast learning curve. Accessible, at-scale learning pathways on dimensions of business impact, and how to measure them, are urgently needed for both business leaders and the employees tasked with understanding their impact"

- Emma Kisby, CoGo, CEO

The need for better tooling

Better tools are needed to help companies, and especially SMEs to report their impact.

In our survey of purpose-driven entrepreneurs, two thirds said it would help their company if there was "a standard approach and tooling for measuring their social and environmental impact, right sized for small businesses, e.g. integrating impact reporting into commonly used platforms such as Xero and Salesforce", with over a third saying this would help their company a lot.[103]

Software vendors that already serve businesses with accountancy and operational software are well positioned to provide impact reporting and business intelligence services that are right-sized for businesses, and the accountants and auditors that serve them. This can be done through both extending the capabilities of systems they already have in place, and the creation of new software and apps that integrate easily. The software can act as an interface between businesses and external databases that aggregate data to be analysed more broadly, much like the accounting software that interfaces between businesses and HMRC.

> "The growing sector of technology and data providers, and organisational uptake of their technologies and services, will play a critical role in catalysing a more efficient and effective system. Leading organisations are already engaging with technology and data providers and adopting and integrating digital technologies into their measurement and reporting systems to accelerate progress."

- Impact Investing Institute, January 2020

Our review of what options are available to a business found that there are currently relatively few visible examples of such software solutions and 'add ons' that enable a degree of social and environmental reporting, particularly ones that are suitable for SMEs.[104] It is unclear whether this perceived gap relates to the existence and maturity of the tools themselves, or their visibility and accessibility to those who seek to use them.

103 Preliminary results from the ReGenerate National Purpose-driven Entrepreneurs Survey, 2021 (To be published)

104 When reviewing the app marketplaces of major business reporting software vendors such as Xero, Sage, QuickBooks and SalesForce it is hard to search for, filter for or find many tools that can assist on impact reporting. A few exceptions we found are Spherics as a carbon reporting app for Xero, ICIX as a supply chain compliance tool for Salesforce, and Vera Solutions a social impact reporting tool for Salesforce. Some other tools such as Plan.A and the Carbon Trust offer carbon reporting tools. Perhaps the most significant vendor tool is the Salesforce sustainability cloud. Compared to the number of databases available to view ESG information, the list of tools that can help you input and report is very small.

Furthermore, we have not yet seen the disruptive burst of technical innovation that is needed. Many attempts to systemise impact measurement remain imperfect. For example, online carbon footprint calculators can either be incredibly onerous to fill in or produce misleading results, and the understanding of social impact measurement is still relatively immature compared to emissions reporting.[105,106] Yet we cannot let perfect be the blocker to good. To illustrate this, it has taken many development and product cycles to reach the current generation of iPhone. Perfect systems do not spontaneously come into being, they evolve, learning and optimising from previous imperfections. Therefore there is an opportunity to drive innovation in this area.

The need to improve skills

Coupled with a gap in tooling, there is a skills gap around knowing what to measure, how to measure it and how to interpret the impact data within businesses.[107] Measuring both social and environmental impact is notoriously complex with many interrelated factors, with even the experts continuing to debate how it should be done. It is therefore unrealistic to expect those tasked with measuring a company's impact to become overnight experts in sustainable development, earth sciences, or social issues. There is an opportunity to increase skills and knowledge in these domains.

> "Sustainable development issues are complex and interdependent and cannot be made simple. Investors, analysts and companies need to skill up in interpreting qualitative information as well as quantified metrics."

- Dr Carol Adams, Towards sustainable business[108]

An ecosystem of services and advice is developing to help businesses address the recognised skills gap on how to interpret the data to make effective business decisions. Examples include the Business in the Community Responsible Business Tracker, UnLtd's advice and support for social enterprises, and the CFA Institute and CFA Society's training to the financial service industry.[109,110,111]

The practical difficulties with tooling and skills directly contribute to issues of robustness and completeness in the impact data needed to make major policy and investment decisions. The sheer cost and complexity for businesses of doing impact measurement well, while these tool and skill gaps remain, makes it difficult to advance impact measurement coverage across more businesses.

Recommendations

Better support for companies, especially SMEs, to report their impact is not just helpful, it is vital. SMEs make a huge contribution to the economy, labourforce and to large companies' value chains. It is important they are adequately supported to measure and report on areas that they value.

Both software providers and the Government could take steps to activate a technological boom in the impact measurement, reporting and management space, through research development grants and effective signalling of future strategic and policy goals. This could be specifically directed at making it radically easier and cheaper for businesses of all sizes to measure their impact. Specifically, we recommend:

105 Top 16 Problems of Carbon Footprints, Institute for Energy, Ecology and Economy, June 2020
106 'Social Washing' Is Becoming Growing Headache for ESG Investors, Marsh, A., Bloomberg, April 2020
107 Thinking Ahead Institute Sustainability Summit 2020 - Background reading, Thinking Ahead Institute, November 2020
108 Sustainable development as our 'north star' in the harmonisation debate, Adams, C., April 2021
109 The Responsible Business Tracker®, Business in the Community, accessed May 2021
110 UnLtd - Home, The Foundation for Social Entrepreneurs, accessed May 2021
111 CFA Institute : Societies, CFA Institute, May 2021

Industry software providers:

- Ensure that existing tools designed to help businesses measure their impact are easy for companies to find, learn about, access and implement. We observed a gap between apparent demand for impact measurement tooling and its perceived availability to small businesses in particular. Coupled with a likely increase in this demand, this may present an under-tapped, purpose-driven market opportunity which could be explored.
- Set development challenges within their existing app marketplaces.
- Convene developers and sector experts with sponsored development challenges for rapid prototyping.

Investors:

- Fund and support the integration of impact reporting into business intelligence tools. For example through ring-fenced investment funds, in-house accelerators, partnerships with angel investors and established national and regional accelerators and networks such as Tech Nation and Tech Manchester.

Universities and other educators:

- Address the knowledge and skills gaps of business professionals and investors through information and network hubs, and Massively Open Online Courses (MOOCs), such as Coursera, edX, Udemy. Two examples are: the Impact Investing Learning Framework developed in collaboration with Barclays, Aberdeen Standard Investments and Bridges Fund Management, and course material developed by Cathy Clarke from Duke University on how investors can demonstrate alignment and contribution to the SDGs. [112,113]

The Government:

- Drive and accelerate innovation by offering grants to businesses that are offering solutions that make social and environmental measurement tools more accurate and affordable, for example through Innovate UK.
- Rally behind efforts to create a clear framework for integrating the Sustainable Development Goals (SDG) into businesses and investment decisions, as many businesses and customer-facing identification tools have chosen to build their impact frameworks around these.[114,115]

> "My thoughts would be potentially stressing further investment in R&D / Innovate UK. I think this has the single biggest potential to make a change and even doing a dedicated 'Call' based on ESG data could be really interesting."

