

BETTER BUSINESS: IMPACT GOVERNANCE

7 essentials for governing a
purpose-driven business



Certified



Corporation

Your corporate purpose is your compass, guiding your profitability and your business' wider impact on the world. In defining what corporate purpose should be, there's clear momentum towards stakeholder capitalism in the UK, with initiatives like the B Corp movement and the **Better Business Act** bringing corporate purpose into the spotlight. In addition, social and environmental considerations are increasingly infused into the regulatory landscape.

Drawing on emerging best practice from the purpose-driven business landscape, this guide aims to help boards authentically integrate an approach that balances profit with the needs of wider stakeholders into their governance strategy, and help build an economy that's fit for the future.



#1 Constitution and the purpose-driven mindset

A good first step is to consider where the business is now, and what it's working towards.

- What has the business done to embed social and environmental performance into its decision-making?

How a business lives out its purpose is partly shaped by the legal structuring of its commitment to that purpose.

You may have adopted a structure that is ready-made for purpose-driven business that embeds social and environmental impact (e.g., a Community Interest Company). Or a company limited by shares may have amended its constitution to embed an approach that balances profit with the needs of other stakeholders (e.g., a typical approach to structuring for certified B Corps in the UK).

Company limited by shares

Company law allows businesses to embed their corporate purpose into their articles of association, by setting out the company's objects. This requires the directors to pursue those objects and, drafted appropriately, can enable them to pursue positive impact for people, planet and shareholders.

B Corporation or 'B Corp'

A for-profit business verified by **B Lab** to meet high standards of social and environmental performance, transparency and accountability. B Corp is a certification, rather than a distinct legal form.

Community Interest Company

A structure for businesses that exist for a purpose that benefits the community, which prioritises using the business' profits to pursue its social or environmental impact objectives.

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The business' legal structure and constitution shape the lens for decision-making by the directors. Whatever your current structure, it's worth keeping key questions in mind:

- **Does the business' legal structure help it to meet its commercial, social and environmental performance goals effectively?**

Does it enable the board to weigh material factors and make trade-offs where required to adhere to the business' values and purpose, and prioritise long-term sustainability over short-term demands, as needed?

- **Will the constitutional arrangement withstand future changes to company ownership or leadership,** so that the business' commitment to purpose-beyond-profit is protected?
- **Does its structure help the business to attract investors that are aligned with its purpose,** focusing on long-term sustainability and a multistakeholder value proposition?



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As well as the option of embedding a purpose-beyond-profit, a business' constitution can be amended to shape the board of directors to ensure the representation of key stakeholders.

Faith In Nature is a sustainable beauty brand founded in the UK, which sells a range of biodegradable, vegan and cruelty-free products. In 2022, Faith In Nature amended its constitution to give Nature a voice on the board. In addition to embedding the object of having a positive impact on Nature, the company amended its articles so that the board will include at least one director with the requisite experience to represent Nature and ensure that the board gives due consideration to the environmental impact of the company's decisions. The articles also specify that, in exercising their duty to further the objects of the company, the directors must have regard to the impact of the business on Nature. You can [read more](#) about why Faith In Nature took this approach.



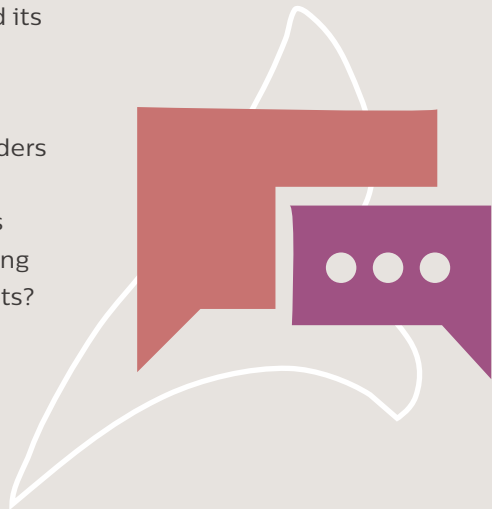
It's important to have the right legal structure to support the business' goals as it develops, and there are also ways to 'lock in' its purpose, to support its resilience over time. We help our clients to lock in their social and environmental impact commitments, explore innovative ownership structures for a long-term sustainability outlook, and meet the B Corp constitutional requirements, tailoring to the business' goals and investor profile. You can read more in our [Stepping Stones to Sustainability mini guide](#) on embedding purpose.

