THE SOCIAL ECONOMY ALLIANCE

CONSULTATION PAPER – EVERYBODY'S BUSINESS

How transparency, openness, accountability, good governance and more democratic business models can tackle the negative effects of business and help deliver a more sustainable, productive and responsible economy.

REBUILDING TRUST IN BUSINESS

Our economy is driven by business. While we need government to protect us and charities, citizens and communities to help us, it is most often business that feeds us, clothes us, delivers heat and light, creates jobs, pays wages, pays taxes and keeps the wheels of the economy turning. The relationship between business and society is interdependent.

But we risk losing touch with the real value of business by focusing too much on narrow-short term economic indicators such as quarterly profit statements or share prices. Businesses have come under fire for their employment practices, rewarding failure, their supply chains, their impact on communities and some even for tax avoidance - free-riding on public investment and infrastructure. Short-termism is rife with business leaders and shareholders incentivised to think only in terms of months, weeks or even days. The environmental side-effects of economic activity have never been greater. Over three-quarters of voters say that most large companies won't be open and honest about their behaviour unless they are forced[1].

Even establishment figures have called this a crisis of capitalism. Whether this is really a structural breakdown or just a periodic blip may depend upon the response of the business community. The challenges are urgent. We don't have time to build a new social economy organically from the bottom up - to solve problems like environmental catastrophe or massive inequality. Government and civil society cannot solve these challenges alone. We need business to step up. Capitalism must be rejuvenated with an injection of greater social and environmental responsibility if it is to avoid further crises.

Meanwhile, the scale of Government subsidies to keep the private sector ticking over cost the taxpayer tens of billions of pounds. The energy industry needs £5 billion per year to tick over, rail £6 billion and farming £3 billion. Regional subsidies are worth over £3 billion and subsidies for employing young people another billion, with billions more for going green, billions to support access to finance and more again from the European Union. This subsidy too often comes without conditions requiring wider support for society or protection for the environment.

To put the UK economy on the right track, we need to address dysfunctional market problems, such as barriers to entry, oligopolies, unnecessary complexity, perverse regulation, lack of information, perpetual subsidies and the concentration of economic power. We need to confront systemic failures and enable business and society to support each other more effectively.

The Social Economy Alliance will consider elsewhere how investors, government spending and consumers can influence corporate behaviour under its finance, public services and cost of living workstreams. In this paper, we are mainly concerned with the government's role in creating the market conditions in which businesses operate.

[1] http://www.ipsos-mori.com/researchpublications/researcharchive/2528/New-study-reveals-banking-crisis-has-reduced-trust-in-all-businesses.aspx

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THE SOCIAL ECONOMY SOLUTION

We believe public trust in business can be rebuilt. This is an opportunity for business to reclaim its place as the key driver of a successful society and a positive force. To do this, we need to recognise that businesses are simply groups of people. Many big businesses have become dominated by the short-term and narrow interests of small groups of people – the investors. And many of these have little or no personal connection with or understanding of the businesses in which they invest. We can rebalance this equation by reconnecting businesses with the people who work for them, buy from them, supply them and live near them in order to create wider value across the country.

Businesses can be better corporate citizens, paying their fair share of the tax burden, creating more jobs, practicing fairer employment and causing less damage to the world around us. In short, businesses can be more social. Indeed, this behaviour will make them more popular and more successful, delivering greater environmental, social and economic value. Voters in the UK agree - almost three quarters say companies should be involved in solving social and environmental problems and agree with Richard Branson's view that "All businesses should become a force for good, and not just focus on short-term profit[2]." Business leaders are waking up - trust in business is recovering from an all-time low in 2012[3].

The good news is that this sort of behaviour is also great for business in the long-term. Evidence shows that more sustainable firms outstrip traditional firms in terms of both stock market and accounting performance[4]. An MIT poll of more than 3,000 corporate leaders reported that sustainability adds to companies' profitability, especially those who take it seriously in their structures, operations and business models. A more responsible approach can deliver reputational benefits, greater customer loyalty, brand recognition, more effective staff retention and recruitment, and lower costs.

But beyond this, more balanced ownership models can also drive better corporate behaviour. More social, multi-stakeholder ownership can reflect how businesses are groups of people, can take account of a broader set of interests in the business, including entrepreneurs, employees, customers and communities.

In fact, these more social, co-operative and mutual models are actually commercially advantageous, as well as more socially and environmentally responsible. Indeed, co-operatives and social enterprises are growing faster than 'conventional' business. In the UK, the co-operative sector grew by more than 25% between 2008 and 2011[5], social enterprises are outstripping SMEs for growth, business confidence and innovation and a range of evidence suggest that both social enterprises and co-operatives appear to be more resilient in tough economic circumstances. Recent research concludes that a social 'mission lock' is correlated with high growth, more successful capital raising, and higher net income[6]. Interest in B-Corps is growing both sides of the Atlantic and there are now over 9,000 Community Interest Companies. Furthermore, social enterprises are far more likely to be led by women than mainstream businesses and more social enterprise leaders are from BAME background. 37% of directorships in co-operatives are held by women in co-operatives[7] compared to just 15.1% for FTSE 250 companies[8].