- George Sandilands, Spherics, CEO

- Providing a clear date and threshold for encouraging more businesses to report and endorsing measurement standards (see **Recommendation D**) would send strong signals to encourage inbound investment and give time for an industry to be created.

> "Our experience at CDP shows that when you get this right, the private sector follows."

- Paul Dickinson, CDP, Executive Chair

112 The Impact Learning Framework, Impact Investing Institute. The framework is updated on an ongoing basis.

113 CASE Announces New Online Training Course in Impact Measurement and Management with UNDP, Centre for the Advancement of Social Entrepreneurship (CASE), Duke University, August 2020

114 Practice Assurance Standards for SDG Impact - United Nations Development Programme (UNDP), SDG Impact, accessed May 2021

115 Support the Goals: Home, Support the Goals, accessed May 2021

Businesses

- Businesses could self-organise to create mechanisms for sharing know-how and innovations in how to measure and manage their impact, including through peer support communities.

Benefits

This recommendation is targeted to help companies more easily and cost-effectively understand and comparably report their impact. The desire to simplify the process for the business can belie the complexity of these issues. However, the reward for effort and investment in this space can be great, such as:

- Actions that simplify processes and lower costs would be an important give-back to businesses that, in many cases, are having to adapt to post-Brexit and Covid-19 recovery conditions.
- Effective signalling and targeted research and development grants could spur the growth of an entire impact measurement business support industry and strengthen the UK's position as a global leader.
- Using the same systems to report financial and impact information makes it easier to analyse them together, and better understand the materiality between them. This integrated reporting is both a useful insight for business leaders, and supports more insightful external reporting and investor communication.
- The integrity of ESG metrics and sustainable funds ultimately leads back to the data that companies themselves provide, which is largely self-reported and un-audited. Making it as easy as possible for companies to provide quality impact data makes it more auditable in support of our other reform proposals, removes excuses, and ripples through the system, particularly to investment decisions.

F. WHERE: Support the creation of a more centralised and open information architecture for impact metrics

SUMMARY OF RECOMMENDATION: The Government could co-fund data centralisation initiatives with other G7/G20 countries to make impact data freely available and easy to access worldwide. Innovate UK grants could be used to promote development of specialist databases aimed at filling a clear gap in social metrics. **Database providers** could expedite development by following a common set of design principles, and using open architecture.

Context

Impact data is only useful if it is accessible. It is not enough simply for companies to report more and better quality data if it cannot be easily accessed and used by investors, governments, consumers and employees. It is, therefore, important that the data is aggregated in a coherent and comparable way.

Today, despite the companies' impact information often being in the public domain it can be hard to find, sometimes hard to read and often hard to compare. This contributes to the information relied upon by people sometimes lacking completeness and accuracy. There is a need to organise this information in a way that makes it more accessible, thereby improving transparency.

This need is often fulfilled by a 'middle layer' of aggregation service providers that specialise in bringing this information together and store it in an accessible and comparable way. Although there are a significant number of initiatives and databases seeking to help solve this problem, the database market is still at a relatively early point of maturity. With over 600 ESG ratings and rankings existing globally this is a very crowded marketplace where some consolidation is likely.[116] Some databases focus on specific issues, while others are more general. A number of them have been developed in private and are not freely accessible. In **Box 6** we describe some existing players in this space.

The landscape of existing databases is, however, immature compared with what is needed to handle the increasing volume and breadth of information companies are reporting, and the increasingly sophisticated needs and expectations of interested stakeholders. As with other nascent marketplaces and information architectures, we can expect this landscape to evolve and mature over time. However, the urgency with which companies and their stakeholders seek to understand and compare their impact is growing fast, so steps to mature the system quicker could be taken.

Our recommendations point to some possible crucial next steps in organising impact data to maximise its utility, and accelerate this evolution.

116 Rate the Raters 2020, Wong, C., Petroy, E., Sustainability, accessed May 2021

Box 6: An overview of existing databases

The following databases are interesting because they are aimed at aggregating and centralizing impact information.

CDP is a global database, with information at the business and city level, for climate, water use and deforestation information. Its reach is already significant with nearly 10,000 companies from around the world reporting to it.[A]

OS-Climate is aiming to fill the climate data gap for businesses and investors and to provide data to the public at no cost. It is well supported by the likes of Allianz, Amazon, Federated Hermes, Goldman Sachs, Microsoft and S&P Global.[B] Icebreaker One is a project that has a similar scope that received previous funding from Innovate UK.[C] Meanwhile, Goal 13 is a database capturing corporate actions towards reducing climate change.[D]

ShareAction's Workforce Disclosure Database aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide.[E] In 2020, 141 global companies took part in the Initiative, a 20% increase on 2019, demonstrating their commitment to transparency.

The European Commission has consulted on the creation of a European Single Access Point (ESAP) as a database for financial and non-financial information.[G] The database would consolidate information that is currently scattered across the bloc and bring consistency in how member states compile and store information. It is planned that the database is both human readable and compatible with the eXtensible Business Reporting Language (XBRL), making it machine readable.[F] This is interesting as it could evolve into a highly centralised repository providing a holistic view of a company, although it is in the early stages of scoping at the moment.

The World Bank has developed a Sovereign ESG data portal. It has been developed to help channel financial flows to more sustainable activities that are better aligned with the SDGs. It covers information at a country level, not a business level.[H]

The US EDGAR database collects reports from companies that are required to file with the Securities and Exchange Commission in the USA.[I] Data held is freely available to the public and is increasingly being used by academic research institutions. It is an example of an existing, machine readable, centralised and open data source, however it is US-centric and does not include sustainability metrics in its scope.

Sources:

A. What we do, CDP, accessed May 2021

B. OS-°C Concept Overview, OS-Climate, accessed May 2021

C. Home, Icebreaker One, accessed May 2021

D. Goal 13 Impact Platform, Deloitte, Confederation of British Industry, Chapter Zero, A4S, Dell, MetOffice.gov.uk, accessed May 2021

E. The Workforce Disclosure Initiative, ShareAction, accessed May 2021

F. The ESMA ESEF iXBRL Mandate, Iris Carbon, accessed May 2021

G. ESMA supports increasing corporate transparency through the creation of ESAP, European Securities and Markets Authority, March 2021

H. About the Sovereign ESG Data Portal, World Bank, accessed May 2021

I. Company Search Page, EDGAR, United States Securities and Exchange Commission, accessed May 2021

Recommendations

Our research has found that an end result of a consolidated set of central, specialist databases could be a more pragmatic result than trying to aggregate all impact data into one place. The journey is well underway, with the existing marketplace for impact databases already growing and evolving at pace.