#2 Purpose and culture

Although many factors influence the development of a business' culture, its desired core behaviours should be championed at the top of the organisation.

The Financial Reporting Council's **Guidance on Board Effectiveness** sets out a number of questions for the board to consider on this topic, including:

- Is the board clear on what sort of culture is needed to underpin the company's purpose and its long-term success?
- How does it articulate and communicate what it considers to be acceptable business practices? What behaviours are being driven when setting strategy and financial targets?
- How consistent is company strategy – e.g., on tax and capital allocation – with the business' purpose and values, and its responsibilities for long-term success and to contribute to wider society?





The board should regularly review data that are indicative of the health of the business' culture and ensure that it continues to support the business' purpose-beyond-profit. Practically, this might involve:

- **Standing items on the board agenda to support a regular timetable for the review of key policies and initiatives**, and their effectiveness (e.g., codes of ethics, workforce diversity and inclusion initiatives, stakeholder engagement processes, measures for organisational transparency, whistleblowing and 'speak up' procedures). If in doubt, we can help you review your policies and key contractual documentation to ensure that they support your commercial and impact goals while thoroughly **embedding EDI in your internal procedures**.
- **Simple measures, such as observing how people refer to the business' purpose** in their conversations and decision-making. **And formal measures such as conducting an internal 'purpose audit'**, to identify any misalignment across the business, such as in marketing or workforce relations. Another measure could be to create an advisory group dedicated to supporting the business to live out its corporate purpose.
- **Using mediation, a neutral way to manage discord, to highlight problems in the workforce culture** before they become ingrained conflicts. For more, see our **materials on mediation**.

#3 Delegation and committees

Directors retain overall responsibility for the business' operations, but may delegate decision-making across the organisation. **The Wates Corporate Governance Principles for Large Private Companies** state that:

“A company’s purpose and values should inform expected behaviours and practices throughout the organisation. The values should be explained and integrated into the different functions and operations of the business...Clear corporate governance policies, practices and company leadership, all working together, promote effective stewardship to deliver long-term value”.

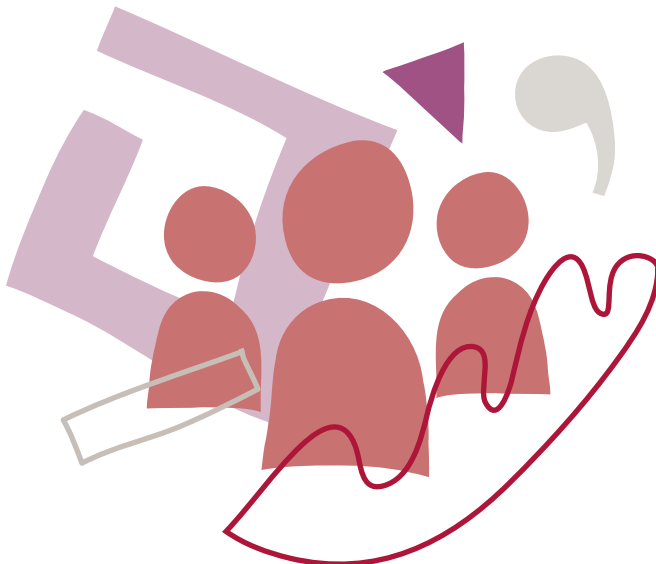
Delegation strategy, company policies, and communications and training, particularly for managers and senior staff, can support the business' purpose-beyond-profit to cascade through the governance structure.

- How do your policies and guidance support delegation? For example, **does the business have a code of ethics that sets out behavioural expectations**, which goes beyond standard minimum considerations in law (such as bribery and corruption) to link to the business' stakeholders and impact goals?



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- Where committees are set up to carry out certain functions, **do their terms of reference require decision-making to align with the business' purpose** in delivering its long-term strategy, while incorporating the views of shareholders and other stakeholders? Might a committee member be assigned to monitor consideration of social and environmental impact?
- **What information is reported back to the board to enable it to monitor whether behavioural expectations in decision-making are being met?** Are there procedures in place to enable concerns to be safely raised about conduct that misaligns with the purpose and values, or unethical practices?



