

Future of the Corporation |

BRIEFING NOTE NOVEMBER 2017

Social Enterprises

Output of a Breakfast Briefing held on 9th November 2017

INTRODUCTION FROM COLIN MAYER

On 9th November 2017, leaders in business, government, and academia came together at the British Academy as part of the Future of the Corporation, a major research and engagement programme exploring the purpose of business in the 21st century. Over breakfast, they discussed the role of social enterprises in establishing a new purpose for business. Guests were welcomed by Professor Colin Mayer, Academic Lead of the Future of the Corporation programme, who marked a year's worth of fascinating *Future* business breakfasts.

REMARKS FROM PETER HOLBROOK

I started work very much the pride of my family, a Marks & Spencer management trainee in the 1980s – the height of ambition for a relatively modest working-class family from South London. My parents were delighted, of course, because it meant that they got 20% discount off their underwear. I was there during its transformation from being a family-run business, to a fully-fledged PLC trading on the stock market. I saw some rapid shifts in the culture of that organisation when I worked there, and it made me wonder what I wanted to do about my career. I was determined to find something that felt as if it had more purpose, as I saw members of staff with 30 years' service badges shuffled out the exit door, to be replaced by a much more flexible and youthful workforce.

I went to work for Body Shop International, and I loved that experience, because it was what I was looking for – a career in which to make a much more profound difference. While I was at Body Shop International, as they were expanding globally, they suddenly found themselves rather undercapitalised. They thus needed to go to the market to raise capital, and over the series of two or three rounds of fundraising, the owners lost control of the business, and ultimately it was sold to L'Oreal, the very business they had set out to disrupt. Again, I thought – this isn't what I want to be in. I saw the ethics of that business disintegrate

with remarkable rapidity. I decided to work in the social sector. I worked for Oxfam and other large NGOs. I found that a rather less beneficial experience than I had hoped. I missed the entrepreneurial zest and fast-paced decision-making. We seemed to be stuck in a perpetual cycle of three-year reviews. I was desperate to find a different way of addressing my ambitions – the thrill of enterprise, and my appetite for social change.

Ultimately, I set up something which became described as a social enterprise. And here we are, twenty-odd years on, talking about the Future of the Corporation. It is where those two worlds collide – the commercial nature of enterprise and innovation, versus the inherent ambition to do something good in the world – that I take so much pride in representing today.

So let me give you a sense of the sector as it is. We have just published our biennial research on the state of the sector. It is a sector which is often misunderstood, or even invisible, but it is actually thriving. It is consistently outperforming equivalent parts of the mainstream private sector economy. We can see, for example, that over the past few years, the number of new social enterprises now equates to 25% of the total number of 80,000 in the UK. That is an incredible number of start-ups, often driven by young millennials, who want to do business in a fundamentally different way. We are seeing 48% of those businesses report an increase in turnover, compared to only 34% of small and medium

enterprises. We are seeing that these businesses, in their leadership and workforces, are much more representative of the societies in which we live and work. So 41% of the business leaders in our community are women. 12% are from a Black or Asian background. We are seeing great diversity in terms of disability and youth on boards of organisations, and we are seeing this rapid growth not just in the UK but around the world.

There are some inspiring statistics. 28% are based in the bottom quartile of economic activity – these are businesses operating in the top 20% areas of multiple deprivation in the UK, and 78% are employing people from disadvantaged communities. There is a significant success story to be told here, and these organisations are increasingly becoming much more commercial in their nature, are no longer fixated on delivering public services and trading with the state, but increasingly trading with B2B markets and directly with consumers. There is a great story here of a quiet business revolution taking place. One of the frustrations that we constantly hear in the sector is that we are too often conflated with civil society and not seen as businesses in our own right.