An opportunity exists to intentionally shape the market in lockstep with its growth, in careful balance with allowing this nascent market to run its natural course of trial, error and natural selection of the strongest propositions. Specifically we recommend:

The database marketplace

- Those creating and evolving databases could follow a common set of design principles, taking inspiration from the likes of CDP to EDGAR. Our research yielded a set of principles which could be used, and are shared in **Table 1**.
- Developing databases with an open architecture would expedite innovation. This is particularly important as it is much easier to 'design in' interoperability from the ground upwards, than to retrofit it later.
- Replicate learning from building databases for environmental disclosures, to help close the gap in social impact data. The Social Disclosure Research Inquiry is an example of an initiative to address this gap in social impact data, which could be accelerated.[117]

The Government:

- Co-funding data centralisation initiatives with the EU and other G7/G20 countries to make impact data freely available and easy to access. One way to get started could be to get behind work already underway, such as the Non-Financial Digitisation Working Group (NDWG) which is being facilitated by the Impact Management Project (IMP), see **Box 7**.

> Data, metrics, KPIs, benchmarks, tools and approaches need to be accessible by and distributable to all. Publicly available depositories, properly governed, will be key to reducing the burden on organisations of reporting on environmental, social and economic outcomes. These depositories can be developed and maintained in part using public and/or philanthropic funds, but should be developed with and owned by market participants.
>
> **- Impact Investing Institute, October 2020**[118]

- Using Innovate UK grants to promote development of specialist databases aimed at filling the social metrics gap.

Box 7: The Non-Financial Digitisation Working Group

The NDWG, facilitated by the IMP and led by Liv Watson (Co-Founder of XBRL, the digital reporting standard), is convening standard-setting organisations and experts in digitisation to assess the feasibility of establishing a public good registry of digital taxonomies.

This registry would act as a mechanism to help develop and maintain digitised versions of sustainability standards, and could be a precursor to achieving greater flows of sustainability information between preparer and users. It should be noted that this should not be confused with a database for impact metrics themselves, but where the taxonomies for impact standards would be stored. This initiative could be the foundation that enables a digital infrastructure to develop.

Source: Digitisation of ESG - not fit for purpose, Institute of Chartered Accountants in England and Wales, November 2020

117 Home, Social Disclosure Research Inquiry, accessed May 2021
118 Reporting of Environmental, Social and Economic Outcomes, Impact Investing Institute, October 2020

Table 1: Recommended principles for impact information architecture

Transparency goal	Status Quo of the information architecture	Recommended short to medium term goal
Comparability Consistent metrics used by businesses enable benchmarking	A number of different standards are used. Not all standards are interoperable or comparable, meaning businesses often have to present similar information in multiple ways for different stakeholders.	The impact standard setters converge, facilitating the consolidation and/or interoperability between different them.
Completeness Enough information about a company to provide end-users with what they need.	Only a small number of larger organisations are required to provide a comprehensive illustration of impacts, and different impact reporting requirements apply through multiple legislative requirements. Other businesses that make public this information do so voluntarily or for compliance.	Better guidance is available for all businesses that want to report across a variety of social and environmental impact metrics, facilitating a more holistic view.
Centralisation Information is discoverable through fewer access points.	Reports and information are available through corporate websites creating a highly distributed information network. Aggregators have to find and compile the information using machine reading and artificial intelligence.	Reports and structured data are created by organisations and pushed to specialized centralised repositories, for instance, an emmissions database or a workforce disclosure database.
Accessibility Information is open and freely accessible.	Information is aggregated by e.g. hundreds of ESG aggregators that have commercial access models, or through charities such as World Benchmarking Alliance.	End users should have open and free access to centralised data to enable maximum transparency to all stakeholders including civil society, investors and app developers.
Readability Information should be readable by both humans and machines.	Information is often narrative driven with data points and tables encoded with XBRL to enable machine readability. However, there are often multiple, disjointed and lengthy reports, non-financial information often presented more like marketing brochures than effective reports.	Data should be presented in a structured format for ease of aggregation and benchmarking. Reports such as annual statements and public interest reports could be produced as supporting documents.
Context Data should be presented alongside the operating context of the business.	Reports are highly contextual narratives.	Key impact metrics are made available in tabular format to enable easy comparison, while preserving the availability of contextual information.

These principles bring together perspectives provided to ReGenerate by leaders in the global impact measurement marketplace throughout the course of our research. They were largely inspired by principles that support open data such as the International Open Data Charter and the Open Knowledge Foundation.

Benefits

Submitting data to structured databases would not replace existing narrative reporting. Businesses would still be able to present their financial and non-financial performance in informative ways. Yet there would be a number of benefits to also having a more centralised information architecture, such as:

- Co-funded databases would mean that no single sovereign entity could claim the data. Using public funds would enable free and open access to the public worldwide. Having the G7/G20 fund the data centres could assist other developing countries.
- Improve the ability for much needed comparability and consistency, thereby enabling businesses to conduct benchmarking, learn from other companies' impact success and generate a race to the top.
- Help the Government understand how to best work with business to tackle social and environmental challenges, such as reaching net zero and levelling up the UK.
- Help to power the creation of consumer-facing products such as responsible shopping tools (e.g. CoGo, GiKi Badges, Ethical consumer magazine).
- Improve the quality and quantity of information available to and provided by ESG aggregators to investors, allowing greater focus on insight.
- Make purpose-washing much harder through far greater transparency that is available to everyone as a public good.

3. Supporting and identifying purpose-driven businesses

Purpose-driven companies are more likely to thrive and maximise their positive impact if they can be easily identified by consumers, and are fully supported in the unique challenges of operating a purpose-driven model.

The other recommendations in this paper support purpose-driven businesses through a fit-for-purpose legal foundation and a mature and accessible approach to impact measurement. Whilst both are vital for the healthy growth of the purpose-driven movement, they need to be accompanied by practical support on the ground. For instance, while the impact measurement reforms set out in **Section Two** would help make data on the impact of companies easily available, it still requires software to be developed and put in the hands of consumers if it is to shape their buying decisions.

Unlocking the pent-up demand from consumers to support purpose-driven companies, and rallying behind them with specialist support, will encourage and incentivise entrepreneurs to set up purpose-driven companies, and help established businesses to become them. It will also help those who are already operating in this way to be more successful.

