

DEMOS

THE
PURPOSE
DIVIDEND

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Any errors remain the authors' responsibility.

Andrew O'Brien

November 2023



AN INCLUSIVE ECONOMY

This project is part of Demos' "*inclusive economy*" strategic pillar.

This pillar investigates how we can build an economy where everyone participates and contributes to shared goals and where, as a consequence of that contribution and participation, there is an equitable distribution of the benefits.

Business plays an important role in an inclusive economy, both through its own activities and partnerships with government and wider society. This paper outlines how business can help to build an inclusive economy through embedding social and/or environmental purpose into the way that businesses make decisions.

FOREWORD

BY CHRIS TURNER



The economic challenges facing Britain are not the same as the environmental and social polycrisis that has come to define this age. However, it is increasingly obvious that any credible long-term solutions must consider these challenges bound to one another within a complex system.

At the heart of this system is business itself, which can and must play a huge role in changing our economy for the better. We see this potential every day in our work with B Corporations: over 1,600 UK businesses that have already chosen to put the interests of the planet and people, alongside profit, at the core of their decision-making. These businesses are among the fastest growing, most resilient and most innovative in the country.

What impact could business models like these have if they were adopted across the whole UK economy? This report from Demos in collaboration with Landman Economics and supported by B Lab UK sets out to explore this question. It highlights the possibility of a transformational purpose dividend that could benefit us all, for good.

There is now widespread and justified scrutiny of the 'shareholder primacy' that lies at the heart of our current system, which encourages and incentivises businesses to measure themselves primarily through the lens of returns to their shareholders. What is less clear is what a more balanced approach, fit for the challenges of the 21st century, would look like in practice and in economic terms.

This report makes the case that a reform to UK corporate governance would give all directors freedom to exercise their judgement in weighing up and advancing the interests of all stakeholders, unleashing potential gains for workers, communities, and the environment alongside businesses themselves and the wider economy. It would build on a proud heritage of British innovation in business and corporate governance.

Over 2,000 UK business leaders and many experts have already pledged their support to the Better Business Act campaign, asking the UK Government to urgently update corporate governance so that these gains can be realised for all of us.

In doing so, we are clear that economic growth is only one measure of success. There is no more significant field of innovation than the alignment of our economic needs with the need for a thriving planet and society. This change will establish the UK as a leader in this essential transition to a more inclusive, sustainable economy.

Demos and B Lab UK encourage policymakers and business leaders alike to examine the evidence within this report, and to engage in this vital debate about the future of British business.

Chris Turner,
Executive Director, B Lab UK and Campaign
Director, Better Business Act.

INTRODUCTION

The United Kingdom is walking a financial and economic tightrope.

There is agreement across parties that the solution requires higher levels of investment, to drive higher levels of productivity, to create higher levels of growth and living standards. At the same time, we need to achieve a rapid transition to Net Zero, spread prosperity more evenly throughout society and bring the country back together.

At the moment, we lack a credible economic strategy to achieve this.

We urgently need to find one.

Central to a successful economic strategy is looking at the supply-side of the economy. Improving how businesses operate to increase the efficiency and quality of the goods and services they produce, the "supply-side", is the aspiration of all policy makers. Supply-side reforms, when done right, have positive long lasting effects.

The good news is that a bold supply-side reform is in right front of us: reforming the governance of UK businesses.

Historically, countries that have been institutional innovators in business structure have outperformed their peers and generated significantly higher levels of growth over the long run. Unfortunately, in recent years, policy makers have forgotten this lesson and focused exclusively on tax cuts, deregulation or overall levels of public spending. The UK needs to go back to basics, looking at the structure of its businesses to improve their performance. This is the main route to generating long term increases in investment, growth and productivity.

Making all businesses in the UK purpose-led businesses has the potential to be the most impactful supply-side reform of the 2020s.

Purpose-led businesses are businesses that seek to create a positive social and/or environmental impact and make a meaningful attempt to govern themselves purposefully for the benefit of all stakeholders, through legal enforcement of their mission. This ranges from B Corporations to

social enterprises and community businesses. By identifying purpose-led businesses using tangible commitments in their governance, and using available data about them, we have modelled what the performance of the UK economy would be like if all businesses were purpose-led by default.

We have found that a purpose-led economy creates a game-changing purpose dividend for the UK economy:

- £149bn boost to the UK GDP per year - a 7% boost to UK GDP
- A seven-fold increase in R&D expenditure - around £116bn a year
- £86bn increase in capital investment - four percentage points higher levels of capital investment as a percentage of our GDP compared to today
- £5.3bn pay rise for the lowest paid - worth £44 a week for the average person on the national minimum wage

If all businesses acted like purpose-led businesses, we would see a significant improvement in the UK's economic performance.

Everyone would benefit from this change. Society would benefit through higher levels of investment in our productive capacity and more resources to spend on public services. People would benefit from higher wages. Shareholders and businesses themselves would benefit from faster levels of growth. The environment would benefit from a more rapid transition towards Net Zero and more sustainable business practices.

This is the Purpose Dividend outlined in this report.

The most effective way to realise these reforms is through reforms to the UK Companies Act and inserting purpose into the heart of directors' duties, as is proposed by the Better Business Act. Whatever route we choose, policy makers need to act quickly if they want to get the UK economy back on track.

This report shows that corporate governance reform should be at the centre of all parties' manifesto commitments at the next general election. There is no serious strategy to grow the economy without it.

METHODOLOGY

We have sought to test the hypothesis that the better performance of purpose-led businesses at an aggregate level will lead to better economic performance at a national level, if implemented across all businesses.

Working with Landman Economics, we carried out simulations looking at the outcomes if all businesses in the UK operated and achieved the same results as purpose-led businesses. Using the characteristics identified in Annex A of the main report, we identified 32 data points. The data points show a consistent pattern of purpose-led businesses growing faster, investing more in capital, and research and development, than their conventional peers, as well as being more likely to pay their lowest paid staff a living wage.

Using the data gathered, we ran a series of microsimulations to look at what effect having purpose-led business as the default for all businesses in the economy would be on the UK's performance overall. In doing this, we have used those data points where it is possible to extrapolate to an economy-wide level analysis.

KEY FINDINGS

	WHY?	ESTIMATED IMPACT ON UK ECONOMY IF ALL BUSINESSES WERE PURPOSE-LED
Purpose-led businesses will lead to higher levels of growth	Purpose-led businesses will invest more in their businesses than their peers, raising the quality of their products and services and increasing their productivity. Customers are likely to pay more for their services as a consequence of their higher quality and will be more loyal given their greater confidence in their purpose.	£149bn a year boost to GDP UK GDP 7% larger versus today
Purpose-led businesses will lead to higher wages for the lowest paid	Purpose-led businesses are more socially conscious than conventional peers and are willing to increase their wage bill to support the lowest paid. Purpose-led businesses are patient and long term investors in people and their staff.	UK total wage bill to increase by £5.6bn Lowest paid to receive a £2,288 a year pay rise - averaging £44 a week
Purpose-led businesses will lead to higher levels of capital investment	Purpose-led businesses are long-term in their approach and are more likely to accept the trade off of higher investment for long term gain. Purpose-led businesses want to increase their sustainability and lead green transition leading to higher levels of investment compared to conventional businesses.	£86bn increase in capital expenditure by SMEs UK capital investment as a % of GDP increases from 18% to 21%
Purpose-led businesses will lead to higher levels of research and development expenditure	Purpose-led businesses are long-term in their approach and are more likely to accept the trade off of higher investment for long term gain. Purpose-led businesses want to develop new social and environmentally impactful products and services.	R&D expenditure by SMEs would increase by £135bn UK R&D expenditure as % of GDP increases from 3% to 5.5%

SECTION 1

THE UK NEEDS A NEW ECONOMIC STRATEGY

BRITAIN IS WALKING A FINANCIAL AND ECONOMIC TIGHTROPE

It has been fifteen years since the financial crisis, yet the country is still projected to be running a budget deficit by the end of the decade.¹ The UK is also running a significant balance of payments deficit, which leaves the UK dependent on the confidence of investment from overseas to afford the goods and services we want. As the UK saw recently during the instability created by the September 2022 Fiscal Statement, the so-called Mini-Budget, this confidence can be unpredictable even if the proposed policies are aimed at stimulating growth and investment.

Some commentators are predicting an imminent recession, with the National Institute for Economic and Social Research (NIESR) predicting a 60% chance of recession in 2024.² We are, to quote former Governor of the Bank of England Mark Carney, relying on the “kindness of strangers”.³ We are walking a financial and economic tightrope.

There is agreement across parties that the solution requires higher levels of investment, to drive higher levels of productivity, to create higher levels of growth and living standards so that the UK can bring down its deficit and debt relative to GDP. Productivity growth in the UK was 40% lower than the rest of the G7 in the decade before the pandemic.⁴ Labour productivity growth in particular has also been gradually slowing from nearly 3% in the 1970s and 1980s to 0.5% between 2012 and 2022.⁵

1 Office for Budget Responsibility, Economic and Fiscal Outlook, March 2023

2 Guardian, Risk of UK recession at next general election is 60%, says think tank, 9 August 2023

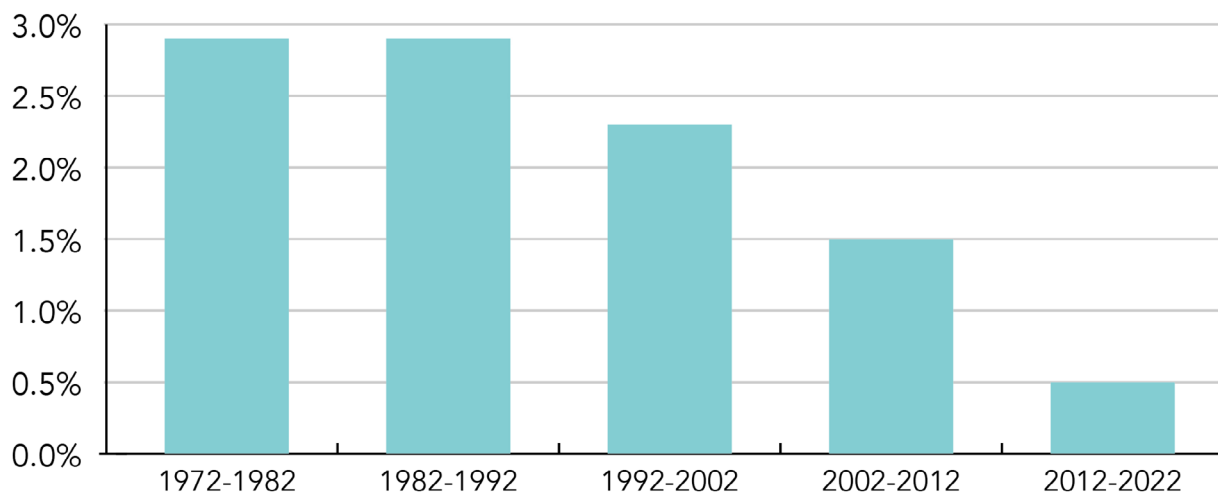
3 M. Carney, A Fine Balance, Mansion House, 20 June 2017

4 Office for National Statistics, International comparisons of UK productivity (ICP), final estimates 2021, January 2023

5 Office for National Statistics, UK Whole Economy: Output per hour worked % change per annum, seasonally adjusted, October 2023

CHART 1

UK OUTPUT PER WORKER GROWTH 1972 - 2022



Source: ONS

All this has led to lower levels of growth both in terms of the overall national economy and living standards. UK growth has been revised upwards since the pandemic, but at 1.8% the UK's growth rate since the pandemic is still behind the US, Canada, Italy and Japan and the Eurozone average.⁶ The UK is also on course to have the second lowest growth rate in the G7 in 2023, with only Germany performing worse.⁷

THE UK LACKS A CREDIBLE STRATEGY TO TURN THINGS AROUND

The problems are clear, but currently the UK lacks a credible strategy to turn things around.

Since 1997, the UK has tried a number of strategies.

- The New Labour period (1997-2010) saw a focus on macroeconomic stability and development of the 'knowledge economy', based on the expansion of higher education and sectors that depend more on human capital and innovation (e.g. information technology, financial services, pharmaceuticals). This was to be achieved through a combination of fiscal prudence (e.g. keeping public borrowing at relatively low levels) and investment in education and skills.
- The Coalition and Cameron/Osborne period (2010-2015) sought to maintain macroeconomic stability but believed that excessive government spending had 'crowded out' the private sector and also made borrowing more expensive which in turn reduced investment and long term productivity. The solution was to hold down public spending and cut taxes for business, most notably corporation tax cuts. In total, between 2010 and 2019, corporation tax cuts worth £93bn were put in place.⁸
- The Johnson and May Ministries (2016-2022) saw a shift towards an active industrial strategy (e.g. creating new institutions such as Advanced Research and Invention Agency, ARIA) combined with even higher levels of public investment. Net public sector investment, according to the OBR, was proposed to increase by 78% from 2019-20 to 2024-25, returning back to levels seen under New Labour.⁹ The biggest tax decision of the Johnson period was to reverse the cuts in corporation tax, instead increasing the tax and creating a more generous "super deduction" for business investment.¹⁰
- The Sunak Ministry strategy is still emerging. Macroeconomic stability, bringing down inflation and stabilising financial markets following the turbulence of September/October 2022,

⁶ House of Commons Library, GDP - International Comparisons: Key Economic Indicators, October 2023

⁷ Ibid.

⁸ A O'Brien, Bounce Back Britain, June 2020

⁹ Office for Budget Responsibility, Fiscal and Economic Outlook, March 2020

¹⁰ HM Treasury, Budget 2021, March 2021

has been the initial focus. Following this, the Prime Minister has outlined the need for more investment in education, particularly around maths, as well as focus on developing new technologies, particularly AI. However, further details are likely to emerge in the Autumn Budget 2023, due to be published after this report has been drafted.