‘This is a great story of a quiet business revolution taking place’

If you look at the government statistics, there are 78,000 of these businesses, turning over £24 billion, employing almost 1 million people. That already makes us an industry that is bigger as a sector than agriculture. However, the statistics underestimate the scale of mutuality and social enterprise as it exists in our economy. The figures from government are only taken from the annual Small Business Survey. If we add in co-operatives, building societies, housing associations, universities, large trading charities like the Nuffield Foundation, then all of a sudden we have a profile that is representing a much bigger slice of GDP than previously stated.

We have recently commissioned Dr Rebecca Harding, the former Chief Economist of the British Banking Association, to undertake a study that assesses our contribution to and beyond UK GDP. We want to use those traditional metrics, such as the number of jobs, but also to understand our inherent value to the UK economy. In the wake of the banking crisis in 2008, the Nationwide and other Building Societies provided 80% of all new mortgages in the UK economy. At a time when the banks were on their backs, and completely undercapitalised, it was NBS, a long-standing mutual and one of the few that had not demutualised in the previous decades, that was able to provide the stability to people acquiring new mortgages in the UK housing market. Just think where we may have been without Nationwide providing that resilience in a time of turmoil. Time and time again, we have seen that where there is market failure and predatory capitalism, social enterprise stepping in. It is great to see Tom Levitt here, former MP and Chair of Fair For You, doing this by stepping in offering a lower cost alternative to consumer credit where others such as Brighthouse are providing very high cost of credit and aggressively pushing sales to some of the poorest communities and families in our country.

‘Where there is market failure and predatory capitalism, social enterprise is stepping in’

There is a range of statistics which make social enterprises seem perhaps more important than ever before. I was looking at the Equality Trust’s report of 2017, and what we see within their work is that the 1,000 wealthiest people in the country have increased their wealth by 15% over the last twelve months. That wealth has increased by an incredible £82.5 billion in the last year. To put that into perspective, that would pay for all of the grocery bills of all foodbank users for the next 56 years. That would pay for over 5 million new Living Wage jobs in this country.

Inequality has become one of the defining challenges of our time. George Freeman MP, Chair of the Prime Minister’s Policy Forum, at our Conservative Party fringe, cited social enterprise as a solution to six of the country’s great eight challenges, and argued that social enterprise isn’t just a nice-to-have. It is the future of business in this country.

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How do we create an environment where social enterprise and shared value becomes the normal way of doing business? There are three things I want to leave you with in this respect.

The first is public procurement. There was a Private Members’ Bill called the Social Value Act, introduced in 2012 and entering statute in 2013. The Social Value Act puts an obligation on those spending public money across aspects of the state to do so with due consideration for social and environmental value. What it begins to do is create an environment where good behaviour, and thinking about the negative externalities that business creates, are factored in to commissioning and procurement. The state spends around £278 billion a year. It has a huge ability not just to regulate, and indeed it should fulfil that function, but it has a great ability to shape markets. If it can award contracts to the tune of £278 billion pounds in a way that nurtures our forgotten towns and communities, in a way that creates apprenticeships and work security, and the sorts of pay and conditions that we need to rebuild the social contract, then public procurement is a great route. Chris White has been working for us since he lost his seat in the 2017 election on a paper about how and when we need to extend the Social Value Act. His ambition is to do so horizontally and vertically, to ensure that social value is not just considered but accounted for in public spend. There is a core misconception that in these fiscally austere times that this is a nice-to-have. We must recognise that this is not at additional cost – this is about a smarter way of doing things.

I will also touch briefly on company law. About three weeks ago, we watched an £840 million-turnover PLC convert to a social enterprise. That decision was taken by its Executive Chairman, who has recognised that the future of business is best served by having a genuine and authentic model of shared value-creation. Dividend caps on shareholders, pay ratios of 1:20, redistribution of profits to employees and good causes, enshrining social commitments in the memorandum and articles of association, is the path on which he has embarked. I expect to see more businesses, through encouragement and incentivisation, follow suit.