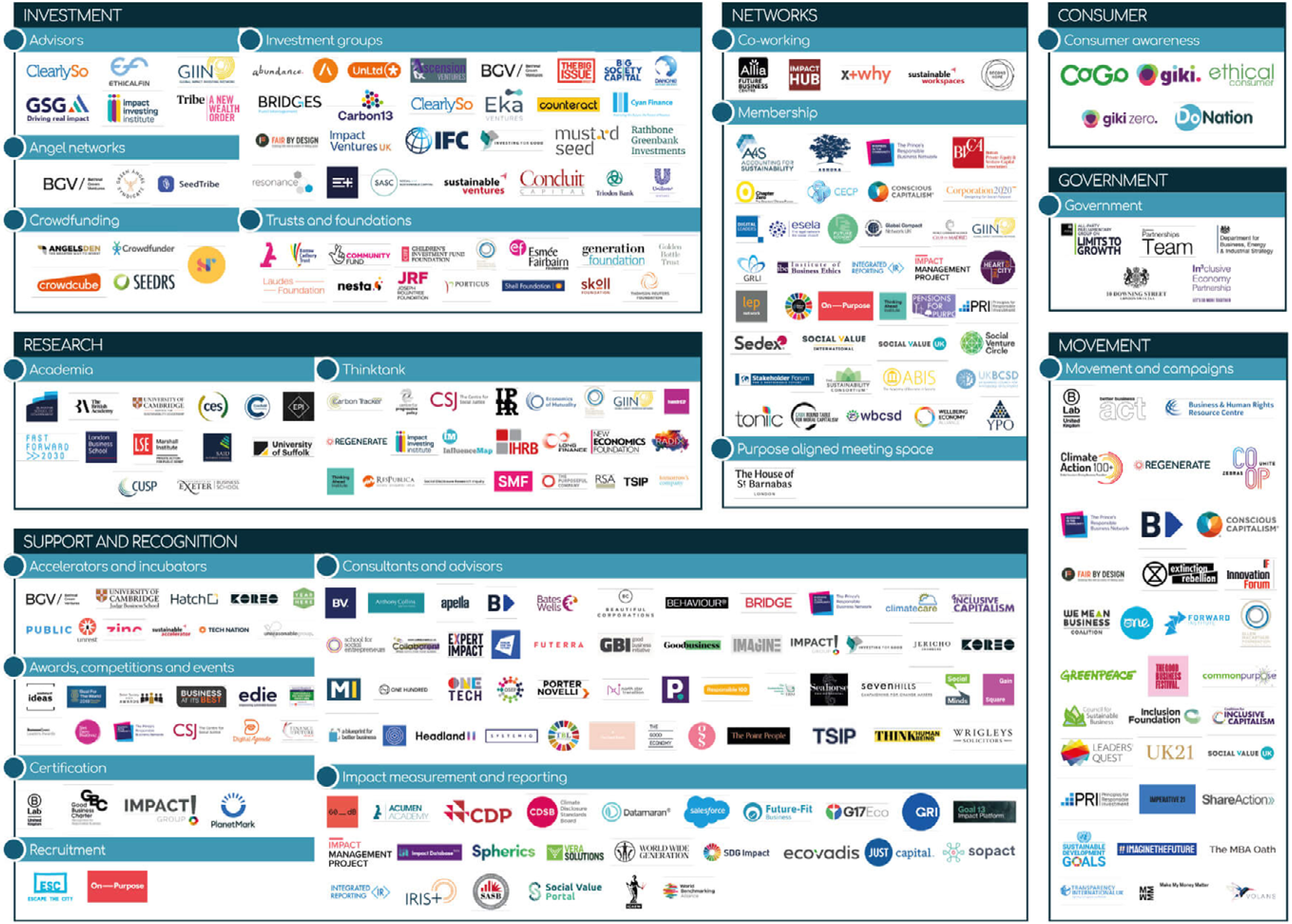
Fortunately, there is an active and growing ecosystem of support which ReGenerate has begun to map, and is shown in **Figure 11**.

As a purpose-driven approach becomes increasingly popular it is important that the supportive ecosystem around them grows its capacity and matures. We have identified two particular ways in which this growth could be accelerated:

- Make the wealth of know-how on running purpose-driven businesses visible and accessible to all.
- Support the public to identify purpose-driven companies more easily.

We explore these two ways below.

Figure 11: The purpose-driven business ecosystem map - May 2021



G. Make the wealth of know-how on running purpose-driven businesses accessible to all

SUMMARY OF RECOMMENDATIONS: The purpose ecosystem could ensure specialist support for purpose-driven businesses is visible and accessible to all business leaders, including those based outside of London and those without access to accelerators. The **Government** could accelerate this by ensuring the widest possible access through their approach to grant funding.

Context

An impressive depth of knowledge and wisdom exists in the UK on how to start, transition to and run a purpose-driven business, as shown by the ReGenerate purpose-driven business ecosystem map.[119] It ranges from certification processes and consultancy, to accelerators and investment. Some of the prominent support organisations are profiled in **Figure 12**.

Figure 12: Prominent support organisations for purpose-driven businesses

BLUEPRINT FOR A BETTER BUSINESS

A charity that works primarily with senior people in large companies, to help them adopt a purpose-driven way of thinking and behaving in business.

Their 'blueprint' framework is freely available, and they convene forums and events, and work with investors and influencers to help create the environment for purpose-led business to thrive.

BUSINESS IN THE COMMUNITY

Provides over 300 paying members with direct support on embedding responsible practices and a purpose-driven model into their business.

They facilitate collaboration between business leaders to tackle specific challenges, for example through their 'Place' initiative which is rallying behind towns that have fallen behind economically.

B LAB UK

The B-Corp certification process points businesses to considerations for operating in a purpose-driven way.

B-Lab UK offers prospective members support through the certification process, and runs the B-Hive community to facilitate peer learning and support amongst B-Corps.

SEEDTRIBE

Selects impact-driven ventures that meet the UN's Sustainable Development Goals, and helps them to meet the people and institutions who can teach, support and fund their venture.

Its online platform makes it easy for investors and other supporters to find impact driven ventures, and provides learning resources for entrepreneurs.

BETHNAL GREEN VENTURES

Europe's leading early-stage tech for good Venture Capital hub, focused on investing in founders seeking to use technology to tackle big social and environmental problems.

It offers a 12 week programme combined with an initial investment, followed by inclusion in their wider community of tech for good entrepreneurs.