Despite the changes and differences in rhetoric, there are three continuities that have governed the UK's government approach to tackling the UK's investment, productivity and growth challenge.

1. **Maintaining macroeconomic stability - primarily seen through public debt and inflation**
2. **The importance of tax in shaping business decisions to invest**
3. **The potential for public sector investment to 'crowd-in' private investment**

THE STRATEGIES PURSUED SO FAR HAVE FAILED

As Chart 1 shows on page 9, the first pillar of the UK's growth strategy has been found wanting in recent years. The UK has had periods of macroeconomic stability, most notably during the 'Great Moderation' between 1992 (following Black Wednesday) and the financial crisis in 2008. This

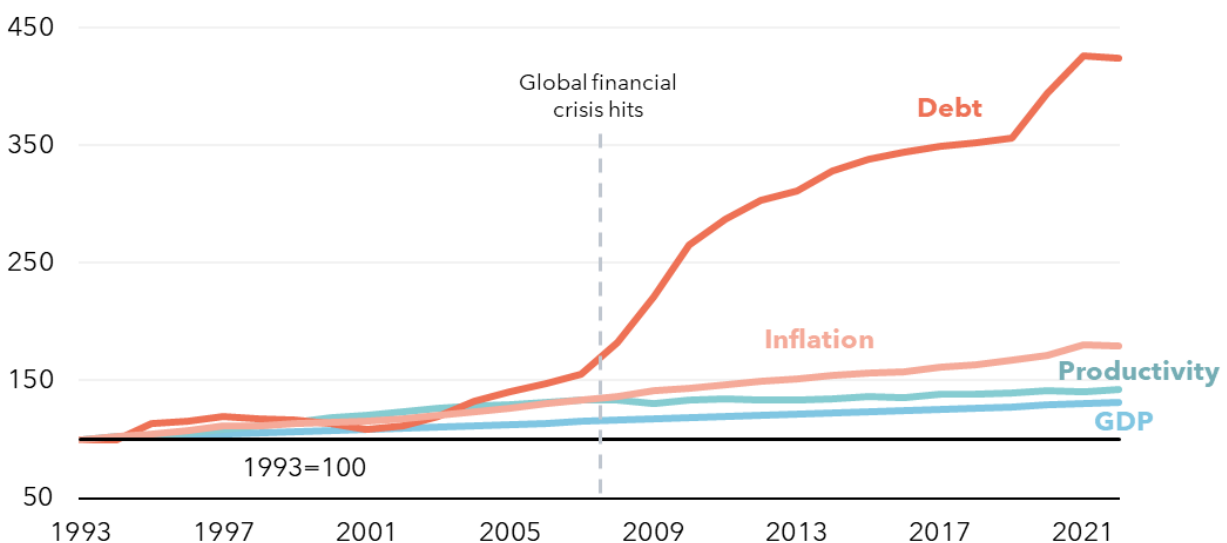
period was marked by steady economic conditions, low inflation and relatively low levels of public borrowing. If macroeconomic stability was sufficient to boost productivity, growth and investment on its own, we would expect to see significantly higher levels of productivity and growth during periods of low inflation and low public debt compared to those with higher levels of inflation and public debt. Yet this pattern does not clearly present itself in the data. Productivity, growth and living standards progressively slowed down during this period.

In fact, the period of the 1950s, 60s and 70s, where the UK economy saw frequent periods of macroeconomic *instability* (stop and go approaches to public spending/taxation, oil shocks and labour difficulties) saw higher levels of growth, higher levels of productivity and faster growth in living standards than in recent years. There are a number of reasons for this from the ease of 'catch up growth' in the post-war period to the nature of the technologies that emerged in the period being particularly conducive to productivity growth and investment. The important point for this paper is not that macroeconomic stability is unnecessary, but that it is not *sufficient* to enable better economic performance.

Stability does not in itself create the conditions for improvement, it can simply lead to stagnation. A strategy to boost the economic performance of the UK economy will need more than simply keeping on top of public debt, inflation and avoiding recessions.

CHART 2

CHANGE IN GOVERNMENT DEBT, INFLATION, LABOUR PRODUCTIVITY, AND GDP SINCE 1993*



Source: ONS

*Government debt is gross consolidated debt (calendar year). Labour productivity is output per hour worked (financial year). Inflation is measured using the GDP deflator (financial year). GDP uses chained volume measures (calendar year).

The second pillar has been using tax cuts to boost growth. As can be seen in Chart 3, there does not appear to be a clear link between business taxation and levels of investment and productivity. Relatively higher levels of revenue from corporation tax in the late 1990s and 2000s saw higher levels of business investment growth than in the 2010s where the levels of tax on business were lower. The same story is true for levels of productivity growth. This is in line with previous research which found corporation tax cuts, in particular, relatively ineffective in boosting business investment. Corporation tax cuts between 2010 and 2018, for example, saw net business investment increase by £49.5bn, despite £87bn of corporation tax cuts.¹¹

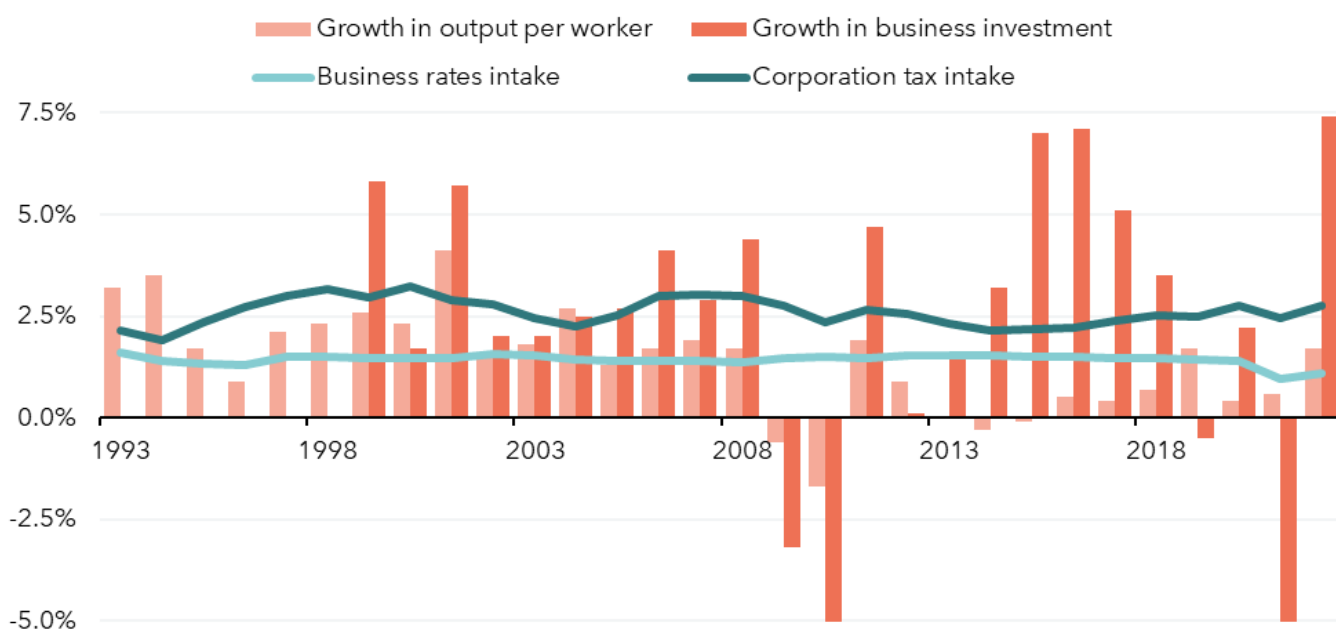
It is also in line with historical data and international comparisons. Levels of business investment and productivity growth were higher in the 1950s, 1960s and 1970s where levels of business taxation were relatively higher than they are today. 'Higher tax' economies such as Germany and France also have

higher levels of productivity and investment than the UK. The super-deduction, a generous tax deduction to encourage businesses to invest, is not likely to significantly increase business investment. The average annual growth rate of business investment between 2010 and 2022 has been 2.5%.¹² The OBR is forecasting business investment annual growth at 2.5% between 2023 and 2027 (the latest year in the forecast period) despite the introduction of the generous super-deduction.¹³ Businesses are calling for the super-deduction to be maintained, but in itself, the super-deduction is not a silver bullet. It requires businesses that want to invest and think about the long term.

All this means that there is no evidence that tax cuts will be able to increase growth or investment over the long term.

CHART 3

CORPORATION TAX AND BUSINESS RATES REVENUE (% OF GDP) VERSUS UK OUTPUT PER WORKER 1992-1993 TO 2021-22



Source: IFS, ONS

11 A O'Brien, Bounce Back Britain, June 2020

12 Office for National Statistics, Gross Fixed Capital Formation by sector and type of asset, October 2023

13 Office for Budget Responsibility, Fiscal and Economic Outlook, March 2023

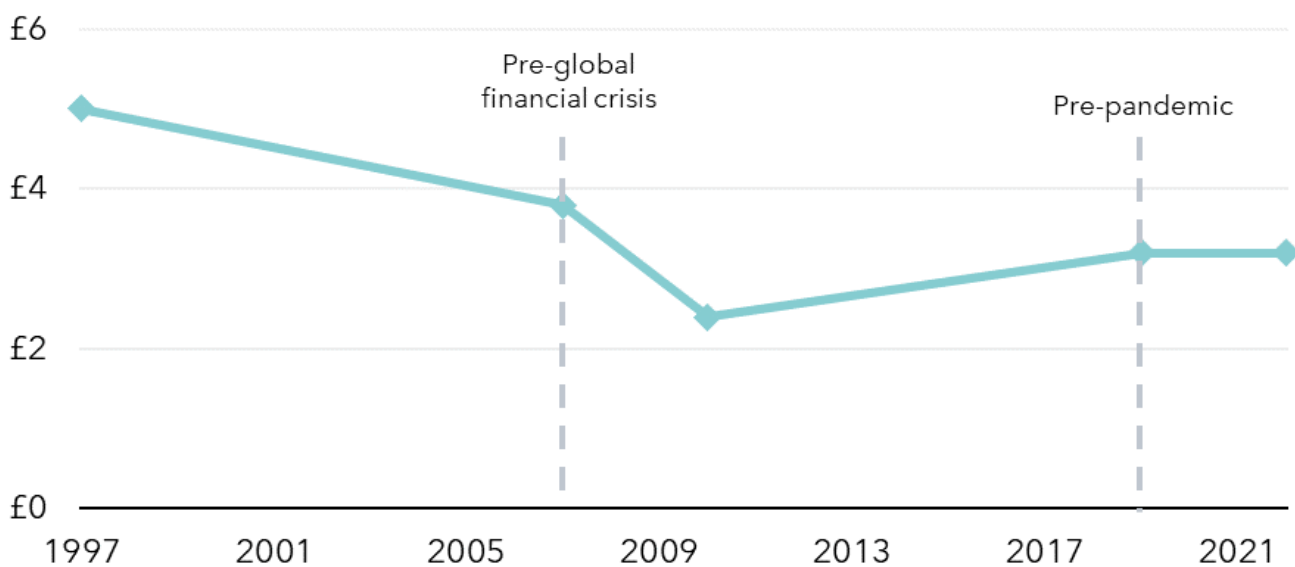
In recent years, considerable focus has been placed on levels of public sector investment as a way to generate better economic performance. Public sector investment has become for the progressive left what tax cuts have become for the libertarian right. It is true that the UK has significantly lower levels of public sector investment than our peers, such as Japan and Germany. However, the evidence is mixed that this significantly improves productivity and growth. Japan, the country with the highest level of government investment, has significantly lower productivity than the UK. Germany, which has a lower level of government investment has a higher level of productivity than the UK.¹⁴

Recent increases in government investment have been relatively unsuccessful in ‘crowding-in’ private sector investment. Between 1997 and 2010, government investment increased by 104% under New Labour. In the same period, business

investment increased by just 12%.¹⁵ By contrast, since 2010, government investment has increased by just 13%, whilst business investment has increased by 45%.¹⁶ If there is a crowding-in effect, it is small at best.

There also appears to be a law of diminishing returns for public sector investment. In 1997, every £1 of government investment generated £5 in business investment. By 2010, this had fallen to £2.40 of business investment per £1 of government investment. There was a recovery between 2010 and 2022, with the current ratio standing at £3.20 of business investment per £1 of government investment.¹⁷

CHART 4
BUSINESS INVESTMENT PER POUND OF GOVERNMENT INVESTMENT



14 OECD, Investment by sector, accessed November 2023

15 Office for National Statistics, Gross Fixed Capital Formation by sector and type of asset, October 2023

16 Ibid.

17 Ibid.

Government investment does have an important role to play in boosting economic growth. However, ultimately the UK needs to find ways to boost *private* sector investment. A recent report by Labour Together found that 85% of the gap in investment in the UK was due to a lack of private sector investment, rather than public sector investment.¹⁸ Simply increasing government investment does not, looking back over recent decades, appear to achieve that. We need to look instead to the operations and motivations of UK businesses to identify the problem.

In conclusion, it is not clear that any of the dominant strands of British economic policy hold the key to boost growth, investment or productivity. Macroeconomic stability will not generate growth itself. Cutting business taxes have also not been shown to significantly increase productivity, business investment or growth. Finally, government investment has also not been shown to significantly leverage business investment or lead to higher levels of productivity or growth.

The UK needs a credible strategy to increase investment, boost productivity and drive higher levels of economic growth.