#4 Performance management and training

It's essential for people across the organisation to understand the business' purpose, and work towards its commercial and impact goals. To support this, the business must build social and environmental performance into its internal management structures.

“To have an impact on behavioural outcomes and influence the way business is done, values need to be embedded at every level of the organisation. Boards will need assurance from management that it has effectively embedded the company's purpose and values in operational policies and practices. In particular, incentives, rewards and promotion decisions should be aligned to value.”

**The Financial Reporting Council's
Guidance on Board Effectiveness**

- **Do directors' service agreements and manager job descriptions explicitly incorporate social and environmental performance duties?** Should tangible goals be agreed and monitored? Could all job descriptions outline how responsibilities and decision-making authority feed into the business' impact goals?
- **Do performance reviews incorporate social and environmental impact matters?** Is there a link between executive compensation and key impact goals (e.g., carbon reduction targets)? How does the business support managers to communicate social and environmental goals to the workforce and to account for results?
- Do you include social or environmental matters that are material to the business, or a description of its mission and action plan, in formal workforce training?

#5 Stakeholder engagement and participation

“Dialogue with stakeholders helps boards understand the effects of company policies and practices, predict future developments and trends, and re-align strategy. A company should identify and prioritise stakeholder relationships for those affected by company operations and are integral to its ability to generate and preserve value.”

The Wates Corporate Governance Principles for Large Private Companies

Stakeholder governance requires meaningful engagement with key stakeholders. Materiality assessments can help the business to identify its key stakeholders. Internal processes are needed to ensure the necessary transparency and dialogue with the workforce and wider stakeholders. This helps the board to understand the business’ impact on its stakeholders and engage them in support of the business’ purpose.

Tools for stakeholder engagement can include focus groups and surveys, community ‘town halls’ and meetings or partnerships with various sources of insight and expertise, such as environmental experts, non-profit organisations, and labour groups. In order for engagement to be meaningful, the insights gathered need to be included in decision-making; it may help if individuals or teams within the business are given responsibility for ensuring follow-up.

- **Are the results of stakeholder engagement reported to and regularly reviewed by the board?** Could the business benefit from having a **stakeholder advisory board**, to help identify and address blind spots in the board’s understanding of key stakeholder issues?

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- How does the business engage its key stakeholders in its decision-making, including around social and environmental performance? How does the board account for the necessary **balance between current and future stakeholders**, in its decision-making?
- Is the board populated to ensure that its power is authorised by, and representative of, the stakeholders impacted by the business' operations?
- **What information does the business share with stakeholders regarding financial and impact performance, to promote transparency?** Does the business publicly report on its stakeholder engagement mechanisms and how the results are integrated into decision-making?

Good Energy is a UK-listed renewable energy business. It has an advisory group called the '**Good Future Board**', comprised of 6 secondary school-aged students who want to combat climate change. The aim of the Good Future Board is to help hold the business to account on its corporate purpose. Stakeholder groups such as this can bring a greater diversity of perspectives, particularly the voice of the younger generation, into corporate decision-making.

As well as speaking at Good Energy's AGM and sharing ideas on how the business can engage more people with climate action, the Good Future Board attended the COY16 (Conference of Youth 16) ahead of the UN COP26 Climate Change Conference, hosting a live 'board meeting' and Q&A with the audience. The group hopes to inspire other organisations to set up similar youth boards.

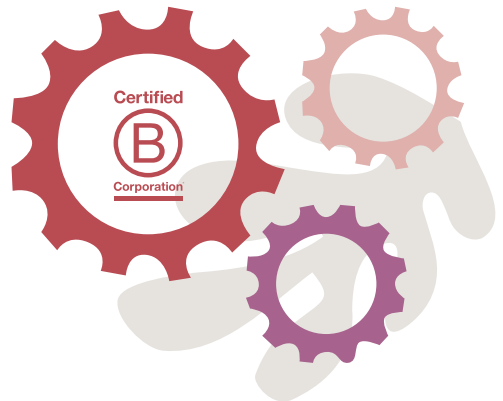


#6 Impact measurement and transparency

The board cannot fully assess the business' performance without understanding its social and environmental impact. The externalities experienced by the business' stakeholders and the external environment can affect the value created by the business, and therefore influence investors' determination of enterprise value.