119 The purpose-driven business ecosystem map, Brown, H., ReGenerate, May 2021

Demand is increasing

During our research, we heard from numerous organisations that demand for their services is increasing. For example:

- Big Society Capital engaged with more than 10 times as many venture firms with an impact lens seeking funding in 2020 relative to 2018, and has observed a near doubling in impact-targeted venture-stage investment in recent years.[120]
- The number of companies starting the B Corp process so far in 2021 is double that of the same period in 2020. Companies are also more actively engaged: average daily users on the B Impact Assessment portal have increased fivefold from 100 per day in 2020 to 500 per day so far in 2021.[121]
- Bethnal Green Ventures (BGV) has seen an increase of 36% in applications to their flagship Tech for Good programme for their most recent Spring 2021 cohort, with 66.4% of companies residing in the UK. The same programme saw a 69% increase in applications between 2019 and 2020.[122]

Support is concentrated in London

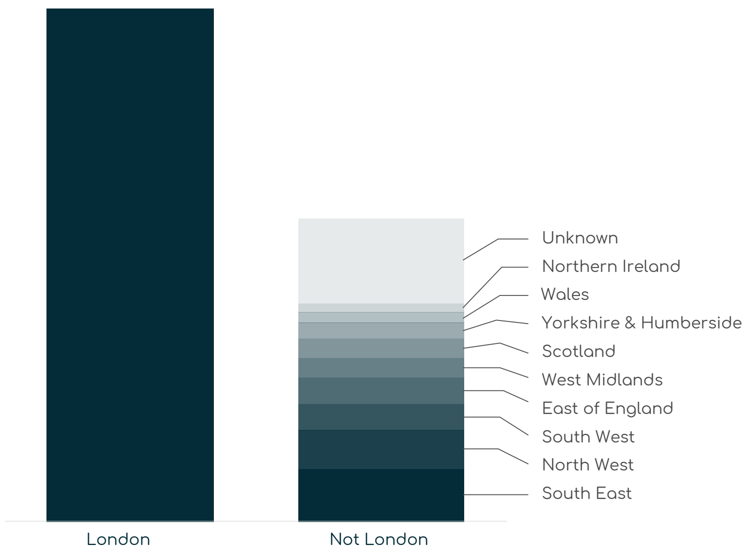
The support services for purpose-driven business tend to be concentrated in London, and not evenly spread across the UK. Of the organisations profiled in our Purpose Ecosystem map, 70% were based in London, as shown in **Figure 13**.[123]

> In our survey of purpose-driven entrepreneurs, those who mainly operated outside of London were significantly less likely to be aware of support being available.[124]

It will be important to address this if the levelling up agenda is to be successful, as purpose-driven businesses have a key part to play in helping bring opportunity to areas that particularly need it.

Figure 13: 70% of the purpose-driven business ecosystem is based in London

Count of entities by UK REGION filtered to the UK



Source: The purpose-driven business ecosystem map, ReGenerate, May 2021

The Government has also seen greater requests for opportunities to collaborate with them on purpose-driven activity right across the UK. Nick Wyver, Head of Responsible Business at the Department for Digital, Culture, Media and Sport (DCMS) told us:

120 Venture capital's increasing interest in impact investing, Sloan, D., ESG Clarity, April 2021
121 Data provided to ReGenerate by B Lab UK, May 2021
122 Data provided to ReGenerate by BGV, May 2021
123 The purpose-driven business ecosystem map, Brown, H., ReGenerate, May 2021
124 Preliminary results from the ReGenerate National Purpose-driven Entrepreneurs Survey, February 2021

> “We are seeing an ever increasing number of business leaders actively seeking to partner on the challenges they see as material both to their business and to society. In some cases this has meant partnering with the government, in others, with civil society organisations and other businesses. We are conscious that, while much activity can often be focused in London there is growing demand for support from outside of London. It is important that this is addressed to support the Levelling Up agenda.”

- Nick Wyver, DCMS, Head of Responsible Business

This matters because it is very possible that businesses in all corners of the country are profitably solving a societal problem, with no idea that this ecosystem of support is ready and waiting to help them thrive and boost their impact. Business in the Community’s (BITC) ‘Place’ initiative is one example of rallying businesses around particular locations, as shown in **Box 8**.

Box 8: Business in the Community: Place

BITC are identifying ten towns in need of economic development, and rallying an ecosystem of supportive businesses with other local actors to create a strategy for regeneration for each area. Three pilots are currently underway in Wisbech, Rochdale and Blackpool. These include supporting local Responsible Business Networks, which help businesses share insight, expertise and knowledge of how best to support the local community. BITC’s well-established and wide network of partnerships helps channel support to businesses seeking to have a positive impact locally.

Source: Place: A strong business-led approach to building trust between business and society, BITC, Accessed May 2021

Entrepreneurs can find it difficult to navigate the support

A wealth of support being available will only make a big difference if businesses know about it and can access it easily.

In our survey of purpose-driven entrepreneurs, we asked what one thing they would ask of the purpose ecosystem. Better collaboration and support to make it easier to navigate were particularly strong themes. We have included a representative selection of quotes below:[125]

> “Don’t reinvent the wheel. Signpost to each other for the most appropriate support…”
>
> “The purpose-driven world needs to be more accessible and simpler…”
>
> “Differentiate between start up support and late development support programmes.”
>
> “Greater understanding of the other parts of the support networks available to purpose-led founders.”
>
> “Put information in place for ease of research.”
>
> “Collaborate and engage other organisations on creating a hub. Having one place to go to access relevant information is invaluable. Research is incredibly time consuming so anything to reduce that is welcomed.”
>
> To make it clear who does what, and how it all interrelates, so companies can easily identify who to engage and when/why.”

Difficulties navigating the support are partly driven by the huge variety of support needed, which goes far beyond the common misconception that ventures are only focused on the next investment. Both our survey of purpose-driven entrepreneurs a past review of the Social Incubator Fund found that entrepreneurs place high value on networking, physical space, training and mentoring.[126]

125 Preliminary results from the ReGenerate National Purpose-driven Entrepreneurs Survey, February 2021
126 An Assessment of Social Incubator Fund Outcomes, final report to the cabinet office, ICF International, September 2014

Purpose-driven businesses also find it hard to navigate to the right parts of government. Recent interviews with business leaders by the Blavatnik School of Government found that:

> "There is no lack of representative organisations and committees which bring government and business together. But when business leaders wish to lend their business expertise and resources to identify and to test ways to address problems, it is not clear whom they should call."

- Blavatnik School of Government, April 2020[127]

Recommendations

We present a number of ideas that have arisen during our research, which centre on encouraging both the Government and members of the purpose ecosystem to partner and collaborate more closely, with a particular focus on making support even more accessible.

These are put forward as ideas to consider, recognising that efforts to collaborate are already underway and that any efforts to work deeply and collaboratively must be based upon shared passions and paradigms.