18 Labour Together, Building A New Britain, November 2023

SECTION 2

UPGRADING BRITISH BUSINESS - MODERN SUPPLY SIDE ECONOMICS

THE GOVERNANCE AND STRUCTURE OF BUSINESS IS THE KEY TO ECONOMIC GROWTH

In recent decades, policy makers have focused on government and the state rather than the dominant institution of our economy, the business enterprise itself.

Institutional economists such as William Lazonick, historians such as Alfred Chandler Jr and business school academics such as Shoshana Zuboff have repeatedly provided evidence to show that it is the structure of business, their governance and objectives that have determined the path of economies. Macroeconomic policies are important, but better economic performance is generally linked to improvements in business structure. Policy makers need to recognise the importance of *institutional innovation in business* in dictating the pace of economic growth.

We can see that through the data on the global economy since the industrial revolution. The first "phase" of business innovation in Britain saw an unprecedented uplift in economic performance. In this phase, property rights were strengthened, capital markets developed for entrepreneurs to access finance and greater control given to business owners to organise labour and production.

In the three hundred years before 1750, the British GDP per capita grew by around 0.16% per year.¹⁹ Between 1750 and 1850, it grew by 0.47% per year - a sustained threefold increase.²⁰

In the United States, the second "phase" of business innovation saw GDP per capita increase by 1.6% per year between 1850 and 1960, another threefold increase on the rates that were achieved by the British economy.²¹ In this second phase of business innovation, a professional managerial layer was added to firms who utilised "scientific management" practices (e.g. Taylorism) to drive increases in production and efficiency. There was also a shift from 'direct' ownership models towards more indirect ownership models (e.g. shareholder capitalism). In comparison, the UK's GDP per capita growth rate was around a third slower than the United States during the same period.

In Japan, during the third "phase" of business innovation, growth again significantly increased on what was previously achieved. William Lazonick describes this third phase as "collective capitalism", with stronger links between individual firms and cooperation on research and development as well as co-production between workers and employers.²² Between 1950 and 1990, the high point of the Japanese economic miracle, GDP per capita growth

19 J. Bolt & J. Luiten van Zanden, Maddison style estimates of the evolution of the world economy: A new 2020 update, 2020

20 Ibid.

21 Ibid

22 W. Lazonick, Business Organisation and the Myth of the Market Economy, 1993

was 5.9% per year - another threefold increase on what had been previously achieved.²³ During the same period in the United States, the previous institutional leader, growth was around 2.2% per year. The impact of “platform capitalism” on growth is too early to say, but already these new models of business are reforming the economy. In 2008, the largest global companies in the world were dominated by oil and gas companies. Just a decade later, the top five global companies were all “platform businesses”. Amazon, for example, grew 260% per year from 1997 to 2021. Google grew 200% between 1998 and 2022.

There are many factors which mean that it is not possible to say that there is an “iron law” that institutional innovation in business leads to a threefold increase in growth rates. However, it is striking that in general, those economies which have found new ways to organise the private sector have generated significant economic benefits. Businesses which have been prepared to adopt new structures, practices and principles have been at the forefront of success.

Business innovation and organisation is a surer guide to overall economic performance than focusing on technological innovation. Policy makers in the UK have regularly spoken about the need for the UK to be at the technological frontier. At the time of writing, there is significant debate about AI and the UK’s need to be a world leader in this new technology. However, history has shown that the implementation and adoption of new technologies is more important than innovation itself.

For example, early developments in the steam engine started in France in the late 1600s. However, it was Britain that was able to exploit this new technology through having a credible system of property rights, a strong legal framework for accessing capital and appropriate business structures to become the world’s leader in steam power. The first computers were developed in Britain, but it was the United States that made the most of this technological innovation through persistent investment and deployment of the necessary technology in the 20th Century. In turn, the United States developed the transistor, an early semiconductor that was critical for the development of radio and television, but it was Japan that won the battle for developing world-beating businesses in these technologies.

Economists have reached similar conclusions about the importance of institutional innovation to the UK.

In his assessment of Britain’s economic performance since the Second World War, leading British economist Nicholas Crafts noted that it was Margaret Thatcher’s policy to increase market competition rather than pursue tax cuts or macroeconomic stability, that generated a relative recovery in Britain’s economic performance compared to its peers in Germany and France. His argument was that competition led to improvement in firm management and organisation that led to a better deployment of resources.²⁴ This insight has led to policy makers repeatedly identifying the need for “supply-side” reforms, to improve the effectiveness of UK business - most recently Rachel Reeves in her recent essay on “Securonomics”.²⁵

However, the UK cannot simply carry out the Thatcher reforms again. The UK is already one of the most competitive economies in the world. The most recent rankings by the World Economic Forum ranked the UK as the 9th most competitive economy in the world.²⁶

The UK also cannot simply copy the New Labour playbook. The Bank of England has already been made independent. The Budget Responsibility and National Audit Act 2011 has already put into law the need for fiscal rules and an independent body (the Office for Budget Responsibility) to oversee them.

If the UK is going to truly find a way to unlock investment, boost productivity and secure higher levels of growth it is going to need a new approach, reflecting the opportunities available in the 2020s not the 1980s or 1990s.

PURPOSE-LED BUSINESS IS SUPPLY-SIDE REFORM FOR THE 2020s

How can the UK conduct modern supply-side reforms to boost economic growth through higher levels of investment and productivity?

Increasingly, focus is turning to corporate governance and whether putting social and environmental purpose into the heart of business can lead to significant improvements in business performance. Putting purpose into the heart of corporate governance forces businesses to think about the long term, be innovative in their thinking about their operations and invest in new approaches creating better outcomes for companies and for the economy as a whole.

23 Ibid

24 N. Crafts, *The Economic Legacy of Mrs Thatcher*, CEPR, 8 April 2013

25 R. Reeves, *A new business model for Britain: building economic strength in an age of insecurity*, 14 September 2023

26 World Economic Forum, *The Global Competitiveness Index 4.0*, October 2019

Repeated studies since the 1990s have shown businesses that focus on generating positive social and environmental outcomes beyond just generating profit have been outperforming their exclusively profit-focused peers. Although all these studies use slightly different definitions of purpose and different methods of enforcement, there is a clear pattern. There are economic benefits in focusing beyond profit. Examples of recent studies have found:

- Companies with a purpose beyond simply making money generated six times more in returns to shareholders between 1926 and 1990.²⁷
- Purpose-led companies outperformed the average financial returns of the largest 500 companies listed on US stock exchanges between 1996 and 2011 by a factor of 10.5.²⁸
- A list of top US companies ranked on purpose and serving society - the JUST Capital 100 - had a higher profit margin, 2.3% higher return on equity and paid 5 times more in dividends than their Russell 1000 peers.²⁹
- A survey by Harvard Business School in 2015 found that of the companies with over 10% turnover growth over the past three years, 58% prioritised purpose - despite being a significant minority of firms overall.³⁰
- SME B Corporations - a form of purpose-led business- between 2017 and 2020 saw average annual turnover growth of 24% compared to an average of 5% for all SMEs.³¹

WHAT IS A PURPOSE-LED BUSINESS?

The term “purpose-led business” is contested, however, there are a number of shared characteristics of a purpose-led business that are widely accepted.

- Purpose-led business must be about seeking to create a positive social and/or environmental impact beyond simply being the most successful company or organisation in the sector that you operate within.
- Purpose-led businesses must have an objective that is broader than simply benefiting the owners

of the company and that considers wider social and/or environmental interest.

- Purpose-led businesses must make a meaningful attempt to govern themselves purposely, primarily this is through legal enforcement of their mission alongside other asset/profit-locks that encourage reinvestment to deliver that purpose.

What does it mean to be “purpose-led”?

In the past, the “social contract” between business and society has been built on a shared sense of purpose.

Businesses would be given the freedom to operate and generate significant returns for their owners and leaders. In return, they were to act responsibly in the best interests of society and look after their workers. In recent years, there is a feeling that businesses have moved away from this and have come focused on profit at the expense of everything else. Recent polling commissioned by the Future Economy Alliance found that just 1 in 3 UK adults say that business is good for society.³² The majority of the public want businesses to return to having a sense of purpose beyond profit and they want their purpose to be hardwired into the governance of businesses.³³

Legal enforcement is the way that we hardwire a sense of purpose into business. It is the clearest and most straightforward way that we can judge whether a business is purpose-led.

A legal enforcement approach makes it the duty of the directors of a business to collectively deliver the social and/or environmental purpose of the business when making decisions. Within legal enforcement there is a further distinction between “legal model” (changing the governing document e.g. articles of association) and “mission-lock” approaches.

In the UK, legal enforcement mechanisms cover charities,³⁴ community interest companies and community benefit societies and B Corporations - which have to pass a resolution to create a legally binding mission for their company directors. In the case of all these models, the business *must* have a social and/or environmental purpose beyond profit. The business does not have the option of

27 J. Collins & J. Porras, *Built to Last: Successful Habits to Visionary Companies*, 1994

28 S. Sisodia et al, *Firms of Endearment: How World Class Companies Profit from Passion and Purpose*, 2003

29 Bank of America, JUST Capital and CNBC Release Annual ‘JUST 100’, the Only Comprehensive Ranking of How Corporations Perform on the American People’s Priorities, 10 January 2023

30 Harvard Business School, *The Business Case for Purpose*, 2015

31 B Lab UK, *How do UK B Corps perform?*, accessed October 2023

32 Future Economy Alliance, *UK business leaders demand bold economic reform as new data shows public agreement*, 28 September 2023

33 Ibid.

34 For the purpose of this research, we consider charities that primarily generate their income through trading (e.g. delivering services for pay or selling goods or services to the general public) as businesses.

removing its purpose and pursuing profit or some other objective. Although the purpose can come in a variety of forms, the purpose of the organisation is to deliver its social and/or environmental mission alongside (or given priority to) delivering profit for owners and shareholders.

“Mission-lock” approaches seek to legally embed a social and/or environmental purpose into the governing rules of the business. For example, the chocolatier and B Corporation Tony’s Chocoloney has recently put a “mission-lock” in place through giving a “Golden Share” to another entity (Mission Guardians) so that the mission cannot be changed without independent external agreement.³⁵ A Golden Share mission-lock is one of the strongest approaches that can be taken. Variations on this can involve giving ownership of the business to a foundation or trust that is able to make decisions for the long term achievement of purpose. An example is Patagonia, which has created a trust to oversee the business and ensure it remains on purpose.³⁶

Other businesses seek to make it very difficult for them to change or remove their mission by making changes contingent on passing a special resolution of shareholders. This is true for many social enterprises in the UK, for example. These can require a special majority of shareholders (e.g. 75%) to pass, making it harder to change and safeguarding the purpose of the business.³⁷ In all cases, the primary mechanism for ensuring the purpose-led is to embed the mission within the legal structure of the business.

A powerful way to achieve a purpose-led approach is to commit to reinvesting a certain portion of the profits of the business towards delivering a social and/or environmental mission. Social enterprises, for example, have to reinvest at least half of their profits into delivering their social and/or environmental mission in order to qualify as a social enterprise. This ensures that there is alignment between generating profit and having a social and/or environmental impact.

Although legal enforcement is the most important method for ensuring a business is purpose-led, external verification mechanisms can also strengthen the ability of businesses to remain on purpose. A traditional approach is to use some form of accreditation or membership whereby the business has to justify to an external actor, a membership body or accrediting organisation, that they are being governed in a purpose-led way. These bodies may ask the business to sign up a set of principles or commitments that put purpose on par with or in

primacy to the profitability of the business. Examples of this approach can include membership of bodies such as Social Enterprise UK or accreditation such as the Social Enterprise Mark. B Corporation status is both a legal status and an accreditation process.

We propose, therefore, to keep the definition of purpose-led focused on those that can show a meaningful commitment to ensuring that purpose is given equal or greater value to the business than profit maximisation. The only way to ensure that is through legal enforcement of the mission, although this can be bolstered through other mechanisms.

Based on this analysis, our research will look at data regarding the following types of businesses:

- Businesses that have a purpose beyond profit and the success of the company (referred to subsequently as a purpose).
- Businesses that have a legal enforcement mechanism to ensure that purpose is integrated into decision making (e.g. Community Interest Companies and Community Benefit Societies).
- Businesses that have adopted an external mechanism to verify and support the delivery of their stated purpose (e.g. B Corporations, Social Enterprises, Cooperatives).
- Businesses that have adopted an accountable individual or group (e.g. a board, sub-committee, or employees) to deliver the purpose of the business.

35 Tony’s Chocoloney, Introducing Tony’s Mission Lock - a future-proof legal structure for impact companies, 31 May 2023

36 Bates Wells, Patagonia: rethinking corporate governance through steward-ownership, 23 May 2023

37 Bates Wells, Tony’s Chocoloney’s Golden Share Model, 3 July 2023

TABLE 1
BUSINESSES INSIDE AND OUTSIDE THE SCOPE OF THE RESEARCH

BUSINESSES IN SCOPE OF THE RESEARCH		BUSINESSES OUT OF SCOPE OF THE RESEARCH
<ul style="list-style-type: none"> Community Interest Companies Community Benefit Societies Businesses owned by charitable trusts Mutuals or employee-owned businesses with a purpose of equal or greater concern than advancing the benefit of their members 	<ul style="list-style-type: none"> Community Businesses Certified B Corporations Social enterprises that have passed a legally binding resolution into their governing documents Cooperatives Businesses that declare that they have social or environmental goals of greater or equal concern compared to financial goals and embed that in their governing documents 	<ul style="list-style-type: none"> Businesses that declare a purpose, but one which is not equal to or greater than profit maximisation Businesses with a "mission statement" Businesses which have no legal mechanism for enforcing purpose Mutuals or employee-owned businesses without a purpose beyond the benefit of their members

WHY ARE PURPOSE-LED BUSINESSES BETTER THAN OTHER FIRMS?