Company law still gives shareholder primacy too much focus, despite the principles of enlightened shareholder value in the 2006 Amendment to Section 172. Everyone recognises, and we have heard at these breakfasts before, that FTSE 100 CEOs are still bound by investor interests, and it limits their ability to create genuine, authentic shared value. Reforming company law should not be beyond our ambitions in this country if we are going to meet the challenges we face.

A progressive, pro-social taxation system, using things like National Insurance to reward and encourage transparency, value reporting, pay ratios, living wage standards – these things can be encouraged by a much more evolved thought process around how we develop our taxation system, particularly on corporations. I wonder if Victor has any thoughts that could compliment my own.

VICTOR ADEBOWALE

I am going to say three things.

The fact of the matter is: the future is created by the things we do not discuss, in my view. And we have not had a real conversation about the future of the corporation for a long time, and I am so pleased we are now having it. I think we are standing on a burning platform. For the first time, in ten years, public opinion of business has dropped below 50%. Young people now believe that business that does not benefit them and their communities just is not worth engaging with. If any of you watched the Panorama programme on the Paradise Papers, you will know how public perception of business is going. Those facts are now in the public consciousness and are not going to go away.

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Secondly, if you think this is not going to affect the way in which politics in this country runs, you need to look at the last election. Those young people were not just voting against something, but voting for something, and it was not for the kind of business and economy we are used to. Politics is the very thing which gives us our license to operate, and unless we come up with a model for the future of the corporation, then I fear that we will destroy what we have.

Finally, one of the things which brought me to this issue is that I am on the board of a digital startup, I run a social enterprise that employs 4,000 people and operates in 200 locations across England, and I am involved in a number of charities. Historically, the corporation was the logical way of six or seven people doing what one person could not do. We created an interest for those people. But our model has problems – treating the corporation as a legal entity, almost giving it a personality, causes problems. The Paradise scandal is another story in how we are giving that personality a bad name.

‘The Paradise scandal is another story in how we are giving the corporation a bad name. I think the answer lies in social enterprise.’

I think the answer lies in social enterprise. The answer is right in front of us. As Peter has told you, it is the fastest-growing corporation. It is the most likely to employ people like me, because diversity of thought and of pasts is what is going to drive British business. Thank you very much.

DISCUSSION POINTS

- **What changes should we aim at in the corporation?** Peter Holbrook argued that just in the same way that we have global standards for financial reporting, we should move towards a system where companies can assess and report the impact and reach of their values.
- **What are the challenges to the social enterprise model and why has their growth been held back?** Victor Adebowale pointed to the difficulty in getting the ear of government. We need a more expansive view of what business can do in order to fully realise the benefits of social enterprise.
- **The pace of change** – one audience participant noted a significant shift in ‘those at the top’ in the corporate sector towards responsible leadership and value-driven business.
- **The limits of ‘value’ and culture** – Audience members, fellows in particular, were quick to approach the idea of ‘value’ with caution. One noted a danger in commoditising values and culture within the company, arguing that while companies are quick to advertise their culture and values, culture change is necessarily slow and difficult. Peter Holbrook CBE noted that while subject to quarterly reports and market demands, many companies are unable to make these shifts without taking serious and expensive risks.

NEXT STEPS

Business breakfasts will continue as part of the Future of the Corporation in the New Year, with a full research programme underway. Those interested may email fotc@britac.ac.uk to receive the quarterly newsletter, or to ask further questions about involvement.

SPEAKER PROFILES

Victor Adebowale, Baron Adebowale CBE is the Chief Executive of the social care enterprise Turning Point, and a crossbench Peer. He is Chancellor of the University of Lincoln, and in January 2017, was named chair of the umbrella body Social Enterprise UK.

Peter Holbrook CBE is the Chief Executive of Social Enterprise UK. In 2007, he was appointed one of the UK's Social Enterprise Ambassadors, and in 2010, he became trustee of the Big Society Trust.

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