

University of Bristol Law School Blog

A window into the legal research carried out at the Law School

What is the point of Business?

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Businesses are, in some respects, like cement. They are an integral part of the society we inhabit, and yet for the most part invisible to us as tangible entities. We give them little thought, but our lives would be very different were we to wake up to a world without either.

In April 2016, the UK government did invite us to think about the nature of business though as part of what it called a Mission-led Business Review. It set up an Advisory Panel and ran a public consultation and, seven months on, the Panel has reported back to the government with its recommendations[2]. The timing is

interesting, with the review commencing when David Cameron was still Prime Minister, before the UK's Referendum on EU membership and the US election, but the publication of the Panel's findings coming when those events have demonstrated a clear sense of public discontent with the status quo.

What was the Review about, what is a 'mission-led business' and what are the likely responses to and impact of the Panel's findings?

The context for the Review is the growing sense, and a sense that, notably, is beginning to be voiced by its proponents, that capitalism in its current form is no longer the effective economic system it once was. The benefits of competition are no longer being felt as markets are dominated by a handful of mega-corporations; inequalities are escalating as the super-rich amass wealth whilst workers' wages stagnate; and the demands of perpetual economic growth drive consumption to levels that exacerbate climate change and drive resource depletion. Phrases such as 'doing well by doing good'[3], 'business as a force for good'[4], responsible capitalism[5], inclusive capitalism[6] and, most recently, the inclusive economy[7] all point to a growing recognition from elements of the mainstream commercial, financial and political spheres that there is more to being a successful business than maximising the bottom line at any cost. Although some of the principles behind this are certainly not new and there have been voices such as Schumacher[8], Hawken[9] and Porritt[10] talking about this for decades, the Review creates an opportunity to engage meaningfully with what these concepts may mean in practice now.

According to the Panel, “mission-led businesses are profit-driven businesses that make a powerful commitment to social impact. The ethos of mission-led business is to contribute to society through their operations, goods and services”. It states there is growing evidence that taking this approach gives businesses a competitive advantage through improved performance, increased staff retention and greater customer loyalty.

Referencing a recent report from Deloitte, it states that there are currently around 123,000 UK mission-led businesses, which have a combined turnover of £165 billion and employ 1.4 million people. These might be surprising numbers given this is a new concept for many people. Many may equally be surprised, too, by the belief espoused by the Advisory Panel, that:

“by 2026 all UK businesses will have a mission that includes serving society and the environment. The most successful businesses will be those that manifestly deliver on that mission.”

Some may focus on the undeniable ambition of the word “all”. Others may point out that “includes” could cover a vast spectrum of intent, not all of it benign to all stakeholders. Of course, the likelihood of this becoming realised in a manner which has significant impact depends on many factors. Not least among these will be the government’s response to the Review. The attitudes, too, of the various agents in the economy will also be critical and already, through the process of the Review, a range of opinions have emerged.

The Panel itself is very clear in its framing of mission-led business, which is rooted in the existing economic paradigm of this being a pragmatic way to achieve commercial success and, specifically, greater and speedier growth in an increasingly uncertain, complex world. This may be reassuring for those business leaders and investors who, on the one hand, are still wedded to many of the principles picked up on their MBAs, but whose lived experience increasingly indicates something rotten in the state of Denmark. Their voices are being heard increasingly through fora such as the Aldersgate Group[11], The Purposeful Company[12], the B Corp movement[13] and the Advisory Panel itself, all of which contain individuals who are, reassuringly for the mainstream, serious and successful capitalists.

It is this, perhaps, which make some wary of the mission-led business concept. They point to Corporate Social Responsibility, which started out from similar principles of recognising the external impacts of commercial organisations, but has often been diverted into an activity for the marketing department and has led to accusations of ‘greenwash’. Won’t mission-led business just be the next iteration of this, they ask, perhaps more dangerous if it is given legislative legitimacy and provides a further shield of apparent benign intent behind which corporates continue ‘business as usual’ (which, after all, has been one of the more ubiquitous mantras in the post-crash economy)?

Others, particularly those who have worked tirelessly to build the social enterprise and social investment markets over the last twenty years are concerned by the ‘profit with purpose’ concept. Some argue that these are incompatible concepts in practice and that, over time, even if businesses are set up with the best intentions, when conflicts between purpose and profit inevitably arise, those owning and running them are likely to default to giving greater weight to the latter. However, they will still have the benefit of the perception of being ‘good businesses’. Meanwhile, truly non-profit distributing (or restricted profit

distribution) enterprises may well find attracting finance increasingly difficult and the market conditions perhaps even tougher, notwithstanding they are the best placed to claim to be genuinely mission-led.