There are well documented additional benefits to purpose-led business. For example, purpose-led businesses are more environmentally conscious. Three in ten of social enterprises have installed energy efficiency measures in the past 12 months compared to just 13% of SMEs overall.³⁸

B Corporations are twice as likely to be carbon neutral than traditional businesses.³⁹ They are also more likely to engage with their communities, encouraging greater levels of social cohesion, and be more active participants within their local places. However, in this paper we are focused on the *economic* benefits of purpose-led businesses.

In broad terms, there are three structural reasons why purpose-led businesses perform economically better than their peers:

1. Purpose-led businesses make better decisions by considering a broader range of factors and focusing on the long term impact on the business, market and society. This translates into higher levels of capital investment, higher levels of innovation, greater investment in people and higher pay.
2. Purpose-led businesses better motivate their staff, leading to higher levels of innovation, productivity and day-to-day performance.

3. Purpose-led businesses are able to demonstrate greater value than their peers, creating the potential for higher levels of growth and willingness of consumers to pay higher prices. In turn, higher revenues can be reinvested into improve the performance of the business and society as a whole.

Better decision making

Central to the hypothesis that purpose-led business will perform better than other firms is that having a purpose beyond profit is likely to lead to better decisions and greater focus on long term decision making. Although many firms will seek to focus on long term value creation, in practice, it can be challenging to do so because of the short-term time cycles for investors and reporting cycles, as indicated by the Kay Review.⁴⁰ Purpose provides a check against those and provides grounds for business leaders to challenge their staff, investors and other stakeholders to take long term decisions.

A longer term focus is likely to lead to higher levels of investment in people, capital, innovation and new product development. Research by the McKinsey Global Institute found that firms that had demonstrated focus on the long term in the United States grew 47% more than other businesses on average.⁴¹ They also added more than 12,000 jobs than their competitors - which if replicated across the US economy would have seen more than five

38 Social Enterprise UK, No Going Back: State of Social Enterprise Survey 2021, October 2021

39 B Corporation UK, 1,500 UK B Corporations show that businesses can thrive and benefit all, 5 September 2023

40 The Kay Review, The Kay Review of UK Equity Markets and Long-Term Decision Making - Final Report, February 2012

41 McKinsey Global Institute, Measuring the Economic Impact of Short-Termism, February 2017

million new jobs created. Long-term businesses also invested 50% more in R&D than their peers. Purpose-led businesses are more likely to be long-term in their focus, as social and/or environmental progress cannot be achieved quickly. Businesses with a purpose need to think over longer timescales and at a bigger scale than their peers.

Purpose-led businesses also have the ability to challenge “group-think”, which can be a barrier to effective business decision making.⁴² One method to counteract the challenges in enabling diversity in business is through developing more diverse boards that bring a range of different life experiences, personalities and expertise. However, even diversity can be ineffective unless the board is unable to develop a culture that enables challenge.⁴³ Research has found that properly embedded pro-social purpose enables a greater diversity of perspectives because it forces boards to seek expertise beyond a narrow group of stakeholders.⁴⁴ Purpose-led businesses are more likely to have a greater number of female leaders or those from minoritised backgrounds than their peers. For example, 83% of social enterprise leadership teams include a woman, compared to 71% of SME employers.⁴⁵ Data from B Corporations are also similar, with 82% of B Corporations having a leadership team that includes at least one woman.⁴⁶ Nearly half of social enterprises have board representatives from their local community, further expanding the opportunity for a wider variety of insight in developing their business.⁴⁷

Having a purpose beyond profit also encourages firms to develop better processes so that they can track and monitor a variety of different factors. Research by B Lab UK found that 93% of SME B Corporations say they have processes in place to ensure formal tracking of business performance, compared to 52% of all SMEs.⁴⁸

Staff motivation

There is significant literature on how embedding purpose into the company can have a positive impact on the motivation of staff.⁴⁹ A representative survey of 1,124 managers and employees at US companies by McKinsey found that 82% of respondents said it was important to have a purpose and values beyond profit and that 72% believed that purpose and values should receive more weight in decision making than profit.⁵⁰ Business leaders themselves also agree that a purpose is more likely to improve employee satisfaction, with 89% of business leaders surveyed by Harvard Business School agreeing that an organisation with a shared purpose will have employee satisfaction.⁵¹ The same research found that 72% of business leaders believed that a shared purpose gave employees fulfilment in their work.⁵²

Research has found that intrinsic motivation can be a powerful driver for improving staff performance. Drawing on the insights of Self-Determination Theory⁵³ and experimentation, research has found that intrinsic motivation can be important in enabling higher levels of performance and productivity.⁵⁴ From a business perspective, an excessive reliance on extrinsic motivation (e.g. remuneration) can reduce productivity through firms “crowding out” effort and having to pay higher levels than they would otherwise need to in order to generate the same level of output.⁵⁵ Higher levels of intrinsic motivation can also lead to higher levels of innovation and creativity, which can lead to new products and services.⁵⁶

Purpose-led businesses are, therefore, more likely to exhibit higher levels of innovation and productivity than their peers in the profit-led sector.

42 Harvard Business Review, How to Stay Clear of Group Think, 7 March 2022

43 Financial Reporting Council, Board Diversity and Effectiveness in FTSE 350 Companies, July 2021

44 F. Collevicchio & G. Gionfriddo, Adopting a social purpose in for-profit firms: the role of the board of directors, International Entrepreneurship and Management Journal, Vol. 19, July 2023

45 Social Enterprise UK, No Going Back: State of Social Enterprise Survey 2021, October 2021 & Longitudinal Small Business Survey 2022 - Table 25, accessed October 2023

46 B Lab UK, How do UK B Corps perform?, accessed October 2023

47 Social Enterprise UK, No Going Back: State of Social Enterprise Survey 2021, October 2021

48 B Lab UK, How do UK B Corps perform?, accessed October 2023

49 D. Waseem et al, An exploration of the drivers of employee motivation to facilitate value co-creation, Journal of Services Marketing. Vol. 35, No.4, 2021

50 McKinsey Quarterly, Purpose: Shifting from why to how, 22 April 2020

51 Harvard Business School, The Business Case for Purpose, 2015

52 EY Global, Why business must harness the power of purpose, 15 December 2020

53 R. Ryan & E. Deci, Intrinsic Motivation, 1975

54 B. Frey, Not Just For Money: An Economic Theory of Motivation, 1997

55 B. Frey, *How should people be rewarded for their work*, Behavioural Public Policy, ed. A. Oliver, 2013

56 C. Fischer et al, The influence of intrinsic motivation and synergistic extrinsic motivators on creativity and innovation, Frontiers in Psychology, 4 February 2019

Value creation

Repeated studies have shown that customers are more likely to purchase from purpose-led businesses and are prepared to pay higher prices. Research from Bain & Company found that 70% of consumers were prepared to pay a premium on products from purpose-led brands that demonstrated sustainability and social impact.⁵⁷ This premium was worth 10-25% on top of the usual price of a product.⁵⁸

Part of the answer for this has been outlined in Krzysztof Pelc's latest book *Beyond Self-Interest: Why the Market Rewards Those Who Reject It*.⁵⁹ In this book, Pelc argues that showing an interest beyond profit builds trust with investors, consumers and employees. This trust is manifested in the idea that the products these businesses create are higher quality than their peers and in turn this leads to higher levels of financial performance. Purpose-led businesses are more likely to engender trust and loyalty from their customers, employees and partners.

Consumers that trust the businesses they spend with are also more likely to be loyal to the business and protect the business from criticism while maintaining their reputation, an important factor in business success. *The Strength of Purpose* research by Zeno, a communications agency, in 2020 found that consumers were four times more likely to purchase from businesses that they thought had a strong purpose than those that were not.⁶⁰ Research has found that a clear and accountable commitment to business purpose is more likely to create trust between businesses and consumers, as well as other stakeholders.⁶¹

The development of a 'global middle class' of socially and environmentally conscious consumers means that purpose-led businesses have an opportunity to tap into export markets. Data has shown that social enterprises, a form of purpose-led business, are now more likely to export overseas than the rest of the business sector (22% v 18%).⁶² The UK government's Mission-led Business Review cited evidence indicating that some two-thirds of consumers are willing to pay more for socially driven products, while the importance of "purpose" as a purchasing factor has risen 26% globally since 2010.⁶³

Learning from international comparisons⁶⁴

The UK has an opportunity to be the world leader in purpose-led businesses given our sophisticated investment infrastructure and access to world-class legal and financial services. However, we can also draw on the data from other countries to show how having a higher proportion of purpose-led businesses can significantly improve our overall economic performance.

This section compares the UK to three other European economies: France, Germany and the Netherlands. These economies share similar economic characteristics such as high levels of human capital, robust legal structures and have been at the frontier of economic development in Europe for centuries. They also have a tradition of cooperative and social enterprise business models which are widely accepted examples of purpose-led business.

57 Bain & Company and Verlinvest, Purpose-Led Brands Can Reshape the Consumer-Goods Industry if They Can Scale..., October 2022

58 Ibid.

59 K. Pelc, *Beyond Self-Interest: Why the Market Rewards Those Who Reject It*, 2022

60 Zeno, 2020 Zeno Strength of Purpose Study, June 2020

61 C. Mayer, *Prosperity: Better Business Makes the Greater Good*, November 2018

62 Social Enterprise UK, *No Going Back: State of Social Enterprise Survey 2021*, October 2021 & *Longitudinal Small Business Survey 2022* - Table 25, accessed October 2023

63 *Mission-led Business Review, Final Report*, December 2016

64 This section draws on a forthcoming paper by Social Enterprise UK, *Ending the Monoculture*, drafted by the author of this report

TABLE 2

COOPERATIVES AND SOCIAL ENTERPRISES WITHIN FRANCE, GERMANY, THE NETHERLANDS AND UK

	FRANCE	GERMANY	NETHERLANDS	UK**
Number of cooperatives	9660	7319	3,300	7063
Percentage of workforce employed by cooperatives	4.7%	2.3%	1.5%	0.8%
Number of social enterprises⁶⁵	96,603	77,459	5,500	30,753
Percentage of workforce employed by social enterprises	6.3%	2.4%	2.1%	1.4%
Social enterprises & cooperatives as a percentage of GDP⁶⁶	10%	12%	14.3%	3%

Source: *Social Enterprise UK, Ending the Monoculture*

As Table 2 shows, France, Germany and Netherlands all have higher levels of cooperatives and social enterprises than the United Kingdom - forms of purpose-led business that are measured across Europe.⁶⁷ In France a significantly higher level of the workforce is employed by purpose-led businesses compared to the United Kingdom. Germany and the Netherlands also have higher levels of employment in purpose-led businesses than the UK. Germany has more than double the number of people working in cooperatives compared to the UK and 40% more workers employed in social enterprises. Purpose led businesses also make significantly greater proportions of these economies, with the lowest (France) having purpose-led businesses making up three times more of the economy than the UK. The Netherlands, which has a higher proportion

of purpose-led businesses within its economy, has nearly five times the size of the UK.

Given what we know about the impact of purpose-led businesses on the economy, we should expect that countries with higher levels of cooperatives and social enterprises should see higher levels of investment in capital, training, productivity and wages. Chart 5 shows, in general those countries with higher levels of social enterprises and cooperatives show higher levels of investment compared to the UK.

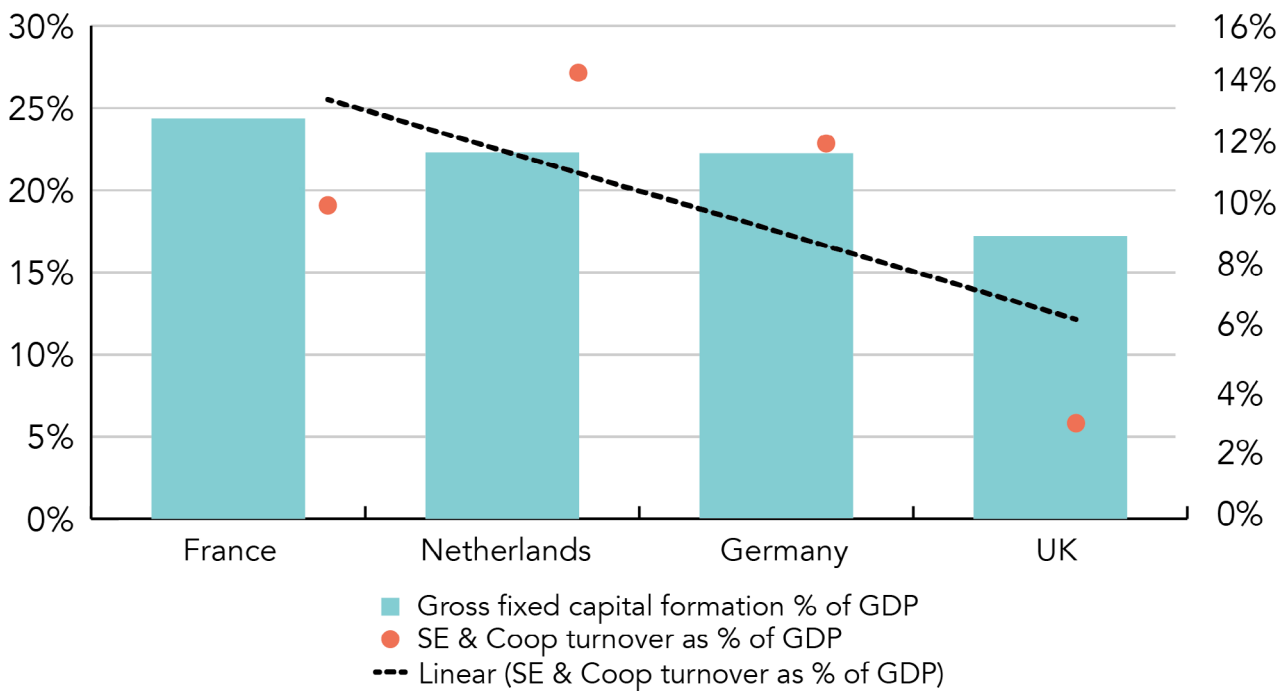
65 Definitions of social enterprise vary across Europe and there will be some cooperatives that are considered social enterprises and some that are not. In order to compare across European economies, the definition of social enterprise used in this data is the European Union definition which does not include some private firms that have passed resolutions to become social enterprises but do not ascribe to a specific legal form recognized as a 'social enterprise by the European Union.