Government can use taxation, spending, regulation and softer behavioural levers to influence the private sector. Which levers are most appropriate will depend on the context, the markets in which businesses operate and how well they are functioning, the size and scale of businesses and their ownership models. Often, softer nudges may be quite ineffective, and some fiscal levers are hard to pull in a globalised economy and in an era of such sophisticated and widespread tax avoidance techniques. The burden of existing tax, regulation and spending can also be adjusted to ensure it goes further in incentivising more responsible corporate behaviour.

[2] http://www.bbc.co.uk/news/business-22877892
[3] http://edelmaneditions.com/2014/01/edelman-trust-barometer-2014/
[4] http://www.hbs.edu/faculty/Publication%20Files/12-035_a3c1f5d8-452d-4b48-9a49-812424424cc2.pdf
[5] http://www.ethicalconsumer.org/cooperativealternative/essayprize.aspx
[6] http://sites.duke.edu/casei3/for-practitioners/domestic-impact-enterprise-landscape-project/
[7] http://www.uk.coop/economy2013
[8] http://www.boardsforum.co.uk/boardwatch.html

Greater transparency is the first step in rebuilding confidence and steering behaviour. Effective and efficient markets rely on high quality information. This means ‘whole value’ accounting, not just more open data and information but businesses taking responsibility to provide comparable and auditable reporting. Accounting for value is an idea that is gaining traction across the political parties, accelerated by the way that the Public Services (Social Value) Act 2012 has been embraced by mainstream businesses, attracted by the idea of delivering greater social benefits through their core business and supporting a more social economy. Almost two-thirds of voters have called for businesses to explain how they make and spend their money to the public.

Government can go further to create the market conditions and business environment which incentivises a more progressive approach to ownership. Multi-stakeholder models can better enable customers, community, staff, partners and suppliers, as well as investors, to participate more fully in the governance and management of the business, driving its success. These models can extend economic power, rebuild trust in business and help rebalance the economy. Where the UK leads the world in parts of this agenda, the rest of the world is watching. Our politicians need to catch up.

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WHAT CAN THE GOVERNMENT DO?

1. Legislate for greater and more proportionate transparency, disclosure and accountability of business activities across the private sector, including creation of environmental and social value. An extremely broad coalition, including the Institute of Directors, the TUC, and Friends of the Earth mourned the 2005 passing of the Operating and Financial Review (OFR), in which all stock market-listed companies were required to produce a yearly review of their business operations and future risks, including social and environmental factors. Its reinstatement would be widely welcomed. On the other hand, mandatory *quarterly* reporting obligations should be scrapped.

2. Review existing legislation to ensure it does not unintentionally restrict the positive environmental and social impact of business activity, or is interpreted as doing so. Procurement law, for instance and the concept of fiduciary duty have been interpreted to restrict the degree to which government and businesses can take social and environmental factors into account. Government regulation should not be anti-social. This should be accompanied by a comprehensive review of legislation and regulation pertaining to different company forms, to identify and remove barriers to the development of diverse multi-stakeholder models.

3. Establish new mechanisms for private businesses to demonstrate their commitment to social and environmental impact, learning from the experience of the B-Corp model in the US, the shareholder commitment of Café Direct and multi-stakeholder co-operative models in Italy and Germany, for example.

4. Use the tax system to incentivise more socially and environmentally responsible business models and operations. Lessons can be learned from the use of lower rates of corporation tax, exemption from NI contributions for some workers and a lower VAT rate for social co-ops in Italy.

5. Introduce a new duty on businesses to commit to certain social and environmental standards when they merge with or acquire other businesses to – as the Business Innovation and Skills Committee concluded "ensure that takeovers of UK businesses benefit, rather than damage, our economy."

6. Extend the Community *Right to Buy* to businesses of community interest as well as assets, enabling communities, staff and customers time to develop a bid to buy it, or part of it. This may require a process for communities to nominate businesses to be on a register of 'businesses of community value'. If something on this register is offered for sale communities then have up to six months to organise, raise finance and to prepare a bid.

7. Harness the tens of billions of pounds of government subsidies for business to maximise the environmental and social impact of the private sector, demanding greater transparency and responsibility from recipients. All programmes should be open to all types of business ownership, including co-operatives and social enterprises. Government subsidy should not be anti-social. Instead, programmes should be more focused on those productive sectors of the economy which deliver social, environmental and economic value. Similarly, all government programmes for business, including awareness raising and trade missions should highlight social and co-operative enterprises.

8. Create incentives for at least 30% of listed companies' Board members to be women. The Voluntary Code of Conduct for executive recruitment firms should be enforced or financial penalties introduced for those not signing up.

9. The principles applied by Government to financial service sector bonuses to ensure directors' remuneration relates to incentives to sustainable long-term business performance should be strengthened and applied to other sectors, including deferring payments, paying in shares or securities rather than cash and disclosure of detailed information about the pay of those earning above £1 million.

QUESTIONS FOR CONSULTATION

1. Which of these proposals do you agree with?
2. Which of these proposals don't you agree with?
3. Which of these proposals are the most important?
4. What have we missed? Which proposals would you like to add?
5. Which proposals need further work or refinement?
6. Do you have any evidence to support or refute any claims made in this paper?
7. Is there any evidence or examples from other contexts which can inform the proposals put forward in this paper?

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