- **Does the business identify and measure the social and environmental issues most relevant to its operations and business model?** Does it use this information to set performance targets for material issues, and track impact performance over time?
- Does the board review social and environmental performance on a quarterly or, at least, annual basis? **Is the business working to integrate this data with its financial metrics?**

There are tools and guidance available to support businesses with impact measurement and management, such as the **Impact Management Platform**, a collaboration between leading providers of public good standards and guidance for managing sustainability impacts. Some impact measurement frameworks support businesses to value externalities and integrate that information with financial data, to help show the true cost of doing business. In addition, B Lab's **B Impact Assessment** is available for any business to use, for free, regardless of whether it seeks B Corp certification.



#7 Board and organisational EDI

Rather than being seen as a discrete agenda, actions to improve equity, diversity and inclusion (“EDI”) should be integrated into all aspects of the business, and form part of ongoing culture development. A diverse range of demographic attributes and other characteristics at board and senior management level can support greater diversity across the organisation. Diversity must be supported by inclusivity – the meaningful involvement of diverse people – facilitated through a culture of openness and respect for differences.

“B Lab recognizes that we cannot credibly build an inclusive economic system without addressing the fundamental injustice, inequity, and violence that disproportionately impact people of color and women. It is not enough to be quietly non-racist and non-sexist. We have a responsibility to build a community of vocal, visible, anti-racist, and feminist business leaders.”

B Lab website, *Justice, Equity, Diversity & Inclusion (JEDI)**

“We took a close look at the companies in our data set that are achieving higher levels of diversity - and benefitting from an increased likelihood of financial outperformance. The common thread for these diversity winners is a systematic approach, together with bold steps to strengthen inclusion.”

McKinsey & Company report, *Diversity Wins*, May 2020

- **What is the board’s strategy for developing and maintaining board and organisational diversity, and ensuring that decision-making represents a range of stakeholders?** Is progress in this area a standing item on the board’s agenda? Does it monitor progress by collecting and reviewing data on recruitment and retention rates?

* As displayed on the website on 16 Jan 2023.

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- **Does the business consider EDI aspects of stakeholder engagement?** Is action being taken to engage with any stakeholder groups that the business finds harder to reach? Is the business transparent on key issues, such as pay gaps and any other inequality issues?
- Is the board and senior management broadly representative of the business' stakeholders, including its workforce and the communities upon which it has impact? **How does this influence succession planning for leadership?**

There are services available to assist with identifying and reaching underrepresented groups, such as **ClearView Research**, which specialises in carrying out research with diverse communities. There are also initiatives that are pushing the envelope on businesses' commitments to improving EDI. For example, Bates Wells is a signatory to the **Halo Code**, which explicitly protects employees who come to work with natural hair and hairstyles associated with their racial, ethnic, and cultural identities.

Bates Wells can support you with developing your EDI policies and procedures, to help you to incorporate EDI objectives into your recruitment, training, performance reviews and promotion procedures, and with identifying EDI issues and mitigating risks throughout the business. We can also help you to futureproof your business, by providing training to your board on the business' obligations under the Equality Act.

Contact us



Luke Fletcher
Partner

E: l.fletcher@bateswells.co.uk
T: 020 7551 7750



Louise Harman
Partner

E: l.harman@bateswells.co.uk
T: 020 7551 7679



Sung-Hyui Park
Partner

E: sh.park@bateswells.co.uk
T: 020 7551 7900



Making a profit is core to all businesses but our goal is to combine this with a real social purpose. Our values are pivotal to us, they shape our decisions and the way we live and work.

We focus on positive social impact as much as we focus on being a successful law firm. Our top tier legal advice is coupled with a real desire to drive change and we were the first UK law firm to achieve B Corp certification, awarded to businesses that balance purpose and profit.

Today, our clients are diverse – from corporate household names, to public bodies, to start-ups. We're also the firm of choice for thousands of charities and social enterprises. We continue to lead the market we helped to shape.

Bates Wells challenges what is possible in legal expertise delivery.

Get in touch:

+44(0)20 7551 7777

hello@bateswells.co.uk



www.bateswells.co.uk