66 Based on Social Enterprise UK's Think Global, Trade Social & Hidden Revolution reports as well as turnover data from the Dutch Council of Cooperatives. GDP based on current local currency prices in 2019.

67 The number of B Corporations across Europe is growing with over 1,000 so far, but there are not enough B Corporations in other countries of sufficient scale to enable comparison in this section. However, it is likely that economies that have larger proportions of B Corporations in their economy would exhibit similar characteristics.

CHART 5

INVESTMENT AS PERCENT OF GDP AND SOCIAL ENTERPRISE AND COOPERATIVES TURNOVER AS PERCENT OF GDP



Source: Social Enterprise UK, *Ending the Monoculture*

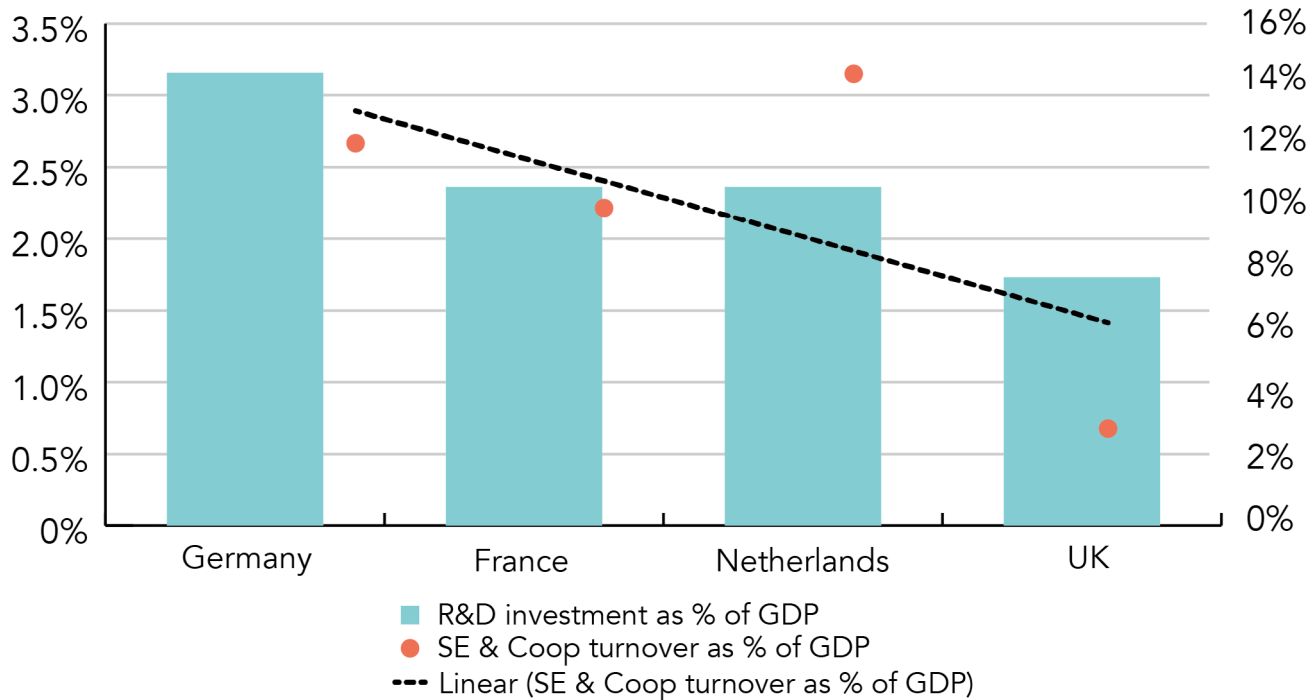
Chart 5 also shows these same countries also have higher levels of investment in R&D - an important form of investment for long term productivity, compared to the UK which has a much lower proportion of purpose-led businesses within its economy.

Higher levels of investment in R&D is linked to higher levels of productivity (and growth) over the long term as it creates spillover effects for developing new products, increasing skills and ultimately increasing wages.⁶⁸ This is why UK policy makers have been focused on raising levels of UK investment in R&D over recent decades, which have lagged behind our international counterparts.

⁶⁸ Z. Griliches, 'The search for R&D spillovers', *Scandinavian Journal of Economics*, vol. 94, 1992

CHART 6

R&D INVESTMENT AS PERCENT OF GDP AND SOCIAL ENTERPRISE AND COOPERATIVES TURNOVER AS PERCENT OF GDP



Source: *Social Enterprise UK, Ending the Monoculture*

What is true at a national level can also be seen at a regional level. The Basque Country and Emilia-Romagna regions of Spain and Italy, respectively, have higher densities of cooperatives and social enterprises - forms of purpose-led business - than other regions in their countries.

In the 1940s, the Basque Country was one of the poorest areas in Spain having been devastated by the Spanish Civil War.⁶⁹ The Basque Country is now one of the richest areas in the European Union. KONFEKOOOP, the regional body representing cooperatives in the Basque country, estimates that there are 1,400 cooperatives, around 10% of all firms in the region. Together, they employ around 60,000 people, around 6% of the total workforce.⁷⁰ GDP per capita in the Basque Country is 26% higher than the rest of Spain. Wages were also 17% higher in the Basque Country compared to the rest of Spain.⁷¹ Unemployment in the Basque Country was also 5 percentage points lower than the rest of Spain.

Inequality is also lower in the Basque Country than it is in any other part of Spain.

The high density of cooperatives in the region has been cited as one of the reasons for its higher levels of economic performance and better working conditions compared to the rest of Spain.⁷²

Emilia-Romagna is home to the densest concentration of cooperatives and social enterprises in Italy. 15,000 out of Italy's 43,000 cooperatives are based in the region. Cooperatives alone directly account for 30% of the region's GDP, significantly higher than most parts of Europe.⁷³ Like the Basque Country, in 1970, Emilia-Romagna was near the bottom of Italy's twenty regions on economic performance, but now it is one of the richest in Italy.⁷⁴ Central to this has been the role of cooperatives in providing patient, long term investment and good quality jobs for the local economy.

69 The New Yorker, How Mondragon Became the World's Largest Co-op, 27 August 2022

70 KONFEKOOOP, About Us, accessed October 2023

71 Eurostat, Regional Gross Domestic Product (Million PPS) by NUTS 2 regions, accessed February 2023

72 The New York Times, Co-ops in Spain's Basque Region Soften Capitalism's Rough Edges, 29 December 2020

73 Apolitical, The Italian region where 30% of GDP comes from cooperatives, 8 Jan 2018

74 J. Restakis, The Emilian Model - Profile of a Co-operative Economy, September 2007

GDP per capita in Emilia-Romagna is 20% higher than the rest of Italy and 17% higher than the EU average.⁷⁵ Interestingly, both Emilia-Romagna and the Basque Country have almost the same GDP per capita, outperforming both their own countries and the EU average.⁷⁶

Not only, therefore, can purpose-led businesses help to boost the UK's national economic performance, but there is also evidence to suggest that it could help to improve the UK's *regional* economic performance.

CONCLUSION

The evidence base is clear that purpose-led businesses will lead to stronger, better performing companies compared to the standard structure of firms in the UK. Table 3 summarises these characteristics overall and outlines the link between how the improved performance of these businesses will manifest itself in terms of impact on the economy as a whole.

If the UK is able to upgrade the vast majority of its businesses to generate the same outcomes as purpose-led businesses have demonstrated, this would be the biggest change in the UK economy for a generation. This is the purpose dividend that the UK economy needs.

TABLE 3
CHARACTERISTICS OF PURPOSE-LED BUSINESS IN THE ECONOMY

CHARACTERISTIC	OUTCOME COMPARED TO STANDARD MODEL OF UK BUSINESS	IMPACT ON THE ECONOMY
Better decision making	Higher levels of investment in capital and people	Higher levels of investment and productivity
	Greater diversity in leadership	Increased wages and higher levels of labour productivity
Higher levels of employee satisfaction	Higher levels of innovation and product development	Higher levels of growth
	Greater levels of staff engagement in decision making and workforce engagement	Higher levels of productivity and competitiveness
Value creation	Higher levels of innovation and product development	Higher levels of growth
	Faster rates of turnover growth	Higher levels of growth

⁷⁵ Eurostat, Regional GDP per capita ranged from 30% to 263% of EU average in 2018, March 2020

⁷⁶ Ibid.

SECTION 3

THE PURPOSE DIVIDEND

In this research, we have sought to test the hypothesis outlined in this research paper that the better performance of purpose-led businesses at an aggregate level will lead to better economic performance at a national level, if implemented across all businesses.

Working with Landman Economics we carried out simulations looking at the outcomes if all businesses in the UK operated and achieved the same results as purpose-led businesses. Using the characteristics identified in Table 3 we identified 32 data points that are outlined in Annex A. These data points show a consistent pattern of purpose-led businesses growing faster, investing more in capital and R&D than their conventional peers as well as being more likely to pay their lowest paid staff a living wage.

Using the data gathered we ran a series of microsimulations to look at what effect having purpose-led business as the default for all businesses in the economy would be on the UK's performance overall. In doing this, we have used those data points where it is possible to extrapolate to an economy-wide level analysis.

Together, they show that an economy where all businesses were purpose-led would see higher levels of capital investment, higher levels of spending on R&D, more people paid a living wage and overall higher levels of economic growth. This is logically coherent. For example, we know from the economic literature that economies where businesses invest more, spend more on R&D and pay higher wages have higher levels of economic growth. Likewise, economies where there are higher levels of economic growth tend to have higher levels of wages, higher levels of R&D expenditure and higher levels of growth.

This section outlines the findings from these simulations and the impact on:

- A.** GDP
- B.** Capital investment
- C.** Wages
- D.** R&D
- E.** Skills and training

We find that if all businesses were purpose-led, the impact on the economy would be as outlined in Table 4, on page 26.

TABLE 4
ECONOMIC ANALYSIS RESULTS

	ESTIMATED IMPACT ON UK ECONOMY IF ALL BUSINESSES WERE PURPOSE-LED
GDP	£149bn a year boost to GDP UK GDP 7% larger versus today
Capital investment	£86bn increase in capital expenditure by SMEs UK capital investment as a percentage of GDP increases from 18% to 21%
Wages	UK total wage bill increases by £5.6bn Lowest paid receive a £2,288 a year pay rise - averaging £44 a week
R&D expenditure	R&D expenditure by SMEs increases by £135bn UK R&D expenditure as percentage of GDP increases from 3% to 5.5%

A. GROSS DOMESTIC PRODUCT

GDP is a common way to measure economic activity.⁷⁷ At a basic level, GDP is a measure of the value of goods and services produced within the economy and provides an overall level of growth.

Looking at the data in Annex A on the performance of purpose-led businesses, particularly the significant improvements in turnover compared to profit-led businesses, we can see that having more purpose-led businesses in the UK would achieve significantly higher levels of growth.

Our calculations are based on the link between the turnover of non-financial businesses and Gross Value Added (a way to measure total economic output minus intermediary inputs). The latest business population data shows that total turnover for the UK's non-financial businesses (e.g. businesses not primarily providing financial services) was £3,075bn. Meanwhile total Gross Value Added of these businesses was £910bn over the same period. This ratio of turnover of non-financial businesses to UK GVA is therefore a ratio of 3.38.

Extrapolating this out, we find that if every business in the private sector was to be purpose-led and achieve similar levels of turnover growth, this would

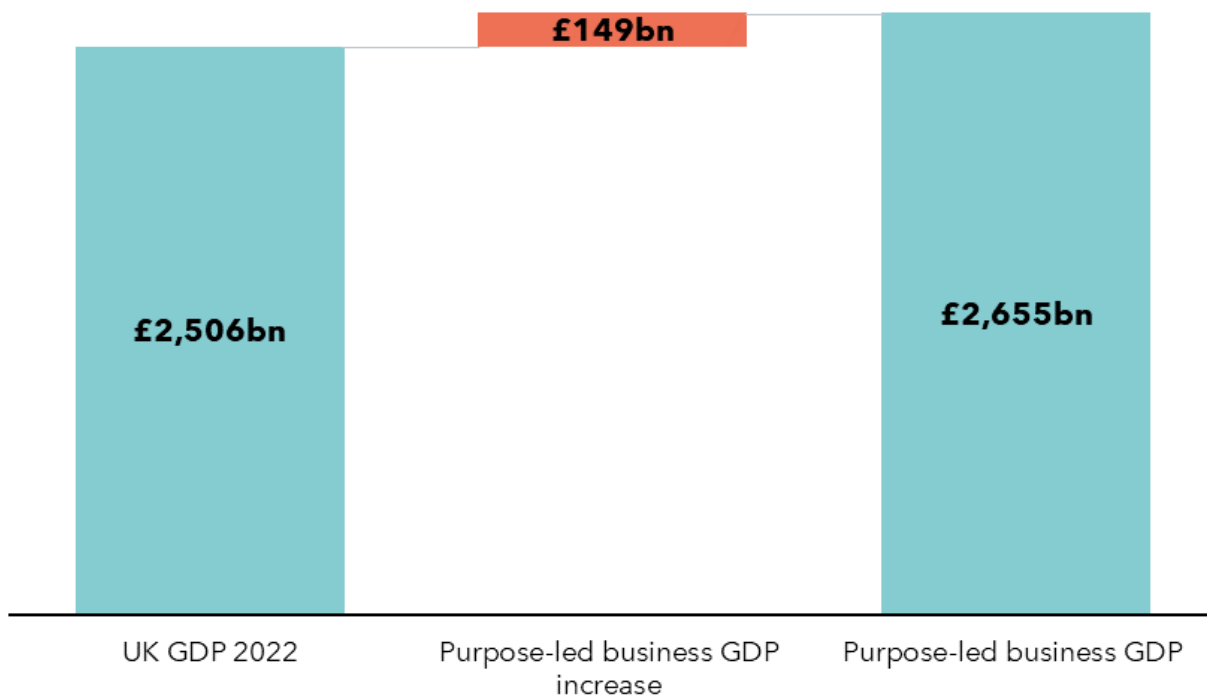
add an extra £504bn to the turnover of UK non-financial businesses, which in turn we estimate would add £149bn in total to the UK's GDP.