The practical challenges alluded to above are also voiced by some in the more traditional commercial space, who see difficulties for directors and investors in taking decisions where the interests of multiple stakeholders have to be balanced, as opposed to enjoying the relative simplicity of pursuing a single goal. (There is an irony here, of course, in that these have been some of the best paid people over recent decades. Part of that balancing of interests may mean reducing the gap between highest and lowest paid, so some may see pressure on their salaries, just at the time they may be asked to exercise their skills and judgement in more thoughtful and nuanced ways).

Another perspective is that businesses are free now to act as mission-led businesses in the manner defined by the Advisory Panel. They are permitted within current legislation to act in this way and those that wish to take advantage of this do so. The fact they are relatively small in number is simply a product of market forces which should be respected and not be interfered with. All businesses are mission-led, it is just that the mission of the vast majority is to optimise the profits they make for their shareholders. Nothing to see here, move right along.

It is important to acknowledge the various opinions described above and to engage meaningfully with them (and others), but as part of a discussion around the future of business rather than about whether or not to consider it at all, and its implications potentially have a deeper societal resonance. The Review creates the space for meaningful conversations about the purpose of business and how success might be redefined. On a national level, one might imagine a shift in the approach to Brexit away from years of negotiating trade deals with myriad partners based on increasingly moribund models to presenting the UK as global leaders in an emergent approach to business which it invites other nations to explore collaboratively with them. On an individual level, when automation, migration and the hollowing out of many industries and the communities that have grown up around them demand reassessment of our relationships with work and identity, how we engage with businesses – and they with us – will be a critical consideration.

The Advisory Panel makes ten recommendations covering a range of areas, wisely recognising, in so doing, the importance of making many interventions across the system in order to effect change, rather than proffering a magic bullet. Of particular interest to us are three proposals which look at legal forms; one at the role of academia in building evidence for the long-term impact of socially responsible business practice; and one at how advisory firms may better serve mission-led businesses. We intend to explore all of these in the coming months and welcome widespread engagement with us in doing so.

At its heart, mission-led business signifies a shift from the supremacy of shareholder interest, at worst measured on a quarterly basis, to a balanced assessment of the impact on stakeholders of a business' activities. A non-exclusive list of such stakeholders will typically include, in addition to (not instead of) those shareholders, staff, customers, suppliers, investors, the communities in which the business operates, the environment it relies upon, the state that guarantees stable conditions in which to exist and future generations, who may determine the longevity of the business. The common thread among each of these stakeholders, of course, is that they are groups of individual people in various forms, or in the case of the environment, essential for the health and well-being of people. It is curious that humanising business may seem a radical proposal and that implementing it may seem such a challenge, but it feels time to make businesses visible in a way they habitually are not; to pay attention to their current impact and future

potential (for good and ill in each case) and to engage actively in and hopefully inform the debate around their place in our culture and society.

[1] The views expressed are those of the author in a personal capacity and should not be attributed to Bates Wells Braithwaite LLP.

[2] <https://www.gov.uk/government/news/building-a-country-that-works-for-everyone-independent-panel-publishes-report-on-putting-values-at-the-heart-of-our-businesses>

[3] <http://www.mckinsey.com/industries/social-sector/our-insights/doing-well-by-doing-good-a-leaders-guide>

[4] <http://www.blueprintforbusiness.org/>

[5] <https://www.theguardian.com/commentisfree/2013/may/22/google-corporate-responsibility-ed-miliband-speech>

[6] <http://www.inc-cap.com/>

[7] <http://www.undp.org/content/undp/en/home/blog/2015/7/31/What-does-inclusive-economic-growth-actually-mean-in-practice-.html> ; <https://www.gov.uk/government/news/government-announces-inclusive-economy-unit>

[8] Schumacher E F (1974) *Small is Beautiful*, Abacus

[9] Hawken, P (1993) *The Ecology of Commerce*, Harper Business

[10] Porritt, J (2005) *Capitalism as if the world matters*, Earthscan

[11] <http://www.aldersgategroup.org.uk/>

[12] <http://www.biginnovationcentre.com/purposeful-company>

[13] <http://bcorporation.uk/>

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