Purpose ecosystem:

- The informal network of purpose ecosystem organisations could work together to identify synergies, strengthen networks between them to facilitate referrals, and create a 'one stop shop' for best practices to help businesses navigate the available support. Partnership strategies could play a role in addressing all three challenges of dealing with rising demand, reaching all corners of the UK and improving navigation. BGV is one example of a super-collaborator, as highlighted in **Box 9**.
- More and stronger partnerships could be formed between purpose ecosystem organisations and national business membership organisations such as the Federation of Small Businesses (FSB), British Chambers of Commerce (BCC) and Institute of Directors (IoD). This could include equipping those dealing with businesses locally to spot purpose-driven businesses, and connect them with the relevant support. The current partnership between the Good Business Initiative and the FSB is one such example, as described in **Box 10**.
- Individual ecosystem organisations that have digitised learning and services during lockdown, could further evolve strategies to make this support more accessible to a wider pool of businesses.
- Open access tools could be provided to businesses that need help knowing where to start on improving their impact. The Good Impact Framework in New Zealand is a useful example, where businesses can filter accreditations by industry and issue, to identify those most relevant to their business.[128]

The Government:

- Inclusive Economy Partnership, described in **Box 11,** could be refreshed, brought into BEIS and used as a means of supporting the Levelling Up agenda.
- The Government could invest in the next generation of support for impact ventures, drawing on learning from the 2012 The Social Incubator Fund which helped start major impact hubs including Big Society Capital, Bethnal Green Ventures and Big Issue Invest.[129]
- Consider creating a 'single point of contact' directorate at the centre of government for businesses that want to partner with them, which is set out in more detail in the Blavatnik School of Government paper "Building back better with business."[130]

127 Building back better with business, Woods, N., Collier-Keywood, R., Blavatnik School of Government, April 2021
128 The Good Impact Framework website shows the service available to businesses
129 An Assessment of Social Incubator Fund Outcomes, final report to the cabinet office, ICF International, September 2016
130 Building back better with business, Woods, N., Collier-Keywood, R., Blavatnik School of Government, April 2021

In our survey of purpose-driven entrepreneurs, we found that 80% said it would be helpful to their business to have an "easy way to connect and coordinate with local and national government on tackling social and environmental challenges", with nearly half saying it would be very helpful.[131]

Box 9: A collaborative and partnering mindset at Bethnal Green Ventures (BGV)

BGV's collaborative approach is just one example amongst many of how collaboration between ecosystem members can yield greater impact than either organisation could have achieved alone. Some of their collaborations include:

- A partnership with TechNation and EY to develop the open access Tech Nation Digital Business Academy with insights covering topics such as developing a product, and securing investment.[A]
- 2020 saw the relaunch of the Tech for Good Global website, a platform connecting people with jobs, events, knowledge and stories from across the tech for good sector, and includes searchable directories of organisations driving tech for good, relevant resources and toolkits and impact investors.[B]
- BGV's Pre-investment readiness workshops with NorthInvest brings together their expertise and funding base with the northern connections and well-established angel network of NorthInvest. The collaboration aims to provide better access to capital for tech for good founders in the north of England through a series of events and workshops and a dedicated Tech for Good pitch event.[C]

Sources

A. Tech Nation Digital Business Academy website, accessed May 2021

B. Tech For Good website, accessed May 2021

C. Pre-investment readiness workshops with NorthInvest event invite, accessed May 2021

Box 10: FSB and Good Business Charter Partnership

FSB and Good Business Charter (GBC) launched their partnership on 18th January 2021, with the GBC highlighted at local networking events for small businesses across the country. A key feature of the partnership was a new scheme for firms with up to 50 employees to apply for GBC accreditation through a streamlined accreditation process.[A,B]

Following the launch, the number of GBC accredited members more than tripled, with the increase mostly comprising small businesses. Notably, these organisations are spread all over the country.[C]

"I was particularly struck by how many local businesses popped up that had been operating in a purpose-driven way for years, benefiting their communities, without knowing about the networks and support available to them. I am sure we have only seen the tip of the iceberg, pointing to a need to redouble efforts to make support for purpose-driven businesses more visible and accessible nationwide, in turn expanding their positive impact on their local communities." - **Jennifer Herrera, CEO of Good Business Charter**

Sources

A. Small firms given new chance to champion ethical practice through business group tie-up, Good Business Charter, January 2021

B. Stand out from the crowd and lead the way through Good Business Charter accreditation, FSB, accessed May 2021

C. Data provided to ReGenerate by Good Business Charter, May 2021

131 Preliminary results from the ReGenerate National Purpose-driven Entrepreneurs Survey, February 2021

Box 11: The Inclusive Economy Partnership

The Inclusive Economy Partnership connects organisations across business, government and civil society. The model is currently being applied across three challenge areas: getting more young people into work; improving mental health support at work; and spreading financial inclusion to the millions unbanked or in bad debt situations. Businesses share experience, resources, access to people and skills, Civil Society provides solutions, knowledge and expertise of the issue, and the Government brings people together and sets the challenge.

Source: Inclusive Economy Partnership Website, accessed May 2021

Benefits

Both purpose-driven businesses and organisations in the purpose ecosystem will benefit from stronger collaboration and coordination in a number of ways, including:

- A 'one stop shop' would make it easier for businesses to know where to look for help, and act as a signpost to parts of the ecosystem that they may not have come across.
- Synergies between ecosystem organisations could present opportunities to improve efficiency, capacity and reach of their activities, which will help them meet the growing demand.
- By working together to share what they have learnt, organisations supporting purpose-driven businesses, could help each other improve their impacts and become even more effective in helping businesses do good.

H. Support the public to identify purpose-driven companies more easily

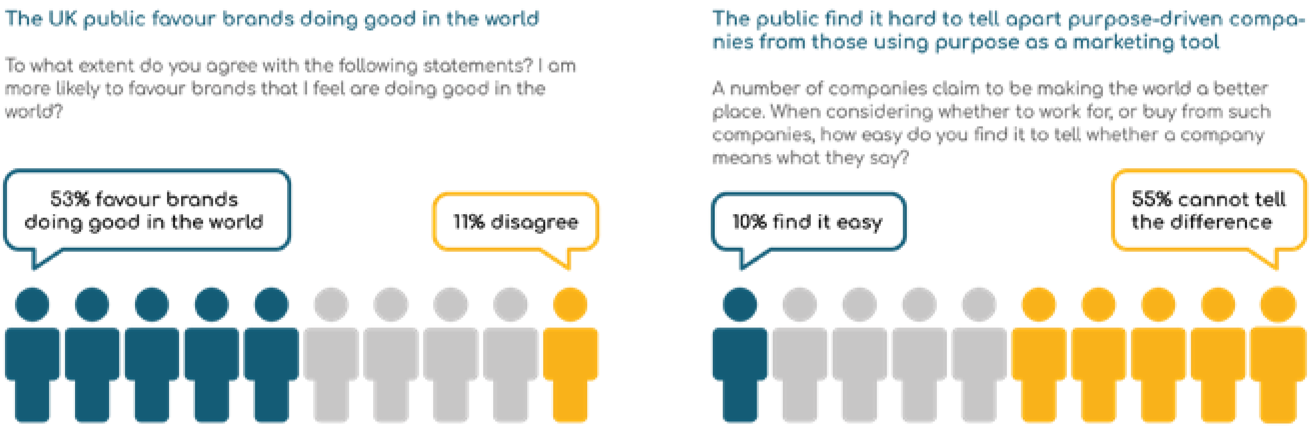
SUMMARY OF RECOMMENDATIONS: An opportunity exists to map the certifications and tools that help consumers identify the extent to which a business is purpose-driven, and to find synergies and opportunities to collaborate across them.