This is likely to be an underestimate, as higher levels of turnover would likely stimulate domestic demand and add to economic output. However, even without these wider effects, the shift would be game changing to the UK's overall levels of economic performance, with the economy 7% larger than it currently is today.

⁷⁷ Consistent with the interpretation of Gross Domestic Product by the Office for National Statistics, we use Gross Value Added as a proxy for Gross Domestic Product. All figures here are GVA/GDP. See <https://www.ons.gov.uk/economy/grossdomesticproductgdp/methodologies/aguidetointerpretingmonthlygrossdomesticproduct>

CHART 7

INCREASE IN UK GDP IF ALL BUSINESSES WERE PURPOSE-LED



To put this into context, some economists say that Brexit has left the UK economy 5.5% smaller than it otherwise would have been.⁷⁸ Purpose-led business improvements to the economy could outstrip estimates of the potential impact of this major economic decision.

Spreading purpose-led businesses throughout the entire economy would mean that there is greater competition between these types of businesses. However, this is likely to spur further positive behaviours within businesses to demonstrate their value, for example, through investing more rapidly in sustainable technologies to demonstrate their environmental value or in their workforce to demonstrate positive social outcomes. Competition, and spreading purpose-led businesses through the UK, is therefore unlikely to reduce the growth of purpose-led businesses.

This would be a game-changing level of economic output, equivalent to adding a sector the size of the construction industry to our economy overnight.

B. INVESTMENT

One way that we can generate a higher level of growth and significantly increase productivity is through higher levels of investment. As shown in Table 5 in Annex A, there are a number of data points that show higher levels of investment by purpose-led businesses compared to conventional businesses. Using evidence from Social Enterprise UK's most recent State of Social Enterprise we found that the number of social enterprises planning to undertake capital investment was nearly double the rates of conventional SMEs.

The latest ONS data indicates that total capital investment by SMEs⁷⁹ in 2022 was £104bn.⁸⁰ In an economy where all SMEs are purpose-led, and assuming levels of investment at firm level roughly equal to SMEs currently but with a higher proportion of SMEs undertaking capital investment, we would expect to see investment increase by £86bn.

This would raise the UK's investment to GDP ratio by around 4 percentage points. As Chart 8 shows, this would bring the UK economy into line with its competitors in the G7, moving from the bottom of the league table to the middle, on par with countries such as Germany and Italy. It would also likely have a significant positive impact on the UK's long term growth.

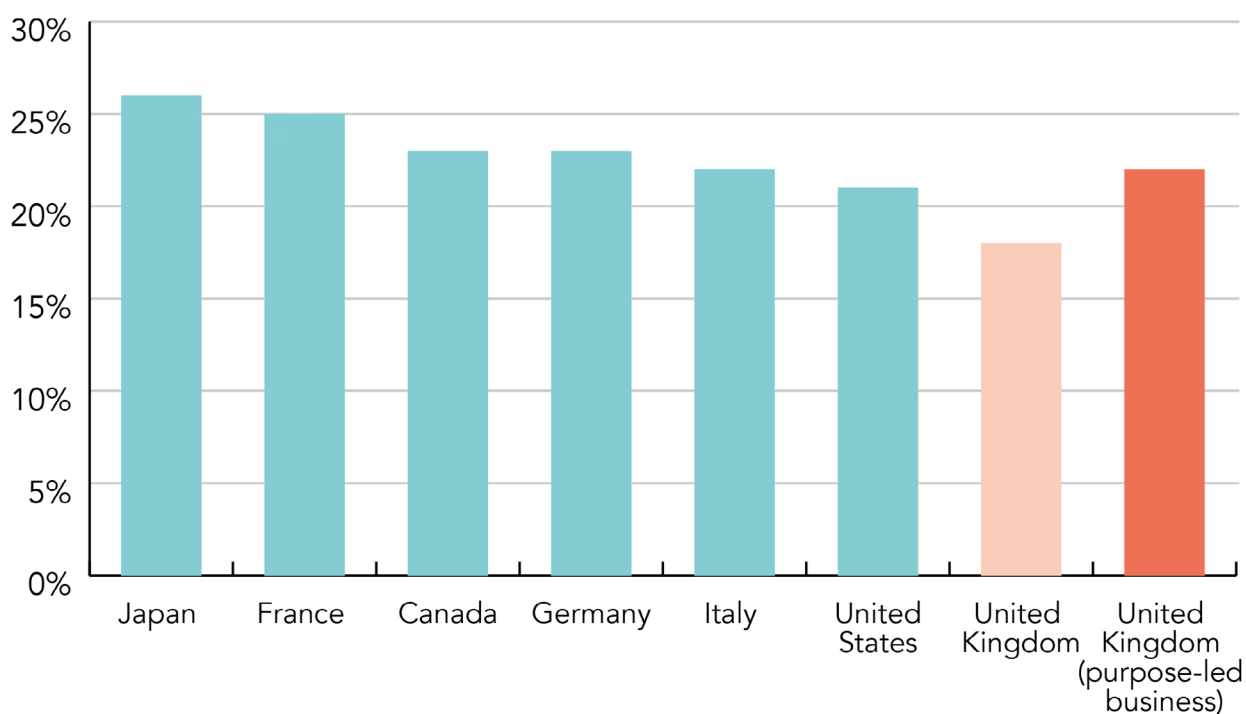
⁷⁸ Centre for European Reform, The cost of Brexit to June 2022, December 2022

⁷⁹ Employees with less than 300 employees used as proxy for SMEs

⁸⁰ Office for National Statistics, Capital Expenditure and survey populations by employment size bands, 29 September 2023

CHART 8

INCREASE IN INVESTMENT AS A PERCENTAGE OF GDP FOR UK COMPARED TO OTHER G7 COUNTRIES



Source: World Bank & Demos analysis

A higher overall level of investment is positive, however, some research indicates that increasing capital expenditure can lead to lower returns to shareholders as firms “overinvest” in order to catch up to their peers.⁸¹ There is a risk therefore that a surge in investment by purpose-led SMEs could lead to firms to overinvest that reduces overall returns to shareholders. Moreover, it could also *reduce* productivity if, by increasing inputs (in this case capital), economic output (e.g. sales of goods and services) was not significantly increased. However, given the current low levels of capital investment in the UK, this risk appears marginal.

C. WAGES

The data in Annex A outlines evidence that purpose-led businesses are more likely to pay higher wages to those at the lower end of the income spectrum than their peers. For example, data from B Lab 2023 has found that 89% of UK B Corporations pay 100% of their employees the Living Wage Foundation’s Living Wage.⁸²

However, we decided to use a conservative approach to estimating the benefits to the lowest

paid from making all businesses purpose-led. We used research from Social Enterprise UK and Living Wage Foundation on the take up of the living wage by these businesses in Table 12. We then compared this with data from the Labour Force Survey which provides data on hourly wages for employees in the private sector paid below the Real Living Wage levels (£12 per hour outside London and £13.15 per hour in London).

If all businesses in the UK were purpose-led, we would expect the UK’s wage bill to increase by £5.6bn. This would likely be an underestimate as other forms of purpose-led business, such as B Corporations, show an even higher level of paying the living wage than social enterprises. This would be a cost to businesses, in higher wages, but the living wage has been found to increase the reputation of employers that pay it, reducing turnover and helping businesses to win contracts which can offset the costs.⁸³ Moreover, research on increasing the minimum wage found increases in tax revenues from higher pay which can be used to offset this increased cost to businesses, for example, through cutting employment taxes.⁸⁴

81 S. Titman et al, Capital Investments and Stock Returns, The Journal of Financial and Quantitative Analysis, December 2004

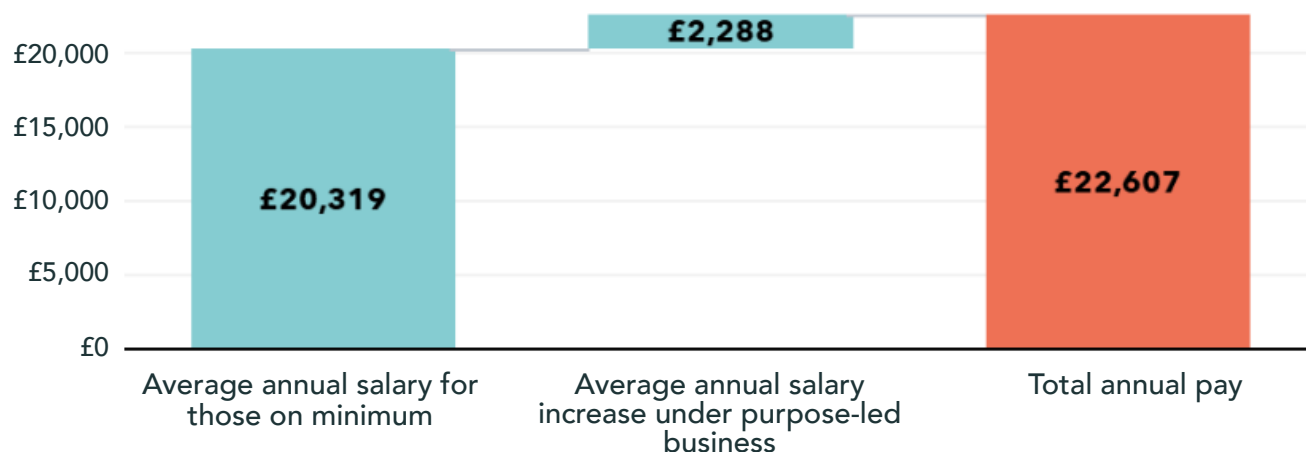
82 B Lab UK - data held on B corporations shared with report author

83 E. Heery et al, Twenty Years of the Living Wage: The Employer Experience, 2021

84 J. Meadway & H. Reed, The Case for a £15 an hour Minimum Wage, June 2022

CHART 9

INCREASE IN PAY FOR THOSE ON THE NATIONAL MINIMUM WAGE/NATIONAL LIVING WAGE WITH PURPOSE-LED BUSINESS



The average gain for workers who would receive a pay rise from this reform would be just over £44 per week or £2,288 a year. At a time when thousands of people are facing a cost of living crisis, purpose-led businesses could leave some of the lowest paid in our society with a pay rise of around 10%.

This would also likely be an underestimate of the impact of the potential of purpose-led businesses. Increasing wages for the lowest paid will likely put pressure on the differentials for those that manage those on lower levels of pay, with the middle income roles likely to benefit substantially from this as well. Interestingly, the gains for those at the higher end of the income spectrum are likely to be limited, as the pay ratio between those with the highest pay and lowest pay in B Corporations is significantly lower than the rest of the private sector. The same is true in social enterprises and community businesses.

The cost of increasing wages for the lowest paid is likely to come from an increase in costs. However, the impact of a £5.6bn increase in the UK wage bill is marginal and is unlikely to be inflationary, as increased turnover and investment will create real economic activity rather than simply increasing the price of goods and services.

D. RESEARCH AND DEVELOPMENT

There is strong evidence to suggest that higher levels of R&D expenditure leads to higher levels of growth.⁸⁵ More spending on R&D leads to

the development of new products and services, improving the efficiency of existing services and creating higher levels of economic activity. As a consequence, the government has made one of its objectives to increase R&D expenditure across the economy.⁸⁶

Based on data from Table 10 in Annex A - which compares B Corporation SMEs in the UK applying for or receiving R&D tax credits in the past three years with conventional SMEs - we can estimate the potential increase in R&D expenditure across SMEs if all businesses were purpose-led. The difference between B Corporations and SMEs in this scenario is significant - around seven times as many B Corporations are claiming tax credits compared to SMEs.

In 2022, SME spend on R&D was £17.8bn based on R&D tax credit returns.⁸⁷ Taking the rate of application from B Corporation SMEs (45%) compared to conventional SMEs (6%), if all businesses were purpose-led we could expect R&D expenditure to increase to £133.5bn overall - a significant increase in the UK's R&D expenditure to around 5% of GDP - in line with countries such as Korea and Israel that are seen to be on the technological frontier.⁸⁸

The initial figure increase in R&D is high, likely to be driven by purpose-led businesses investing more into products and services to make them environmentally sustainable and finding ways to increase their social impact through production.