Context

One of the significant benefits to being a purpose-driven business is that the public prefers them. In the battle for talent, the best employees often choose to work for purpose-driven companies, whilst consumers are proven to be prepared to pay more and exhibit greater loyalty towards them.[132]

However, as shown in **Figure 14**, the public also finds it hard to identify purpose-driven companies, holding back this powerful market force. This difficulty was illustrated in an exercise with our working group, described in **Box 12**.

Figure 14: The public favour brands doing good but find it hard to find them



Source: What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020

Box 12: An unscientific experiment: A chocolate-fuelled Working Group

We sent the ReGenerate Working Group, who are some of the leading experts on purpose-driven business, a range of chocolate bars in advance of a meeting. Each member was asked to talk about the ethical credentials of the bars based on the packaging and their consumer experience. Most faced genuine surprises when brands they had avoided turned out to be rated more ethical by Ethical Consumer than brands they had perceived to be purpose-driven. Although this was a thoroughly un-scientific experiment, it highlights how, even when a consumer is highly conscious, it is hard to identify a business that is proactively seeking to benefit society and eliminate harm.

Source: Ethical Chocolate - all you need to know, Wexler, J., Ethical Consumer, December 2020

132 The case for purpose-driven business, Boyd, E., Pizzey, M., Brown, H. and Blanco, C., ReGenerate, July 2020

Existing support for consumers to identify purpose-driven companies

There is a whole industry dedicated to helping businesses showcase their positive credentials in a public-friendly way. This ranges from certifications that assess the whole business, to ones focused on a particular part of their business, such as whether they pay the real living wage, to aggregators that bring together this information in a way that allows comparison and informs consumer and employee decisions.

While none of these certifications are specifically focused on 'purpose-driven business', they can provide a useful indication of intent, and are therefore worth understanding in the context of this debate. We show some examples in **Table 2**.[133]

The growth of this certification market has been helpful in supporting the public to understand the extent to which companies are purpose-driven, and would be further supported by introduction of the corporate form (see **Recommendation A**).

Difficulties for both consumers and companies in applying existing certifications

It is difficult to pinpoint one particular reason why consumers are struggling to identify the extent to which a company is purpose-driven, and why repeated evidence from surveys that consumers want to buy responsibly does not always translate into practice. Potential explanations put forward by contributors to our research included:

- The significant number of overlapping certifications can lead to confusion.
- Consumers seem to be increasingly aware of purpose-washing, and struggle to know which certifications to trust.
- Many efforts and campaigns focus on warning consumers of the impact they are having, rather than positive nudges that may be more effective in changing behaviour.

Different consumers also care about different things. While one will be concerned about a company's carbon footprint another will care about the way they treat their workers. This can make it hard for companies to align what is material to their business, the impact they desire to have, and what is most important to their customers.

At the same time, it can also be confusing for companies. We have heard how many find that achieving certifications can be time consuming and costly, with the lack of simpler and more standardised measurement approaches and tools a major contributor to this (as discussed in **Recommendations C and E**).

These challenges together mean that the combination of consumer intent and companies efforts to demonstrate their impact do not necessarily lead to seeing the full benefit of their purpose-driven model.

There is a clear need for reliable identifiers to be more visible and better understood by the public, to truly unlock the power of public preference for purpose-driven companies. Efforts to-date provide a strong foundation on which this can be built.

133 What is holding purpose-driven business back?, Pizzey, M., Boyd, E., Brown, H., Hanna, J., ReGenerate, October 2020

Table 2: Certifications and identification approaches that can hint towards whether a company is purpose-driven

Whole business

B CORPORATION

Businesses undergo a rigorous Impact Assessment in 5 areas: Governance, Workers, Community, Customers and Environment. If they score highly enough they can become a B Corp, once this score is independently verified and they have embedded purpose in their articles of association. Launched in the UK in 2015, there are now over 500 UK B Corps.

GOOD BUSINESS CHARTER

Companies are required to evaluate their operations in relation to 10 areas, such as whether they pay the living wage, have fair contracts, monitor diversity and inclusion and pay fair tax. It is a relatively light touch certification that can typically be completed within an hour. Founded in 2019, there are now over 400 GBC companies in the UK.

Factor and product-specific

FAIRTRADE

Fairtrade requires companies to pay sustainable prices with a view to addressing injustices of conventional trade. Founded in 1992, there are now over 6,000 Fairtrade products, ranging from bananas to gold.

INVESTORS IN PEOPLE

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

SCIENCE BASED TARGETS INITIATIVE

A science-based global standard for corporate net-zero target setting, aiming to ensure companies' net-zero targets translate into action. It is a collaboration between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. Over 1,400 companies are currently signed up.

LIVING WAGE FOUNDATION

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

Founded in 2001, there are over 7,000 'real living wage' employers in the UK.

SOIL ASSOCIATION RED TRACTOR

The 'Red Tractor' mark certifies that the food or drink has been responsibly sourced, safely produced and comes from crops and animals that have been well cared for.

Aggregated information to aid comparison

GOOD SHOPPING GUIDE

Provides ethical ratings and rankings of major brands, and reports on a range of environmental, animal welfare and human rights issues. Consumers can check the ethical rating of a brand, and learn more about ethical considerations behind their purchases.

COGO APP

Users can see the impact of their spending, such as their carbon footprint and how much they spend with living wage employers, based on their bank transaction data. Consumers can select which social and environmental issues they particularly care about, and see which businesses match those preferences.

GIKI

Giki Zero enables people to link their bank accounts to the service, which then estimates an individual's carbon footprint based on shopping behaviour. Giki Badges is an app to help you find sustainable and healthy products in the UK supermarket. Shoppers can scan the barcode, see which badges the product wins based on shopping preferences such as animal welfare, responsible sourcing and chemicals of concern.

TORTOISE

Tortoise's Responsibility 100 index ranks FTSE 100 companies on their commitment to key social, environmental and ethical objectives, inspired by the UN Sustainable Development Goals. It considers both 'Talk', (what companies commit to including memberships to certain organisations) and 'Walk', (what impact they actually have).