85 OECD, The Impact of R&D Investment on Economic Performance: A Review of the Econometric Evidence, April 2015

86 House of Commons Library, Research and Development spending, September 2023

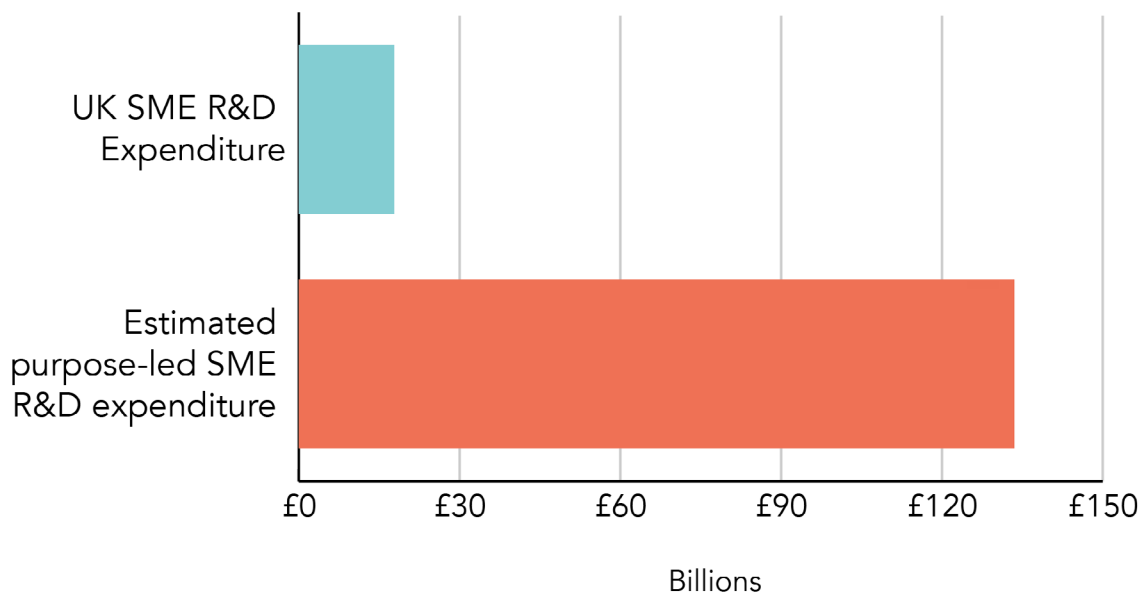
87 HMRC, Research and Development Tax Credits Statistics: September 2023, 28 September 2023

88 World Bank, Research and Development Expenditure (% of GDP), accessed October 2023

Fundamentally rewiring the operations of businesses will require significant levels of innovation and investment as the transition takes place. However, using our international comparisons, we can see that economies with more purpose-led businesses in them (such as social enterprises and cooperatives) do see significantly higher levels of investment and R&D spending. For example, we forecast that increasing the proportion of social enterprises and cooperatives in the UK would increase investment from 17% of GDP to around 22% of GDP, and would increase R&D investment from 1.7% of GDP to around 2.5%. In aligning with international averages, the UK would still have a minority of purpose-led businesses,

whereas in our scenario above, all businesses would be purpose-led. Although the overall figure is very high - driven by the high levels of R&D expenditure by B Corporations - the general trend is clear that significantly increasing the number of purpose-led businesses within the economy drives much higher levels of investment in capital and R&D. Switching to purpose-led business as the default should, therefore, lead to transformational results on R&D expenditure.

CHART 10
SME R&D EXPENDITURE TODAY VS POTENTIAL EXPENDITURE UNDER PURPOSE-LED BUSINESS MODEL



Based on OECD meta-analysis on the connection between investment in R&D and GDP, this would lead to an additional £23.1bn increase in GDP compared to the economy today.

Theoretically, the increased cost from R&D investment would likely come from lower initial financial returns to shareholders through higher operating costs in the short term to pay for higher levels of R&D investment. However, empirical research has not found a clear between the effects of R&D expenditure and lower operating margins or lower short term financial returns for investors.⁸⁹ Moreover, as with all decisions, R&D investment is

only likely to have a positive return if it is invested wisely. The gains from R&D are also not concentrated at firm level. For example, only around 20% of the gains from R&D expenditure go to the firm that undertakes the expenditure, while the other 80% are shared with society as a whole (e.g. through higher wages, increased knowledge, research that is used by other businesses).⁹⁰ However, over the long run, companies (and countries) which consistently invest in R&D at high levels (compared to their peers) see better economic performance.⁹¹

89 B. Hall & J. Mairesse, Measuring corporate R&D returns: Handbook of the Economics of Innovation, 2010

90 Frontier Economics, Rate of Return to Investment in R&D, March 2023

91 Ibid.

E. SKILLS AND TRAINING

An important long driver of economic growth is investment in skills and training. Many businesses report skills shortages which are holding the economy back.⁹² As identified in Table 6 of Annex A, purpose-led businesses have a positive track record of investing in the skills and training their staff.

Research by the Institute for Fiscal Studies (IFS) and the Centre for Economic Performance (CEP) at the London School of Economics suggests that a 1% increase in the proportion of workers being trained in an industry is associated with an increase in productivity of 0.6% and an increase in hourly wages of 0.3%.⁹³

Based on the finding that 93% of B Corporation SMEs arranged or funded training or development for their staff, compared to 49% of all SMEs, we would expect an increase of 44% in the proportion of SMEs undertaking training of their staff over a 12 month period if all SMEs were operated as purpose-led businesses. Using the IFS & CEP analysis, we estimate higher levels of training and skills development could increase Gross Value Added of SMEs by 26% over the medium term, adding tens of billions to UK GDP. It would also increase wages by SMEs by around 13% through increasing productivity and output.

CONCLUSION

The benefits of spreading purpose-led business models throughout our economy would be multifaceted.

There are also benefits that have not been calculated here, from the reduction in carbon emissions, distribution of profits to local community organisations and charitable causes and higher levels of employee satisfaction (outlined in Annex A).

The costs from higher levels of investment, expenditure in R&D, and higher wages for the lowest paid, would be offset through higher levels of growth and recycled back through the economy. There would also be higher revenues for the government, potentially as much as £37bn a year. The overall net gain would depend on the tax and spending decisions of the government and whether they decided to offset some of the initial higher costs for business through tax cuts or fiscal support (for example, making investment reliefs more generous or cutting national insurance for businesses to offset costs of higher pay).

What we do with the gains of purpose-led business is for society to decide. An economy full of purpose-led businesses could focus on solving some of our greatest technological challenges, such as accelerating the transition to Net Zero. It could focus on sharing the gains of economic growth more fairly throughout society, increasing wages or introducing practices such as the four day week. It could focus on building the UK's export potential and turn the UK into the "socially responsible workshop of the world".

However, what is clear is that an economy with purpose-led business as the default model of doing business would have a stronger platform to do whatever we collectively decide is the best for our future. Whatever your aspirations, purpose-led business puts the UK economy in a stronger position to achieve them.

92 The Times, Skills shortages hold back small firms, 13 November 2023

93 L. Dearden et al, The Impact of Training on Productivity and Wages: Evidence from British Panel Data, 2006

SECTION 4

SECURING THE PURPOSE DIVIDEND

As Section 3 has highlighted, the gains from spreading purpose-led business throughout our economy will be significant. However, we need a strategy to get there. At the centre of this strategy needs to be a major upgrade to the UK Companies Act and corporate governance.

As we have noted in this research, businesses with a legally binding purpose display a number of positive economic characteristics from higher levels of investment to faster growth. They do this because they are run in a way that focuses them on the long term delivery of their social and/or environmental purpose.

Individually, businesses are recognising this and transitioning to purpose-led models voluntarily. They are doing this either by setting themselves up as a firm with an inbuilt purpose (e.g. Community Interest Company) or they are adopting B Corporation status to voluntarily change their business structure. However, this is a slow way to achieve change.

Community Interest Companies have grown at around 16% a year over the past decade. At this rate, it would take 35 years before the total number of Community Interest Companies reached the same level of business overall. The growth of purpose-led business models have been rapid, but we are still decades away from making purpose-led business the default way of running a business with all the benefits that could bring to the UK economy.

The need for a faster pace of change has led many to look at reforming company law.

In his 2021 Conference Speech, Sir Keir Starmer suggested that we needed to reform company law to encourage “long-term success of the company, the main priority” of directors.⁹⁴ There is also an active debate in the Conservative Party about how to strike the balance between profit and wider social, economic and environmental value. An independent review into the *Future of the Corporation* led by leading academic Professor Colin Mayer for the British Academy also came to a similar conclusion, arguing for company law to put purpose “at the heart of company law and the fiduciary responsibility of all directors.”⁹⁵ The British Academy recommended that this is done through reforming Section 172 of the Companies Act. Section 172 sets out the legal responsibility of company directors who ultimately are responsible for overseeing the operations and strategy of the businesses for which they serve on the board.

⁹⁴ The Labour Party, Conference Speech: Keir Starmer, 29 September 2021

⁹⁵ The British Academy, Policy & Practice for Purposeful Business: The Final Report of the Future of the Corporation Programme, 2021

CURRENT RESPONSIBILITIES OF DIRECTORS - SECTION 172 OF THE COMPANIES ACT

Section 172(1) of the Companies Act sets out the matters that a director of a company must have regard to in fulfilling his or her duty to promote the success of the company, which include the interests of various stakeholders.

The primary responsibility of directors under Section 172 of the Companies Act is to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole.

How to judge what is a successful company and beneficial to members is still a matter of considerable debate. UK case law on the subject is inconclusive.⁹⁶ UK judges seem to have taken inspiration from the United States where the concept of 'shareholder value', most notably the 1919 Dodge v Ford Motor Company case, has more closely defined the success of the company with "the profit of the stockholders."

This 'common law' tradition is still in effect, with a recent UK Supreme Court decision finding that the Companies Act 2006 carries forward "the common law approach of shareholder primacy."⁹⁷ Although some argue that this is primarily a cultural trait, rather than being truly driven by the legal framework, there is general agreement that it has a powerful hold on the decision making of most businesses.⁹⁸

A survey by the British Academy in 2019 found that 40% of business leaders wanted the UK Government to change company law and regulation to encourage purpose within UK firms.⁹⁹ A survey of directors by the Institute of Directors in 2021 found that 62% of directors believe that businesses should not exist solely to make money and generate shareholder profits.¹⁰⁰ Proposals to reform corporate governance are, therefore, not anti-business but are gathering increasing support from businesses.

There are many ways that we could reform company law to improve the governance of UK businesses, but one of the campaigns with the largest levels of support is the Better Business Act campaign.

The Better Business Act campaign has brought over 2,000 businesses together to call for a 'Better Business Act' which would ensure every business aligned the interests of their shareholders with those of wider society and the environment. This coalition has got the support not just of individual businesses but representative bodies such as the Institute for Directors.¹⁰¹

96 R. Flannigan, Shareholder Primacy: The Misconstruction, May 2023

97 Oxford Business Law Blog, Shareholder Primacy and Corporate Purpose, 21 December 2022

98 N. Craig & D. Rønnegard, Shareholder Primacy, Corporate Social Responsibility, and the Role of Business Schools, Journal of Business Ethics, Vol. 134, No.3, March 2016

99 The British Academy, Survey Highlights appreciate for new definition of corporate purpose among UK businesses, 15 October 2020

100 Institute for Directors, IoD Directors' Briefing, 11 June 2021

101 <https://betterbusinessact.org/>

THE BETTER BUSINESS ACT

The Better Business Act is a proposed change to Section 172 of the Companies Act.

This would change the legal duties of directors, in order to:

- Align the interests of wider society and the environment with the interests of shareholders
- Empower directors to make decisions based on the interests of the environment and society, not just the financial interests of shareholders
- Apply to all companies by default rather than having to pass a legal resolution on a business-by-business basis
- Ask businesses to report on how they are aligning the interests of society, the environment and shareholders

The Better Business Act would pass an amendment to the Companies Act 2006 which has been drafted by leading company law experts.¹⁰²

A copy of the legislative change proposed by the Better Business Act can be found online: <https://betterbusinessact.org/>

This move would be popular with the public. A survey by Opinium, commissioned by the Better Business Act campaign, found that 77% of people agreed that businesses should have a legal responsibility based on people and the planet.¹⁰³ Policy makers do not need to fear a backlash from the public or business from proposing this change.

Historically, the UK has significantly benefited from leading the world in corporate governance and structure. Britain was at the centre of the industrial revolution because of the sophisticated legal and regulatory structure that it developed through stable property rights, the creation of joint-stock companies and limited liability in the 19th Century.¹⁰⁴ These supply-side reforms helped to set the stage for the UK's economic growth and have maintained the UK as a global economic leader. Policy makers should not, therefore, be afraid of making significant changes to the UK's company law regime. The Better Business Act would be part of a long tradition of corporate governance reforms that have had a profound impact on the overall performance of the British economy.

The choice facing policy makers is straightforward.

We can wait for purpose-led business to organically spread throughout our economy, a process that could take decades to come to fruition. A process which, given the UK's precarious economic position, we cannot afford to wait on.

Alternatively, we can use company law reform to accelerate that process and spread the benefits of purpose-led businesses within a period of a few years across our entire economy, generating huge gains for the UK economy and society.

Businesses want change. The public wants change. Politicians say they want change. The time has come to make that change.

¹⁰² <https://betterbusinessact.org/wp-content/uploads/2021/04/The-Better-Business-Act-2021.pdf>

¹⁰³ Better Business Act & Opinium, Wake Up To Better Business, April 2023

¹⁰⁴ D. Bogart & G. Richardson, Property Rights and Parliament in Industrialising Britain, The Journal of Law and Economics, Vol 54, Number 2, May 2011

CONCLUSION

We are in the midst of a slump in the country's overall economic performance.

Everyone wants to fix this, but the current tools in the policy toolbox are simply not going to work. We cannot just keep repeating the same approach we have over the past thirty years and expect different results.

Historically, the most effective way to improve the performance of the economy is to adapt the structure, governance and operations of businesses.

The UK has been a global economic leader because we have had the best businesses, with a structure of legal and regulation that has encouraged better decision making and long term value creation. In recent years, we've seen the limits of business as usual.

Just as our computers, phones and other digital technologies need regular updates, so too do our businesses. Proposals like the Better Business Act could be the 'software update' that the British economy needs.

As our research shows, the gains through making purpose-led business the default way to run a business in the UK could be significant. Reforming the governance of UK companies could unleash tens of billions of pounds of capital investment, turbocharge spending on R&D, and boost the wages of the lowest paid by thousands of pounds a year all leading to higher levels of economic growth.

This is the purpose dividend that we cannot afford to ignore.

Calling for reform to company law is not anti-business, but pro-business. It recognises that the most powerful institutions in the economy are our businesses and the decisions they make are key to our future.

British business can be better, if we are prepared to embark on a practical reform agenda.

As we approach the next General Election, it is up to policy makers to step up and show the public that a brighter future is possible, with better business at the centre.

ANNEX A

THE CHARACTERISTICS OF PURPOSE-LED BUSINESSES

For this research, we have sought to identify UK sources of information on purpose-led business. However, the literature is clear that the characteristics of these business models are similar across geographical boundaries and where appropriate, we have included examples from other countries that have similar economies to the UK (e.g. Europe and North America). In total, we have found 32 data points on various characteristics of purpose-led business across five broad categories of purpose-led business types.

Better decision making

Overall, the data indicates that purpose-led businesses are more likely to undertake capital investment than other forms of business.

TABLE 5
DATA ON PURPOSE-LED BUSINESSES INVESTMENT IN CAPITAL VERSUS PROFIT-LED BUSINESSES

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	Social Enterprise UK 2021 - 60% of social enterprises plan to undertake capital investment in the next 12 months compared to 32.8% of profit-led SMEs. ¹⁰⁵
Cooperatives	Challita 2016 - Cooperatives in the US have a higher level of capitalisation than profit-led businesses. ¹⁰⁶ Pencavel 2006 - Median capital per worker in Italian cooperatives is 1.6 to 2.4 greater than profit-led businesses. ¹⁰⁷ Moye 1993 - Cooperatives in Basque country have a 9% higher annual rate than the overall rate in Spain. ¹⁰⁸
B Corporations SMEs	B Lab UK 2020 - 32% of B Corp SMEs stated that they invested more than £100k in R&D in the past three years compared to 18% of all SMEs. ¹⁰⁹

105 Federation of Small Business, Voice of Small Business Index - Quarter One, 2021

106 S. Challita, Impact of Ownership Structure on Market Strategies, Financial Performance and Risk: A Multi-Sector Approach, December 2016

107 J. Pencavel et al, Wages, Employment, and Capital in Capitalist and Worker-Owned Firms, Industrial and Labor Relations Review, Vol. 60, No. 1, October 2006

108 M. A. Moye, Mondragon: Adapting Co-operative Structures to Meet the Demands of a Changing Environment, Economic and Industrial Democracy, Vol. 14, 1993

109 C. Morley & M. Goodchild, An independent comparative study into the financial and operational performance of B Corporations in the UK, November 2020

TABLE 6**DATA ON PURPOSE-LED BUSINESSES INVESTMENT IN PEOPLE VERSUS PROFIT-LED BUSINESSES**

Data on investment in human capital through the provision of skills and training compared with profit-led businesses, but there are gaps for cooperatives, employee-owned businesses and mission-led/purpose-led businesses.

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	Social Enterprise UK 2023 - Social enterprises are also almost twice as likely to be investing in training their workers compared to other forms of business. 81% of social enterprises are investing in training and development of their workers compared to 43% of other businesses. ¹¹⁰
Cooperatives	N/A
B Corporations SMEs	B Lab UK 2020 - 93% B Corp SMEs arranged or funded training or development for staff in the past year, compared to 49% for all SMEs. ¹¹¹ B Lab UK 2020 - 44% B Corp SMEs intend to have an apprenticeship start in the next 12 months, compared to 13% of all SMEs. ¹¹²

TABLE 7**DATA ON PURPOSE-LED BUSINESSES DIVERSITY OF LEADERSHIP VERSUS PROFIT-LED BUSINESSES**

Data on the diversity of purpose-led businesses indicates that broadly, purpose-led businesses are more likely to be led or have senior leadership by women or people from under-represented communities, improving the quality of leadership.

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	Social Enterprise UK 2021 - 47% of social enterprises are led by women compared to 18% of SMEs. ¹¹³ Social Enterprise UK 2021 - 83% of leadership teams include a woman. ¹¹⁴ Social Enterprise UK 2021 - 31% of social enterprises have directors from Black, Asian and Minority Ethnic backgrounds. ¹¹⁵
Cooperatives	N/A
B Corporations SMEs	B Lab UK 2020 - 82% of B Corporation SME leadership teams include at least one woman, compared to 54% for the average SME. ¹¹⁶

110 Social Enterprise UK, Social Enterprise and Quality of Work, January 2023

111 C. Morley & M. Goodchild, An independent comparative study into the financial and operational performance of B Corporations in the UK, November 2020

112 Ibid.

113 Social Enterprise UK, No Going Back: State of Social Enterprise Survey 2021, October 2021

114 Ibid.

115 Ibid.

116 C. Morley & M. Goodchild, An independent comparative study into the financial and operational performance of B Corporations in the UK, November 2020

Higher levels of employee satisfaction

There is significant and consistent data that employee satisfaction is higher in purpose-led businesses than other forms of business.

TABLE 8

DATA ON EMPLOYEE SATISFACTION VERSUS PROFIT-LED BUSINESSES

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	Third Sector Research Centre - non-profit organisations report 6% higher job satisfaction than public and private sectors. ¹¹⁷ Castel 2011 - "we came to the overall conclusion that workers from non-profit organizations attach a great deal of value to the social usefulness of their activity and have a high intrinsic motivation." ¹¹⁸
Cooperatives	Welsh Cooperatives and Mutuals Commission 2014 - "Workers in cooperatives also report much higher levels of job satisfaction than privately owned businesses" ¹¹⁹
B Corporations SMEs	B Lab 2019 - 98% of employees surveyed at Certified B Corporations say they are highly satisfied with where they work ¹²⁰ compared with 74% of employees across the UK according to the Randstad Global Work Monitor Q4 2019. ¹²¹

TABLE 9

DATA ON GREATER LEVELS OF ENGAGEMENT IN BUSINESS

There is significant and consistent data that employee engagement is higher in purpose-led businesses than other forms of business.

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	Social Enterprise UK 2021 - 87% of social enterprises say that they actively engaged workers in decision making regarding the operation and future of the business ¹²² compared to 51% of workers who say they have access to a workers committee or council to represent their views about the business. ¹²³
Cooperatives	Welsh Cooperatives and Mutuals Commission 2014 - "Workers in cooperatives also report much higher levels of job satisfaction than privately owned businesses" ¹²⁴
B Corporations SMEs	N/A

117 C. Donegani et al, A dimming of the 'warm glow'? Are non-profit workers in the UK still more satisfied with their jobs than other workers?, April 2012

118 D. Castel, Working in Cooperatives and Social Economy: Effects on Job Satisfaction and the Meaning of Work, 2011

119 Welsh Co-operative and Mutuals Commission, Report of the Welsh Co-operative and Mutuals Commission, February 2014

120 Be The Change, On-the-Job Satisfaction? Believe it, 31 May 2019

121 Randstad, Global Report Workmonitor Q4 2019, December 2019

122 Social Enterprise UK, No Going Back: State of Social Enterprise Survey 2021, October 2021

123 Eurofound, European Working Conditions Telephone Survey 2021, 26 September 2023

124 Welsh Co-operative and Mutuals Commission, Report of the Welsh Co-operative and Mutuals Commission, February 2014

Value creation

There is significant data that levels of innovation and product development in purpose-led businesses is higher than in other forms of business.

TABLE 10

DATA ON LEVELS OF INNOVATION AND PRODUCT DEVELOPMENT VERSUS PROFIT-LED BUSINESSES

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	<p>Social enterprises 2021 - 66% of social enterprises introduced a new product or service in the last year, compared to 35% of businesses in the UK as a whole.¹²⁵</p> <p>Social enterprises 2021 - 61% developed products and/or services that are new to the organisation (23% of all businesses).¹²⁶</p> <p>Social enterprises 2021- 37% developed products and/or services that are new to the market, compared to 8% of business as a whole.¹²⁷</p>
Cooperatives	<p>N/A</p>
B Corporations SMEs	<p>B Lab 2019 - 84% of B Corporations introduced new or significantly improved goods or services in the last three years compared to 41% of SMEs.¹²⁸</p> <p>B Lab 2019 - 45% of B Corporations applied for or received R&D tax credits in the past three years compared to 6% of SMEs.¹²⁹</p>

125 Social Enterprise UK, No Going Back: State of Social Enterprise Survey 2021, October 2021

126 Ibid.

127 Ibid.

128 C. Morley & M. Goodchild, An independent comparative study into the financial and operational performance of B Corporations in the UK, November 2020

129 Ibid.

TABLE 11**DATA ON TURNOVER GROWTH VERSUS PROFIT-LED BUSINESSES**

Data on turnover growth is concentrated within social enterprises, B Corporations and mission-led/purpose-led businesses but indicate that these businesses are more likely to be growing and at a faster rate than other forms of business.

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	Social enterprise UK 2021 - 44% of social enterprises have reported increased turnover compared to 18% for other SMEs. ¹³⁰
Cooperatives	N/A
B Corporations SMEs	<p>B Lab 2023 - Between the years 2019 and 2020, 79% of B Corps experienced an increase in revenue between their latest certification's "Revenue Last Year" and "Revenue Year Before Last", while only 54% of businesses that did not demonstrate a focus on social, economic and environmental impact demonstrated a similar revenue increase. Between the years 2020 and 2021, 85% of B Corps experienced an increase in revenue while only 61% of businesses that did not demonstrate a focus on social, economic and environmental impact demonstrated a similar revenue increase.¹³¹</p> <p>B Lab 2019 - Between 2017 and 2019, B Corp SMEs' mean average annual turnover growth was 24% (median average 15%) – compared to an average of 3% for all SMEs.¹³²</p> <p>Chen & Kelly 2014 - Researchers at the School of Management at SUNY Binghamton found that certified B Corporations had revenue growth 3-4 times as high as those of publicly traded companies between 2006-2011.¹³³</p>

130 Social Enterprise UK, No Going Back: State of Social Enterprise Survey 2021, October 2021

131 B Lab Global. (2023). UK job growth and revenue statistics from the B Impact Assessment, www.bimpactassessment.net

132 B Lab UK, How do UK B Corps perform?, accessed October 2023

133 X. Chen & T. Kelly, B Corps - A Growing Form of Social Enterprise, *Journal of Leadership & Organisational Studies*, Vol. 22, No. 1, 2014

TABLE 12
DATA ON WAGES VERSUS PROFIT-LED BUSINESSES

There is no direct data held on comparisons between levels of pay at purpose-led businesses with profit-led businesses, but data on the Living Wage indicates that social enterprises and B Corporations are more likely to pay it than their peers in the private sector, indicating that purpose-led businesses pay more for the lowest paid than their peers.

BUSINESS FORM	COMPARISON WITH PROFIT-LED BUSINESSES
Social enterprises (including Community Interest Companies, Community Benefit Societies, Community Businesses, Cooperatives and Mission-Led Businesses) SMEs	<p>Social enterprise UK 2023 - According to the Living Wage Foundation's latest briefing note, over a quarter (26%) of private sector workers are not paid a living wage, compared to 17% of 'third sector' workers.¹³⁴</p> <p>Social enterprise UK 2023 - 2,427,480 more workers would be paid the Living Wage if every business adopted a social enterprise approach to pay and conditions.¹³⁵</p>
Cooperatives	<p>N/A</p>
B Corporations SMEs	<p>B Lab 2023 - 89% of UK B Corps pay 100% of their employees the Living Wage.¹³⁶</p> <p>B Lab 2023 - 97% of UK B Corps pay more than 75% of their employees the Living Wage.¹³⁷</p>

Impact on productivity

Higher levels of investment, higher levels of staff engagement, higher levels of innovation and higher levels of growth are likely to lead to higher levels of productivity for purpose-led business.

Data on the productivity of social enterprises is hard to find. Analysis of the Small Business Survey in 2012 found that a marginally higher proportion of social enterprises said that they would be seeking to boost productivity to increase growth, compared to other SMEs.¹³⁸ A review of social enterprises operating in public services, found that they had productivity growth nearly seven times faster than the rest of the public sector. However, the public sector traditionally suffers from lower levels of productivity compared to the rest of the economy.¹³⁹

This is driven by higher levels of staff engagement and innovation which, as we have noted, are also characteristics of the broader purpose-led business sector. This indicates that purpose-led businesses may also generate higher levels of productivity compared to businesses that are the motivational

force of purpose. Research has also found that worker-owned cooperatives are also more productive than other forms of business, again due to higher levels of staff engagement.

134 Social Enterprise UK, Social Enterprise and Quality of Work, January 2023

135 Ibid.

136 B Lab UK - data held on B corporations shared with report author

137 Ibid.

138 Cabinet Office, Social Enterprise: Market Trends 2012, May 2013

139 Social Enterprise UK, State of Public Service Mutuals, April 2019

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