Source data:

- Data provided to ReGenerate by B Lab UK, May 2021
- Data provided to ReGenerate by Good Business Charter, May 2021
- The Fairtrade Foundation, accessed May 2021
- Investors in People Platinum, Motivational Preparation College for Training, May 2019
- About Science Based Targets, The Science Based Targets Initiative, accessed September 2020
- Living Wage Foundation, accessed May 2021
- The Soil Association, accessed May 2021;
- The Good Shopping Guide, accessed May 2021
- CoGo, accessed May 2021
- Giki, accessed May 2021
- Tortoise website, accessed May 2021

Recommendations

There is an opportunity to build upon the good work already undertaken by the many certification and aggregator organisations, to help consumers to better identify the extent to which a company is purpose-driven.

There is also an opportunity to learn from the evolution of the impact measurement marketplace, which we described in **Recommendation F**. Impact measurement has suffered from a proliferation of competing approaches that were not closely aligned or coordinated, which hampered progress. With a concerted effort, the identification marketplace could avoid a similar path by seeking to operate in a collaborative manner that serves the interests of consumers.

> "The questions and challenges we face on how to measure impact, and translate it into meaningful information for consumers, are not unique. Beneath the various certifications and apps are common dependencies on meaningful and accessible impact data, and building consumer consciousness of their options to buy ethically. These can be tackled bigger, better and faster if we identify these synergies and work together."

- Emma Kisby, CoGo, CEO

Below are a few ideas that came out of our research that might be worth exploration by those involved with helping consumers identify purpose-driven companies. In particular these reflect an opportunity for greater collaboration:

- A collaborative review that maps, and seeks to fully understand, the different certification initiatives in the UK. Avenues for exploration could include identifying common dependencies and methodologies which could lead to efficiencies across the sector, understanding levels of consumer awareness and how they are used in practice.
- Creating an equivalent of the 'Times Top 100 purpose-driven companies', or a 'traffic light' labelling system like that used on food products.
- A joint national campaign to raise the awareness of key identifiers of purpose-driven business. This could learn from the 2006 'I love PIN' campaign which was an effective collaboration between the major banks.[134]
- Join forces on creating point of sale partnerships, for example building on the concept of the Waitrose 'B-Corp' aisle.[135]
- Practical help for businesses to choose which certifications are right for them, and greater clarity on if and how they can build on each other as they embed their purpose more deeply into their business.
- An initiative to identify which measures are the most relevant to consumers based on the collective knowledge across certifications, and to identify opportunities to more simply collect and present that information.
- Both government and private organisations could generate investment interest specifically targeted at mechanisms for putting companies' impact information in consumers' hands, for example through development of apps and point of sale technology.

134 Valentines day chip and pin deadline, BBC News, 2006
135 Waitrose website, accessed via May 2021

> "There is a huge opportunity to learn from each other and work together, to better understand how the various accreditations for purpose-driven businesses together serve businesses and consumers, and discover synergies between them. Efforts to raise the profile of accreditations to consumers could particularly benefit from joint effort, with the power of a joint message being greater than the sum of our parts."

- Jennifer Herrera, The Good Business Charter, CEO

Benefits

A more joined up ecosystem of identifiers will benefit both purpose-driven businesses and those in the ecosystem helping customers identify them:

- Any initiative that makes it easier for the public to act on their preference to purpose-driven business will help companies attract loyal customers and the best talent, in turn supporting the growth of purpose-driven businesses and their impacts.
- Businesses will benefit from a clearer understanding of the available certifications to inform their choices on which to pursue, and certification processes that are as efficient as possible without lowering the bar.
- The purpose ecosystem will benefit from greater collaboration, as influence and reach that may be difficult for any one organisation to achieve, could be achieved by working together. This could include more efficient collation of impact information for both businesses and certification bodies, more ambitious communication plans, and a louder voice through a unified message.

CONCLUSION

The case for purpose-driven business is overwhelmingly strong. Their ability to innovate and scale solutions is needed more than ever to help the recovery from Covid, reaching net zero and levelling up the UK, amongst other challenges.

The encouraging news, as this report explores, is that business leaders, and their investors, employees and consumers, increasingly want companies to be orientated around profitability benefiting society.

This growing movement of purpose-driven companies will continue to gather momentum given the significant underlying support from customers, investors and business leaders themselves. This does not mean, however, that it is right to sit back and do nothing. Too many purpose-driven businesses are held back or blocked from having the full positive impact they could.

The system they operate under is not set up to support their efforts: our legal system does not make it obvious or easy to set up in a purpose-driven way, the flow of impact information that they and their stakeholders rely upon is choked by proliferation and complexity, and the direct support available does not always reach them, especially outside of London.

Addressing this will require joint action from government, investors, the public and business leaders themselves. This paper presents some recommendations on what actions to take. They are not the final word, and will not solve all issues by themselves. They are, however, a good next step and one that will help make the UK a great home for purpose-driven business. We would welcome feedback on them, and encourage all to consider what part they can play in supporting purpose-driven business to thrive.

Business leaders increasingly want to operate in this manner. It is time to make sure they are supported to do so.

Annex - Survey of purpose-driven entrepreneurs

ReGenerate ran an online survey during January and February 2021, open for five weeks targeted at leaders of purpose-led businesses.

Methodology and respondent profile

The survey was distributed through a variety of channels including ReGenerate's newsletter, investors, charities that support purpose-led businesses and on social media.

There were 134 respondents to the survey, which were filtered to remove those who were not purpose-driven businesses, leaving 102 valid responses.

Of these businesses, 66% were micro businesses or sole traders (i.e. fewer than 10 employees), 20% small businesses (10 to 49 employees), 7% medium (50 to 249 employees) and 7% large businesses (with over 250 employees). As a comparison, 96% of all UK businesses employ fewer than 10 people, including sole traders, 3% small businesses, 0.6% medium and 0.1% of the total business population are large businesses.[136]

In terms of annual turnover, 62% of respondents' businesses did not exceed £500,000, 15% were between £500,000 and £2 million, 11% between £2 million and 10 million, 7% between £10 million and 50million and 6% over £50 million.

The geographical regions in which respondents' said their business mainly operates is as follows: London and the South East (48%), Rest of the UK (28%), Whole of the UK (26%) and International (15%).

The top five sectors represented by respondents were: information and communication (17%), professional, scientific and technical activities (15%), human health and social work activities (10%), wholesale and retail trade (9%), and other service activities (8%). This compares to all UK SMEs which are wholesale and retail trade (17%), professional, scientific and technical activities (14%), construction (13%), accommodation and food services (10%) and admin and support services (9%).[137]

51% of businesses had received investment (either equity investment or secured loans, excluding COVID related loans) in the last three years, 37% had not.

136 Business population estimates for the UK and regions 2020: statistical release, BEIS, October 2020
137 Ibid.

REGENERATE

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